

**PAKISTAN PETROLEUM
(EXPLORATION AND
PRODUCTION)
RULES, 1986**

GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

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PART II

Statutory Notifications (S.R.O.)

GOVERNMENT OF PAKISTAN

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

NOTIFICATION

Islamabad, the 14th September, 1986

S.R.O. 865 (I)/86. 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 ¹[pleased] to make the following rules, namely:

PART I

GENERAL

1. **Title and ²[commencement].-** These Rules may be called the Pakistan Petroleum (Exploration and Production) Rules, 1986, and shall come into force on the **14th September, 1986.**
2. **Interpretation.-** In these Rules and in every permit, licence and lease issued hereunder unless there is anything repugnant in the subject or context:

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

- (a) ¹["Crude oil" means all Petroleum other than natural gas, and which at standard atmospheric conditions of pressure and temperature is in a fluid phase, including condensates and distillates].
- (b) "Director General, Petroleum Concessions" means any officer or authority appointed by the Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these Rules.
- (c) "Discovery area" means an area, within the area of a holder's ²[Petroleum] right, which encompasses the accumulation of ¹[Petroleum] in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between ¹[Petroleum] and the limiting water level, or a combination thereof, and so that the ¹[Petroleum] included everywhere is in pressure, fluid or gas communication.
- (d) "Government" means the Federal Government of Pakistan.
- (e) "Market value" means the value of the ¹[Petroleum] as determined pursuant to rule 38.
- (f) "Ministry" means the Ministry for the time being in charge of ¹[Petroleum] affairs.
- (g) ³["Natural gas" means all hydrocarbons which at standard atmospheric conditions of pressure and temperature are in a gaseous phase, including non-hydrocarbon gas which is in association with and produced together with such gaseous hydrocarbons].
- (h) "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.
- (I) "Petroleum right" includes a permit, licence and lease issued under these ⁴[Rules].
- (j) "PRESIDENT" means the PRESIDENT of Pakistan.
- (k) "Wellhead value" means the market value of the ¹[Petroleum] less gathering, processing, treatment and transportation costs from the wellhead to the place at which the market value is determined, and in the case of natural gas shall also include compression, dehydration and liquefaction costs.

3. **Division of area.-** Any area of Pakistan, including its territorial ¹[waters], exclusive economic zone and historic waters, may be divided into blocks of size and shapes determined by the Government.

¹ Omitted by notification No.SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext., 16 April 1987; PP 429-430.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Omitted by notification No.SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext., 16 April 1987; PP 429-430.

⁴ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

4. **By whom applications may be made.-** Any company whether incorporated inside or outside of Pakistan may apply in accordance with the Rules for:

- (a) a reconnaissance permit hereinafter referred to as permit;
- (b) an exploration licence hereinafter referred to as the licence;
- (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 the Director General, Petroleum Concessions. Every application shall be entered in the register to be maintained by the Director General, Petroleum Concessions. The register shall be in such form as may be prescribed by the Ministry and shall be open to 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 Rs.10,000 if the application is for the grant or renewal of a permit;
 - (b) a fee of Rs.20,000 if the application is for the grant or renewal of a licence; and
 - (c) a fee of Rs.40,000 if the application is for the grant or renewal of a lease.
- (4) To the application there shall be attached 15 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 as referred to in 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 ²[as] to his ability to conduct the activities under the relevant ³[Petroleum] right in accordance with the highest standards of the international ²[Petroleum] industry. The applicant shall forth with upon request furnish further evidence relating to such matters and if such further evidence shall

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

not have been furnished to the satisfaction of the Director General, Petroleum Concessions within three months of the request therefor, the application shall unless the Director General, Petroleum Concessions otherwise determines, be deemed 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 specify.

6. **Separate application to be made for each area.-**

- (1) If an applicant seeks a ¹[Petroleum] right over two or more areas which are not contiguous, the applicant shall apply for separate ¹[Petroleum] rights over each such area, unless otherwise permitted by the Government.
- (2) Nothing in these ²[Rules] shall prevent more than one ¹[Petroleum] right being granted to the same applicant.

7. **Several holders.-** If a ¹[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 ¹[Petroleum] right. The companies shall, subject to the approval of the Government, appoint one of them to be the operator on behalf of the companies. No change in such appointment shall be made without the Government's approval.

8. **Petroleum right not assignable without consent.-** A ¹[Petroleum] right or any participating share 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 ¹[Petroleum] right for consent to the assignment of a ¹[Petroleum] right shall be made in writing addressed to the Director General, Petroleum Concessions, and shall be accompanied by a fee of Rs.5,000. 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 ¹[Petroleum] right.

10. **Discretionary grant of Petroleum right.-** Subject to rules 21, 22 and 27, the grant of a ¹[Petroleum] right or renewal thereof is always at the discretion of the Government, which shall never be obliged to give any reason for the grant of or refusal to grant a ¹[Petroleum] right.

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

11. **¹[Lapse] of entitlement to ²[Petroleum] right.-** If a ²[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 ²[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 ²[Petroleum] right.-** A holder of a ²[Petroleum] right wishing to surrender his right shall give the Director General, Petroleum Concessions, three months' notice of his intention to do so, and if the holder fulfills all his obligations under the ²[Petroleum] right, including the obligations pursuant to rule 69 or if applicable pays liquidated damages pursuant to in rule 25, he shall on the expiry of the notice be entitled to surrender his ²[Petroleum] right in whole or in part. On so doing a holder of a lease shall not be obliged to pay rent for the remaining period of the lease.
13. **Submission and publication.-**
- (1) Application for a ²[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 containing the terms for competitive bidding may be published in such national or foreign publications as the Government may determine.
- (3) Notice of the grant, surrender, ³[termination] and assignment of a Petroleum right shall be published in the Gazette of Pakistan.
14. **Terms and conditions of a ²[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 matters as the Government may deem fit to insert.
15. **Guarantees.-** The Government may require the holder of a ²[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.

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

PART II

RECONNAISSANCE SURVEYS

16. **Reconnaissance survey.**- 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) at the conclusion of the survey, the holder may apply for a licence in accordance with the Rules, but shall not be entitled to claim a relaxation of any rules laid down in these Rules for the grant of licence applied for by him;
 - (c) unless otherwise stipulated in the permit, the holder shall have the non-exclusive right to undertake, within the designated areas, ¹[Petroleum] reconnaissance by such geophysical, geological, geochemical and geotechnical methods and such other related work including shallow drilling (i.e. not more than 200 meters) as are stipulated in the permit;
 - (d) within six months of the date of the completion of the survey, the holder shall make available to the Director General, Petroleum Concessions, a complete report of the survey together with a copy of all the maps, plans, graphs and magnetic tapes and related data as well as any other data made or collected in the course of the survey;
 - (e) the holder shall abide by all instructions which the Director General, Petroleum Concessions, may issue regarding the use of maps, plans, graphs and other data made or collected by the holder in the course of the reconnaissance survey;
 - (f) the permit is 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 63 (1);
 - (h) a licence or a lease may be granted at any time for any part of an area covered by a permit;
 - (I) the holder of the permit shall perform the programme of work stipulated in the permit with due diligence.

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

PART III

LICENCE FOR PETROLEUM EXPLORATION

17. **Grant of licence.-** The Government may grant an exclusive ¹[Petroleum] exploration licence over any area and on such conditions as are specified therein.
18. ²**[Size of area.-** A licence shall not be granted in respect of any area more than 2,500 sq.km. In special circumstances, the Government may, at its discretion, grant an area upto 7,500 sq. km. in case of offshore or onshore area provided that the Licensee 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, so far as possible, compact and bounded by straight lines. In the case of on-shore areas, they shall be marked with permanent physical boundaries.
20. **Rights and obligations of licence holder.-**
- (1) Subject to the provisions of rule 63 (1) the licence gives the holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling, for ¹[Petroleum]. The holder of the licence is not entitled to extract any ¹[Petroleum] from discoveries other than such test production as the Government may in its discretion permit.
- (2) The holder must perform the work programme stipulated in the licence. The work programme will contain the number of 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.-**
- (1) The initial term of a licence shall not exceed three years.
- (2) The Government may, subject to the terms of the licence, grant up to three renewals in on-shore areas and up to five renewals in offshore areas. The term of each renewal shall be one year. Prior to the first renewal the holder of a licence shall relinquish at least 50 per cent of the initial licence area, unless otherwise stipulated in the licence. A holder desiring to obtain such renewal must make an application at least three months before the expiry of the licence.
- (3) A holder shall be entitled to renewal as aforesaid if he:
- (a) has complied with the work programme and all other obligations under the licence; and

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext., 16 April 1987; PP 429-430.

- (b) has committed himself to drill the well or wells specified in the licence during the renewal period to the depth specified therein.
- (4) ¹[Notwithstanding anything contained in sub-rule (1) or (2), 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 a free area.]

22. Renewal for appraisal and evaluation.-¹

(1) A holder of a licence having made a discovery of ²[Petroleum] and having complied with the work programme and his other obligations shall be entitled to renewal of the licence for the purpose of appraising the discovery. The renewal shall only apply to the discovery area. The holder shall perform such additional work as the Government, after consultation with the holder, may specify.

(2) The renewal period shall be:

- (a) One year, in the case of discoveries on land;
- (b) up to a maximum of two renewals, one year each time, in the case of offshore discoveries in waters of less than 200m depth; or
- (c) up to a maximum of three renewals, one year each time, in the case of offshore discoveries in waters of 200m depth or more.

23. Extension pending grant of lease.- If the holder of a licence 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.

24. Declaration of commerciality-relinquishment.-

(1) After having finalized the necessary appraisal and delineation work, the holder of a licence may issue a declaration to the Government stating that he considers a deposit as commercial. Prior to or upon issuing the declaration, the holder must submit a report in accordance with rule 52 (d). Upon issuing such a declaration, the holder is obliged to apply for the grant of a lease in respect of the discovery area.

¹ Subs by notification No.SRO 11(I)/2000 dated 17 January 2000, see Gazette of Pakistan Ext., Part II, dated 18th January 2000; PP 33

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

- (2) The grant of a lease prevails over the licence within the area designated in the lease, but the licence continues to be ¹[valid] outside such lease area without modifying the right and obligations pursuant to the licence.
- (3) Upon termination of the licence, the holder must relinquish all areas of the licence except those areas covered by a lease issued to him.

25. Work Programme not fulfilled.-

- (1) If, upon the surrender or the expiry of a licence, the obligations pursuant to sub-rule (2) of rule 20 or rule 22 are not fulfilled, the holder shall either:-
 - (a) ⁴[pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligation as set forth in the licence within a period of thirty days from the surrender or expiry of the licence; or]
 - (b) ⁴[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) ⁴[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;]

26. Rent.-

- (1) The holder of a licence shall for each square kilometer or part thereof comprised in the licence area pay to the Government rent at the following rates:
 - (a) in respect of the initial term of the licence ³[Rs.1250]
 - (b) in respect of each renewal ³[Rs.2500]
- ²[(2) The rent shall be paid in advance of the period to which it relates:

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 81(KE)/93 dated 28 March 1993, see Gazette of Pakistan Ext., 19 April 1993; PP 887.

³- Subs by notification No SRO 91(KE)/98 dated 16th June 1998, see Gazette of Pakistan Ext., Part II, dated 21st August 1998; PP.521-522

⁴ Subs by notification No.SRO 11(I)/2000 dated 17 January 2000, see Gazette of Pakistan Ext., Part II, dated 18th January 2000; PP 34

Provided that for the initial term, the rent may be paid annually in which case the rate for each square kilometer or part thereof shall be ¹[four hundred and seventeen rupees]”.]

- (3) A licence 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.
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¹ Subs by notification No SRO 91(KE)/98 dated 16th June 1998, see Gazette of Pakistan Ext., Part II, dated 21st August 1998; PP.521-522

LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

27. Grant of development and production lease.-

(1) The Government shall on being satisfied that the deposit can be commercially produced, 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, grant a lease in respect of ¹[discovery area within the licence area granted to the applicant under these Rules]:

²[(a) an area within the licence area granted to the applicant under these Rules; and

(b) an additional area outside the area covered by the licence referred to in clause (a), provided that the additional area does not exceed in extent one-tenth of the initial licence area and it is demonstrated that the discovery extends to such additional area, or if the Government is of the opinion that other discoveries may be made in such area which it will be rational to produce through common production facilities with the discovery in question, and further provided that the said area is not covered by a licence or lease granted to a third party.]

28. Rights of lease holder.- The lease gives the holder an exclusive right to perform activities in connection with the development and production of ³[Petroleum] in the area covered by the lease, including the right to undertake transportation of ³[Petroleum], subject to approval pursuant to rule 34.

29. Size of development area.- The size of any development area shall be sufficient to efficiently develop and produce all ³[Petroleum] within the discovery area, but shall not exceed an area ⁴[of] more than 125 sq. kilometers save in cases where special exemption is granted by the Government.

30. Shape of development area.- Each separate area in respect of which a lease is granted shall be laid ⁵[out] in a block or blocks bounded by straight lines between well defined

¹ Subs by notification No.SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext., 16 April 1987; PP 429-430.

² Omitted by notification No.SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext., 16 April 1987; PP 429-430.

³ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

⁴ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

⁵ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

points. In the case of on-shore areas, they must also be marked with permanent physical boundaries.

31. **Survey expense of applicant.-** Before a lease on land is granted by the Government the applicant shall, if so requested by the Government, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for ¹[Petroleum] exploration 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 but not exceeding ³[twenty five]years in respect of the on-shore areas of Pakistan and up to ³[thirty] years in respect of the offshore areas. 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 general plan for development and production of the ¹[Petroleum] deposit or deposits. The application shall contain such information as the Government may deem necessary, including:
 - (a) a development plan comprising the design and location of production and transportation facilities and installations, including pipelines and storage installations as well as plans for the progress of the work;
 - (b) investment plans;
 - (c) a projected production profile for the life of the deposit(s);
 - (d) a description of the organization which the holder has available for the fulfillment of his obligations, pursuant to rule 35; and
 - (e) a report on the measures proposed to be taken in the interests of safety of the operations and protection of the environment.
 - (2) In the case of a discovery on land, the plan shall include, as a minimum, the drilling of one well per year to the reservoir depth until the field is fully developed.
 - (3) The plan requires the approval of the Government. Such approval will not be unreasonably withheld or ³[delayed].

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No. SRO 1166(I)/95 dated 07 August, 1995, see Gazette of Pakistan Ext., 12 December 12, 1995 PP 2687

- (4) After approval of the plan, the lease holder shall carry out development and production substantially in accordance with the plan, subject to such modifications which may be necessary 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 ¹[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. Such approval will not be unreasonably withheld or delayed.
- (2) The holder must submit an application comprising the proposed organization and/or 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 transportation of ¹[Petroleum]. The Government may, for example:
 - (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. Organization of lease holder in Pakistan.- An operator performing activities pursuant to these Rules shall have an organization in Pakistan with sufficient competence and capacity to conduct the activities. After approval of the development plan, development and production activities pursuant to the lease shall be performed from a base in Pakistan.

36. Royalty.-

- (1) Subject to the payment of such additional amount by way of royalty as may be specified in any agreement with the Government to which the holder of the lease is a party, the holder shall pay a royalty at the rate of 12.5 per cent of the wellhead value of the ¹[Petroleum] produced and saved.
- (2) Royalty is payable monthly within 10 days of the expiry of the calendar month in question.
- (3) 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 39.

37. Royalty in kind.-

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

- (1) The Government may, with six months' notice, decide that royalty according to rule 36 shall, wholly or partly, be satisfied in kind. In such case the holder shall at the request and at the cost of the Government arrange for transportation, treatment, storage of the royalty Petroleum and such other activities related thereof as the Government may reasonably require, in the same manner as if it were his own ¹[Petroleum].
 - (2) The Government shall lift or take royalty ¹[Petroleum] in a timely manner and in accordance with such lifting or sales agreement as may have been agreed.
38. **Value of Petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of ¹[Petroleum] shall be:
- (a) in the case of ¹[Petroleum] delivered to the national market pursuant to ²[rule] 41 the price actually realized in such sales;
 - (b) in the case of ¹[Petroleum] not sold pursuant to ²[rule] 41 the international market price determined in such manner as the Government, subject to the terms and conditions of any agreement between the PRESIDENT and the lessee, may, from time to time, determine.
39. **Yearly lease rents.-**
- (1) The lease holder shall pay to the Government annually in advance, rent at the rate of ⁴[Rs.6250] per square kilometer or part thereof of 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.
40. **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 ³[revenue] and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any irrigation rules if the land has not been occupied for the winning of ¹[Petroleum]. If no such rent is assessable under the laws of the district, the rate may be fixed by the Government subject to a maximum of Rs.2000 per sq. kilometer.
41. **Deliveries to the national market.-**
- (1) The Government may decide that the holder shall deliver ¹[Petroleum] from the production to cover the requirements of the national market for ¹[Petroleum]. The

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

⁴ Subs by notification No.SRO 91(KE)/98 dated 16th June 1998, see Gazette of Pakistan Ext., Part II dated 21st August 1998; PP521-522.

national market for ¹[Petroleum] shall for this purpose mean the total market requirements, less ¹[Petroleum] produced by or otherwise available to the Oil and Gas Development Corporation from Pakistani ¹[Petroleum] fields, and less ¹[Petroleum] which the Government may take as royalty in kind. The holder shall deliver the ¹[Petroleum] at such place or places in Pakistan as the Government may reasonably direct.

- (2) The foregoing provision shall apply to all holders producing ¹[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 which it has thus ordered to be delivered to the nearest operating refinery in Pakistan.
- (4) Unless otherwise agreed between the ²[President] and the lessee, the price to be paid for ¹[Petroleum] to be delivered pursuant to this rule shall be such price as may from time to time be determined by the Government.

42. **Measurement of ¹[Petroleum].-**

- (1) The lease holder shall measure or weigh by a method or methods customarily used in good ¹[Petroleum] industry practice and from time to time approved by the Director General, Petroleum Concessions, all ¹[Petroleum] won and saved from the lease area.
- (2) The Director General, Petroleum Concessions, or any Officer authorized by him, shall, at all time during the terms of the lease or any renewal thereof, be entitled to inspect the measuring or weighing appliances and to be present whenever such ³[a] measurement or weighing takes place.
- (3) If any measuring or weighing appliances shall at any time be found not to be correct, the same shall, if the Director General, Petroleum Concessions, 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. 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 appliances used for that purpose without first informing the Director General, Petroleum Concessions. The Director General,

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

Petroleum Concessions, may in any case require that no alteration shall be made save in the presence of an officer authorized by him.

43. **Revocation of lease.-** The lease may be revoked if regular, commercial production has not commenced within five years from the grant of the lease, or within seven years in the case of an offshore field. The lease may also be revoked if production has terminated for more than 90 days, unless this is due to force majeure.

PART V

ACCOUNTS, RECORDS, INSPECTION, REPORTS

44. **Keeping of accounts.-** The holder of a licence or lease shall maintain full and accurate accounts. Original copies of all financial books, records and registers shall be kept in Pakistan, unless otherwise agreed by the Director General, Petroleum Concessions. The Director General, Petroleum Concessions, and other Pakistani authorities concerned shall have the right to receive a certified copy of any such books, records and registers, whether the original is kept inside or outside Pakistan.
45. **Well records.-**
- (1) The holder of a licence or lease shall keep accurate records of the drilling, deepening, plugging, completion, recompletion 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 inserted in any well and any alteration to such casing;
 - (c) any ¹[Petroleum] and other reservoir fluids, or workable minerals encountered; and
 - (d) such other matters as the ²[Director General Petroleum Concessions] may from time to time require.
 - (2) The holder shall deliver copies of the said records to the Director General, Petroleum Concessions, as and when required by him.
46. **Production records.-** The holder of a lease shall keep full and correct records which shall contain accurate entries of:
- (a) the gross quantity of ¹[Petroleum] won and saved from the lease area;
 - (b) the method and results of tests made on the ¹[Petroleum];
 - (c) the quantity of ¹[Petroleum] delivered in Pakistan and/or exported;
 - (d) the quantity of ¹[Petroleum] used for reinjection, flaring, drilling or other operational purposes;

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext., 16 April 1987; PP 429-430.

- (e) the quantity of ¹[Petroleum] sold, the name of the ²[purchaser] and the price at which it has been sold;
- (f) the quantity of natural gas treated in Pakistan for the removal of natural gas liquids and liquefied ¹[Petroleum] gases and the quantity of any liquids or gases or any solids obtained from it; and
- (g) such further particulars and statistics as the Director General, Petroleum Concessions, may from time to time reasonably require.

47. Data to be property of Government.-

- (1) All data, wells logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by the holder of a licence or lease as a result of his activities under the 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. ³[The holder may, during the subsistence of the 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 with the standard international industry practice].
- (2) All data and information referred to in sub-rule (1) obtained by the holder of a permit, as a result of his activities under the permit, shall be his property, but the Director General, Petroleum Concessions, shall be entitled to receive a copy thereof as soon as it has become available to the holder.
- (3) All processed geophysical information referred to in sub-rule (1) and (2) above shall be submitted to the Director General, Petroleum Concessions, on transparent, dimensionally stable material.
- (4) Information and data as mentioned in this rule shall be kept confidential by the Government for a period of three years ⁴[from the date the data is submitted to it under sub rule(1)], with the following exceptions:
 - (a) information disclosed to other Pakistani authorities, to financial institutions or to consultants of the Ministry if they are bound to keep it confidential;
 - (b) information required for ⁵[general] statistical purposes; ¹[and]

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No.SRO 20(KE)/93 dated 02 January 1993, see Gazette of Pakistan Ext., 01 February 1993; PP 761-762.

⁴ Subs by notification No.SRO 20(KE)/93 dated 02 January 1993, see Gazette of Pakistan Ext., 01 February 1993; PP 761-762.

⁵ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

(c) upon the earlier termination of a permit or lease, or upon the date of relinquishment of the area to which the information relates;²[and];

³[(d) all raw well data including well logs may be disclosed by the Government to any interested party after two years of completion of a well to which such data relates.”; and].

⁴[(5) 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, lease and any free adjoining area may be released by the Government to a holder or to an organization engaged in Petroleum exploration and research, on the actual reproduction and other costs of the data and on such terms and conditions as it may determine”].

48. **Power to inspect plants, records, accounts etc.-**

(1) Any person or persons authorized by the Director General, Petroleum Concessions, or by any other ⁵[competent] authority in Pakistan shall be entitled at all times:

(a) to examine the wells, plants, appliances, buildings and works made or executed by the holder of a ⁶[Petroleum] right and the state of repair and condition thereof;

(b) to inspect, check and make abstracts or copies of any logs, records, measurements, plans, maps or accounts which the holder of a ⁵[Petroleum] right is required to keep or make;

(c) to inspect the samples of strata, ⁵[Petroleum] or water which the holder of a ⁵[Petroleum] right is required to keep; and

(d) to execute any works to which the Director General, Petroleum Concessions, may be entitled.

(2) The holder of a ⁷[Petroleum] right shall grant access for such inspectors to all temporary and fixed installations or other facilities or sites. Further, such

¹ Omitted by notification No.SRO 20(KE)/93 dated 02 January 1993, see Gazette of Pakistan Ext., 01 February 1993; PP 761-762.

² Subs by notification No.SRO 20(KE)/93 dated 02 January 1993, see Gazette of Pakistan Ext., 01 February 1993; PP 761-762.

³ Subs by notification No.SRO 20(KE)/93 dated 02 January 1993, see Gazette of Pakistan Ext., 01 February 1993; PP 761-762.

⁴ Subs by notification No.SRO 20(KE)/93 dated 02 January 1993, see Gazette of Pakistan Ext., 01 February 1993; PP 761-762.

⁵ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

⁶ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

⁷ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

inspectors shall have access to all information and data concerning the operations and shall in the case of offshore operations be provided by the holder with free transportation to and lodging in the offshore area as required to carry out their duties efficiently.

49. **Annual reports.-**

- (1) The holder of a licence or lease shall each year submit to the Director General, Petroleum Concessions, reports containing the following particulars;
 - (a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the ¹[Petroleum] industry and audited by a recognized firm of chartered accountants approved by the Director General, Petroleum Concessions;
 - (b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the licence or lease area;
 - (c) estimates of economically recoverable reserves of ¹[Petroleum] at the end of that year; and
 - (d) estimates of ¹[Petroleum] production and exports for each quarter of the next two years.
- (2) The report referred to in sub-paragraph (a) above shall be submitted within three months and the other reports within 45 days after the year to which they relate.

50. **Monthly report.-** Within five days after the end of each month each holder of a ¹[Petroleum] right shall prepare and deliver a monthly progress report to the Director General, Petroleum Concessions, 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; and
- (c) a list of maps, a list of reports and a list of other geological and geophysical data prepared in connection with the activities.

51. **Daily reports.-** During drilling of a well, each holder of a licence or lease shall provide to the Director General, Petroleum Concessions, copies of his daily well report.

52. **Occasional reports.-** The holder of a licence or lease shall submit to the Director General, Petroleum Concessions, the following reports:

- (a) within 24 hours, by telex, if a well shows the presence of ¹[Petroleum] in significant measure or if a drillstem test has been carried out on a well which produces ¹[Petroleum];
- (b) within seven days after the above-mentioned telex report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of ¹[Petroleum], and in the case of a drillstem test containing the following additional information:
 - (i) conditions and results of the drillstem test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, ²[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, 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 commerciality declaration, a report which shall substantiate the declaration and contain:
 - (i) all relevant geological information, including estimates of recoverable reserves and daily production;
 - (ii) a program 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;
 - (iii) calculations of the profitability of the discovery;
- (e) within 45 days after the relinquishment or surrender of any part of the 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 and any other operations in the relinquished, surrendered or retained areas, as the Director General, Petroleum Concessions, may require.
- (f) from time to time, such other plans and information as to the progress and results of the holder's operation as the Director General, Petroleum Concessions, may reasonably require.

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

53. **General.-** The reports referred to in this Part ¹[V] shall be made in such form and contain such further particulars as the Director General, Petroleum Concessions, may reasonably prescribe. The holder's obligations under this part ¹[V] comprise reports whether prepared inside or outside Pakistan, and whether prepared by himself or by others.

54. **Reports of discovery.-**

- (1) No announcement with respect to a discovery of ²[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 ³[active] on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is from its geological formation or otherwise likely to contain ²[Petroleum].

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

² Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

³ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

PART VI

STANDARD OF OPERATIONS

55. Safety in operations.-

- (1) The activities pursuant to these Rules shall be conducted in a prudent manner and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or accumulation of trash and to prevent damage to the environment and surroundings.
- (2) The Government may establish safety zones around temporary and permanent installations.

56. Sound production principles.-

- (1) All ¹[Petroleum] development and production activities shall be conducted diligently and in accordance with modern internationally accepted, good oil industry practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of ¹[Petroleum] and the various ¹[Petroleum] reservoirs unless otherwise approved by the Government.
- (2) The holder shall not flare any natural gas or use it to create or increase the pressure in the reservoir without the Government's approval.

57. Prevention of damage to installations and reservoirs.- All installations and facilities and all wells in the area covered by a licence or lease which have not been abandoned shall be maintained in good working condition. The holder of the licence or lease shall carry out all operations in accordance with good oil field practice, and shall in particular take all steps practicable in order:

- (a) to control the flow and prevent the waste of ¹[Petroleum];
- (b) to prevent damage to adjoining ¹[Petroleum] bearing strata;
- (c) to prevent the entrance of water through wells to ¹[Petroleum] bearing strata, except when approved by the Government for the purposes of secondary recovery.

58. Commencement and abandonment of drilling operations.- The holder of a ¹[Petroleum] right shall not commence or abandon the drilling of any well without first having obtained the approval of the Director General, Petroleum Concessions. After abandonment, the well shall be safely plugged. The drilling operations shall be conducted in accordance with such instructions as may be given by the Director General, Petroleum Concessions.

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

59. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable ¹[Petroleum] operations to be carried out thereon.

¹ Subs by notification No.SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext., 08 October 1988; PP 2371-2373.

PART VII

MISCELLANEOUS

60. **Use of Pakistani goods and services.-** In all activities pursuant to these Rules the holder must ensure the use of Pakistani goods and services to the extent such goods and services are competitive with regard to price, quality, services and schedule of delivery. National producers who are capable of supplying goods and services of the type demanded shall always be included in invitations for tenders and shall be chosen if competitive.
61. **Employment and training of Pakistani personnel.-**
- (1) The Government may require the operator of a Licence or a lease 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 ¹[personnel] to be employed or trained will be determined in consultation with the Director General, Petroleum Concessions. The application for a Licence and the development plan shall contain a description of the measures proposed to be taken by the operator to ensure compliance with this rule, respectively, before and after the implementation of the development plan.
 - (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 ²[Petroleum] industry. Such training shall cover both technical and management disciplines (e.g. geology, geophysics, engineering, project management, accounting, legal) and shall be in the form of on-the-job training and participation in in-house seminars.
62. **Joint exploration and development.-**
- (1) If a ²[Petroleum] deposit extends across more than one Licence or lease area with different holders, the holders shall endeavor 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 utilization plan, together with agreements between the holders shall be submitted to the Government for approval. If the holders fail to reach agreement on such joint plans within a reasonable period, the Government may stipulate the conditions which shall be applied.

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

¹ [“62)(A) **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 horizon 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 co-ordinated in a just and equitable manner. In case such an agreement is not reached between the parties within the time specifies by the Government, then such items and conditions shall be applicable as may be stipulated by the Government.
- (3) For the purpose of petroleum exploration within a lease area, the provisions of rules 22, 24 and 27 shall apply mutatis mutandis provided that where an existing lease holder makes a new discovery, the provisions of rule 27 shall not be applicable and the existing lease shall be amended to bring the discovery area of such a 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 justifies by the results of the appraisal.]

63. Exploration and use of facilities by a third party.-

- (1) If required for the purpose of utilization ²[of] the Government’s own resource mapping or in other special circumstances, the Government may give a third party the right to undertake such 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 ³[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 and transportation facilities owned by the holders 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 national interest. Such utilization must not unreasonably interfere with the activities of the holder. The user shall pay compensation for such utilization, the amount of which, failing agreement between the parties, will be settled by arbitration pursuant to rule 73 of these Rules.

¹ Subs by notification No. SRO 11(I)/2000 dated 17 January 2000, see Gazette of Pakistan Ext., Part II, dated 18th January 2000; PP 34-35

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

³ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

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 ¹[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 referred to in rule 64(a), (b), (d), (f) and (h) 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 ²[Petroleum] right shall not prejudice or affect the exercise of any of the following powers, that is to say:
 - (a) PRESIDENT may work other minerals, etc. The PRESIDENT or any other person authorized by him may within the holder's area search for and produce any minerals or substances other than ¹[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 person authorized by him may within the 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;

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

- (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 ¹[said] lands to third parties subject to the 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 paragraphs (a) and (b) 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 inconsequence of the exercise of the said powers.
67. **Power to execute works.-** If the holder of a ¹[Petroleum] right shall at any time fail to perform his obligations the Director General, Petroleum Concessions, shall be entitled after giving to the holder reasonable notice in writing of his intention to ²[execute] any works which in the opinion of the Director General, Petroleum Concessions, or his agents 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 of revocation.-** In addition to other grounds for revocation stated in these Rules, the government may revoke a ³[Petroleum] right if:
- (a) the holder thereof is in a material respect in breach of the terms and conditions on which the ¹[Petroleum] right was granted, of the provisions of these Rules or of any other written law applicable to the ²[Petroleum] operations and has not, within a period of 60 days from the date on which a notice in that behalf was served on him by the Director General, 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 ¹[Petroleum] right was granted by reason of information given by the holder which was false in a material respect;
 - (c) the holder makes an arrangement or composition with its creditors, a receiver is appointed or the holder goes into liquidation whether compulsory or voluntary;

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

³ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

- (d) without the prior consent of the Government there is a disposition of the share capital of the holder in consequence of which any person who prior to that disposition had affective control of the holder ceases to have such effective control.

69. Right of Government upon termination of a Petroleum right.-

- (1) When a permit or Licence has expired or has been surrendered wholly or partly, the permit or Licence area shall so far as practicable be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the ¹[Government] for damages suffered as a result thereof.
- (2) When a lease has expired or has been surrendered wholly or partly, or the use of installations and facilities has come to an end, the Government has the right to take over the permanent installations including related equipment in the lease area which are necessary for the production of ¹[Petroleum]. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of ¹[Petroleum].
- (3) At takeover, the installations, including equipment in the lease area, shall be in such condition as good oil industry practices indicate. No compensation will be given to the holder in case of such takeover. Takeover involves an automatic cancellation of any security for debts related to such installations including equipment.
- (4) If the Government does not wish to exercise its right to takeover the installations including equipment, the Government may demand that removal shall be carried out by the holder of the lease at the holder's expense, in which case sub-rule (1) hereof shall apply correspondingly.
- (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 of his operations, and for the removal of the facilities or their transfer to the Government.

70. Indemnity.- The holder of a ²[Petroleum] right shall:

- (a) at all times keep the Government effectually indemnified against all proceedings, costs, charges, claims and demands whatsoever which may be made or brought against the Government by any third party in relation to or in connection with his ¹[Petroleum] right or anything done ³[in] or purporting to be done pursuance thereof; and

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

³ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

- (b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability which the holder may incur under this rule.

71. **Miscellaneous obligations.-** The holder of a ¹[Petroleum] right shall:

- (a) before commencing any operations in the relevant area, furnish to the Director General, Petroleum Concessions, the name and address of the manager, resident in Pakistan, under whose supervision such operations are to be carried on;
- (b) currently and in writing, keep the Director General, Petroleum Concessions, informed of the names, addresses and nationalities of sub-contractors employed him; and
- (c) report to the Director General, Petroleum Concessions, particulars of any fresh issues of capital which may be made by him from time to time and any alteration which may be made in the memorandum or articles of association or in the constitution of the holder.

72. **Force majeure.-**

- (1) Failure on the part of the holder to fulfill any of the terms and conditions of the ¹[Petroleum] right shall not give the PRESIDENT any claim against the holder or be deemed a breach of his obligations insofar as such failure arises from force majeure.
- (2) In this clause 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 fulfill 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 ¹[Petroleum] right shall be extended for the duration of the force majeure situation and such further period as is required to resume the holder’s operations.

73. **Arbitration.-** Except as otherwise agreed, any question or dispute regarding a ¹[Petroleum] right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan, and in accordance with Pakistani laws.

74. **Transitional.-**

- (1) The Pakistan Petroleum (Production) Rules 1949 are hereby repealed.
- (2) **Notwithstanding** the repeal of the Pakistan Petroleum (Production) Rules, 1949, hereinafter referred to as the said rules, where any person holds any permit,

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

Licence or lease granted or renewed under the said rules the provisions of the said rules shall continue to apply to such Licence or lease as if the said rules have not been repealed.

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FIRST SCHEDULE

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

- (1) Name(s) of applicant(s) in full _____
- (2) (*) Particulars of the company(ies):
- (a) Principle 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

- (3) State whether a Reconnaissance Permit, Exploration Licence or a Petroleum Development and Production Lease is required _____
- (4) Period for which the ¹[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 ¹[Petroleum] prospecting or field development work _____

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

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

- (7) Names and qualifications of managerial personnel intended to be used in the operations _____
- (8) State amount of capital for operations under the ¹[Petroleum] right applied for:
- (a) At present available _____
- (b) Which applicant can make available and the source _____
- (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(s) _____
 Title(s) _____

¹ Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373

**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 the parent company:

1. Total investment in ¹[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 ¹[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 the parent company:

1. Production of oil gas (1000 bbl/day).
2. Refinery capacity (1000 bbl/day).
3. Sales of ¹[Petroleum] products (1000 bbl/day).
4. Number of exploration wells ¹[wildcats] and appraisal wells.

¹ Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373

5. Number of employees in ²[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) Indication 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 participating 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, 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 reservoir geological point of view must be included. Further, the applicant should include information about expected pressure conditions.

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 financial amount to be allocated to and spent on exploration activities;

¹ Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

- (b) any additional royalty or other economic compensation offered; and
- (c) the participating interest offered to the Government or the Oil and Gas Development Corporation.

The applicant should include information as to his intentions and plans regarding transfer of technology and training, development and integration of the Oil and Gas Development Corporation personnel and Pakistani personnel in general.

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, ¹[1986] 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 ²[Petroleum] in the following areas:

Permit Area No.	Coordinate	Km ²
_____	_____	_____
_____	_____	_____
_____	_____	_____

- (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 leastX..... km. The survey shall be completed no later than _____ after the issue of this Permit.

In areas where structures are expected to continue into neighbouring areas (blocks), the Director General, Petroleum Concessions, may require certain specifications for the survey.

¹ Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

b) If the Permit Holder(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 laws of Pakistan shall govern all activities pursuant to this permit.

In witness whereof the ¹[President] has set his hand and seal and the Permit Holder(s) has caused its Common ²[seal] to be affixed hereon this _____ day of _____.

¹ Subs by notification No. SRO 889(I)/88 dated 6 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

SECOND SCHEDULE

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 ¹[1986] 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 participating interest as stated herein:

Name(s) of Licensee(s) including the Oil and Gas Development Corporation when applicable.

- 2) This Licence gives the Licensee(s) the exclusive right to perform activities in connection with the exploration for and exploitation of ²[Petroleum] in the following areas:

Licence Area No.	Coordinate	Km ²
_____	_____	_____
_____	_____	_____

- 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) , the Director General, Petroleum Concessions, may require certain specifications for the survey.

¹ Subs by notification No. SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext.; 16 April 1987; PP 429-430.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

- 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 Director General, Petroleum Concessions, may regard as necessary in order to estimate possible ¹[Petroleum] finds. Special care shall be given to coring in all prospective intervals. The sampling shall lead to exhaustive analysis and interpretations.
- d) The term “wildcat well” is defined as a well, which tests clearly separate geological entity (be it of structural, lithologic, facies of pressure nature) penetrating all prospective ²[intervals] at the particular location that lie within the terms of the work programme as defined above. If the Licensee(s) wishes to get a well approved as a “wildcat”, such approval may be obtained from the Director General, Petroleum Concessions, before the commencement of drilling, provided that all relevant data and interpretations have been submitted to him.

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 30 days after this Licence has been granted enter into:
 - a) (*) a Concession Agreement with the Government of Pakistan, with contents as stipulated in Enclosure No. 1 hereto; and
 - b) (*) a Joint Venture agreement with contents as stipulated in Enclosure No. 2 hereto.

Any subsequent amendment, supplement, or exception from the Joint Venture 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 caused its Common Seal to be affixed hereon this _____ day of _____

* Delete, amend or add as applicable.

SECOND SCHEDULE

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

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 ¹[1986] 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 participating interest as stated herein:
Name(s) of Lessee(s) including the Oil and Gas Development Corporation, when applicable.

- (2) This Lease gives the Lessee(s) the exclusive right to perform activities in connection with the exploration for and exploitation of ²[Petroleum] in the following areas:

Lease Area No.	Coordinate	Km ²
_____	_____	_____
_____	_____	_____

- (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 ²[Petroleum] deposits in the Lease area with due diligence and substantially in accordance with the development Plan, dated _____ subject to such modifications thereto as the Government may approve.
- (5) When the deposits have been developed, ²[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 ¹[President] has set his hand and seal and the Lessee(s) has caused its Common Seal to be affixed hereon this _____ day of _____

¹ Subs by notification No. SRO 277(I)/87 dated 12 April 1987, see Gazette of Pakistan Ext.; 16 April 1987; PP 429-430.

² Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.

IZHARUL HAQUE
Secretary

¹ Subs by notification No. SRO 889(I)/88 dated 06 October 1988, see Gazette of Pakistan Ext.; 08 October 1988; PP 2371-2373.