

CHARLTONS

SOLICITORS



Natural Resources

January 2015

UK TRADE AND INVESTMENT PUBLISHES 'OPPORTUNITIES FOR BRITISH OIL AND GAS COMPANIES IN MYANMAR'

INTRODUCTION

In January 2015 UK Trade and Investment (**UKTI**) published "Opportunities for British companies in Burma's oil and gas sector"¹ (**UKTI Report**). The report provides an overview of Myanmar's oil and gas industry, information on recent licence awards, investment opportunities and Myanmar's production sharing contracts (**PSCs**)². The British Government opened a UKTI office in Myanmar in July 2012 to support responsible British investment and trade.

Myanmar is estimated to possess 3.2 billion barrels of oil and 18 trillion cubic feet of natural gas reserves. Its unproven resources may be vastly greater. Currently Myanmar is the 10th largest producer of natural gas globally – the bulk of which is exported to China and Thailand.

Political reforms introduced since 2011 have seen sanctions lifted by the E.U. and U.S., allowing international companies re-enter the market. In June 2014, the Myanmar Government (**Government**) awarded 20 international companies licences to explore and produce from offshore fields. Licences for another further 50 offshore blocks are expected to be announced in 2015/16.

¹ The UKTI Report refers to Myanmar as Burma in accordance with British Government and Foreign Office policy.

² Charltons understands that all information contained in the UKTI Report was accurate at the time of publication. Charltons has not independently verified the accuracy of this information. All information relating to oil and gas contained in the UKTI Report should be considered in the context of changing global trends in the oil and gas industry.

At present, Myanmar's domestic capacity is limited, meaning there is a demand for international participation across the entire supply chain. The Government is keen to work with responsible international businesses to ensure that best international industry standards are met.

NATIONAL ENERGY MANAGEMENT COMMITTEE

A National Energy Management Committee (**NEMC**) and an Energy Development Committee were also created in early January 2013 to strengthen coordination and planning among the energy sector's institutions. It comprises the Ministry of Oil and Gas (**MOGE**), the Ministry of Energy and 10 other government institutions involved in energy development and aims to streamline the country's national energy policy. It is chaired by the Minister of Energy.

The NEMC is responsible for the following:-

- implementing short term and long term comprehensive energy development plan based on systematically investigated data on the potential energy resources which are feasible and can be practically exploited, considering minimum impact on natural environment and social environment
- instituting laws, rules and regulations in order to promote private sector participation and to privatize state energy organizations in line with State Economic Reform Policy

- compiling systematic statistics on domestic demand and supply of various different kinds of energy resources of Myanmar
- implementing programs by which local population could proportionally enjoy the benefit of energy reserve discovered in the areas
- implementing programs on a wider scale, utilizing renewable energy resources such as wind, solar, hydro, geothermal and bioenergy for the sustainable energy development in Myanmar
- promoting energy efficiency and energy conservation
- establishing R&D, D&D (Research, Development, Design and Dissemination) institutions in order to keep abreast with international practices in energy resources exploration and development works and to produce international quality products
- promoting international collaboration in energy matters
- formulating appropriate policy for energy product pricing meeting economic security of energy producers and energy consumers
- The Oilfields Act (1918)
- The Oilfields Rules (1936)
- The Petroleum Act (1934)
- The Petroleum Rules (1937)
- The Essential Supplies and Services and Act (1947)
- The Oilfields (Labour and Welfare Act) (1951)
- The Petroleum Resources (Development) Regulation Act (1957)
- The Law Amending the Petroleum Resources (Development Regulation) Act (1969)
- The Myanmar Petroleum Concession Rules (1962)

KEY OIL AND GAS LEGISLATION IN MYANMAR

Myanmar's oil and gas legislation is largely based on British Law Codes of the pre-independence Indian statutes and mostly deal with rights characterized as concessions. Although the terms and conditions of PSCs largely govern operations, the Oilfields (Labour and Welfare) Act 1951 remains highly relevant to contractors and service companies. There are several other laws that play a role in governing the oil and gas sector – though in practice, investors generally enter into PSCs, performance compensation contracts (**PCCs**), improved petroleum recovery contracts (**IPRs**), improvement of marginal recovery agreements and reactivation agreements. So long as a conflict with an existing law does not exist, the terms and conditions of such contracts will govern the process.

The Myanmar Arbitration Act (1944) is relevant should contractual disputes arise over onshore blocks. For offshore block related disputes, arbitration is undertaken according to UNCITRAL Arbitration Rules.

The following are the key pieces of legislation applicable to Myanmar's oil and gas industry:-

MYANMAR PSCS

PSCs are increasingly awarded through licensing rounds as opposed to direct negotiations. The first licensing round for oil and natural gas fields took place in 2011. The Government has awarded 16 onshore and 20 offshore blocks to foreign and domestic companies. The 20 offshore blocks comprise 10 that are deep-water and 10 which are shallow-water. For onshore and shallow water blocks, potential bidders must cooperate with at least one Myanmar-owned company which is registered with the Energy Planning Department. Bidders for deep-water offshore blocks are not required to partner with a Myanmar company.

Deep water

Myanmar's deep-water offshore PSCs offer an exploration period of three years, with a possible one or two year extension and a 20-year development period. Royalties recently increased to 12.5% from 10% and cost recovery limits of 40-50%. The royalties payable for onshore production is also 12.5%. The government's share will range from 70% if output is 50,000 barrels per day (**b/d**) or less to 90% above 150,000 b/d, with the state's share of gas output ranging from 70% at 300,000 Mcf/d³ to 90% over 900,000 Mcf/d. Signature fees are negotiated by MOGE.

³ 1,000 cubic feet of gas per day

Shallow water

The production split ranges from 60% to 90%, depending on production rates and well depths. Cost recovery limits are 50% in water depths of 600 feet or less and 60% above that. Typically MOGE will be entitled to a 15-25% share of any offshore or onshore block production.

Incentives

Imports of equipment and materials and oil and gas exports are exempt from duties and income tax which is set at a rate of 30%, with a three year holiday for oil companies. For onshore production, this translates to 20% of oil or 25% of gas from the contractor's share of profit production, which is to be sold to the local market at 90% of fair market rates.

2013 –2014 shallow-water block awards

Number	Block/Area	Company Awarded	Country	Acreage (sq. km)
1	A-4	BG Asia Pacific and Woodside Energy (Myanmar)	UK & Australia	2,200
2	A-5	Chevron	United States	10,600
3	A-7	BG Asia Pacific and Woodside Energy (Myanmar)	UK & Australia	8,220
4	M-4	Oil India Ltd, Mercator Petroleum Ltd and Oilmax Energy	India	N/A
5	M-7	ROC Oil and Tap Oil	Australia	13,000
6	M-8	Berlanga Holding	Netherlands	N/A
7	M-15	Transcontinental Group	Australia	N/A
8	M-17	Reliance Industries	India	27,600
9	M-18	Reliance Industries	India	N/A
10	YEB	Oil India Ltd, Mercator Petroleum Ltd and Oilmax Energy	India	N/A

2013 – 2014 deep-water blocks awards

Number	Block/Area	Company Awarded	Country	Acreage (sq km)
1	AD-2	BG Asia Pacific and Woodside Energy (Myanmar)	UK & Australia	8,098
2	AD-3	Ophir Energy Plc	United Kingdom	10,000
3	AD-5	BG Asia Pacific and Woodside Energy (Myanmar)	UK & Australia	10,560
4	AD-9	Shell Myanmar Energy and MOECO	Netherlands	N/A
5	AD-10	Statoil and ConocoPhillips	Norway and United States	9,000
6	AD-11	Shell Myanmar Energy and MOECO	Netherlands	N/A
7	MD-2	Eni Myanmar	Italy	N/A
8	MD-4	Eni Myanmar	Italy	N/A
9	MD-5	Shell Myanmar Energy and MOECO	Netherlands	N/A
10	YWB	Total E&P Myanmar	France	N/A

International companies operating onshore

Company Name	Country
Nobel Oil	Russia
CNOOC	China
SIPC	Myanmar China
North Petro-Chem	China
Gold Petrol	Indonesia
MPRL E&P	British Virgin Islands
ESSAR	India
Snog, UPR	Singapore
EPI (Holdings) Ltd	Hong Kong
Geopetrol International	Switzerland
PETRONAS	Malaysia
Jubilant Oil and Gas Pvt	India
PTTEP	Thailand
Istech Energy EP-5 Pte Ltd	Singapore
Asia Orient International Ltd	Hong Kong

2013 – 2014 onshore energy block awards

Company Name	Country	Number of Blocks
ONGC Videsh	India	2
Eni	Italy	2
Petroleum Exploration	Pakistan	2
Brunei National Petroleum	Brunei	1
Petronas	Malaysia	1
Pacific Hunt Energy	Canada	2
CAOG S.a.r.l.	Luxembourg	1
JSOC Bshneft	Russia	1
PTTEP South Asia Ltd	Thailand	1
Palang Sophon Offshore	Thailand	1

IPRs awarded

Company Name	Country	Number of Blocks
MPRL E&P Pte	British Virgin Islands	2
PETRONAS	Malaysia	1

INVESTMENT AND SUPPLY CHAIN OPPORTUNITIES

According to the UKTI report, as Myanmar's oil and gas sector grows there will be supply chain opportunities for companies in many different areas including:-

- infrastructure and equipment;
- security;
- risk analysis;
- training and skills accreditation;
- legal and professional services;
- health and safety analysis; and
- environmental and social impact assessment consultancy services.

The UKTI Report recommends an earlier report published by the Myanmar Centre for Responsible Business (MCRB) in September 2014, titled "Myanmar Oil and Gas – A Sector-Wide Impact Assessment". The MCRB report provides certain recommendations for investors and companies, including the following:-

Recommendations for Investors

- Undertake comprehensive due diligence on companies and their portfolios
- Engage with investee companies to ensure they meet international standards on responsible business
- Ensure that companies doing business in the oil and gas sector publish robust reports on how risks are managed and assess the impact of their investments and operations

Recommendations for Companies

- Adopt a policy commitment to responsible business conduct and human rights
- Commit to applying international standards of responsible business conduct in the absence of developed national legal frameworks

- Take local complexities and legacies into account when assessing the impacts operations may have
- Integrate issues relating ethnic conflict into all phases of operations
- Communicate with stakeholders, particularly workers and communities, to build understanding and demonstrate transparency and accountability

MYANMAR AND THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

In December 2012, President Thein Sein announced that Myanmar had applied to join the Extractive Industries Transparency Initiative (EITI) to encourage responsible investment and ensure that the extraction of natural resources would not adversely affect the environment and local communities. On 2 July 2014, Myanmar was admitted as an EITI candidate country. It joined 17 candidate countries and 29 others already deemed to be compliant. A decision on Myanmar' bid to be EITI compliant will be announced at the start of 2017.

Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/393763/UKTI_Burma_-_Oil_and_Gas_Report_-_Jan_2015.pdf, January 2015

CHARLTONS

Best Boutique Firm 2014

Asian Legal Business Awards

This newsletter is for information purposes only.

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at unsubscribe@charltonslaw.com

Hong Kong Office:

Dominion Centre

12th Floor

43-59 Queen's Road East

Hong Kong

Tel: + (852) 2905 7888

Fax: + (852) 2854 9596

www.charltonslaw.com