Hydrocarbon Exploration Licensing Policy

Why in news?

\n\n

India has announced a new hydrocarbon exploration licensing policy (HELP).

\n\n

What's the problem with NELP?

\n\n

\n
- The New Exploration Licensing Policy (NELP) has been in existence for 18 years. Over the years, various issues have arisen in NELP.
\n
- Presently, there are **separate policies and licenses** for different hydrocarbons.
\n
- There is overlapping of resources between different contracts.
\n
- Unconventional hydrocarbons (shale gas and shale oil) were unknown when NELP was framed.
\n
- While exploring for one type of hydrocarbon, if a different one is found, it will need separate licensing, thus, adding further to the cost.
\n
- The **Production Sharing Contracts** (PSCs) under NELP are based on the principle of "profit sharing".
\n
- When a contractor discovers oil or gas, he is expected to share with the Government the profit from his venture, as per the percentage given in his bid. Until a profit is made, no share is given to Government, other than royalties and cesses.
\n
- The process of approval of activities and cost gives the govt a lot of discretion and has become a major source of **delays and disputes.**
\n
- Another feature of the current system is that **exploration is confined to blocks** which have been put on tender by the govt.

\n
- Currently, the producer price of gas is fixed administratively by the Government. This has led to loss of revenue and a large number of disputes.
\n
- The current policy regime, in fixing royalties, does not distinguish between shallow water fields and deep/ultra-deep water fields where risks and costs are much higher.
\n

\n\n

What are key features of HELP?

\n\n

\n
- India has announced HELP, which offers single license to explore conventional and unconventional oil and gas resources.
\n
- The new policy also gives the investors the much needed freedom in pricing and marketing for crude oil and natural gas.
\n
- There will be a **uniform licensing system** which will cover all hydrocarbons, under a single license and policy framework.
\n
- Contracts will be based on **'biddable revenue sharing'.** Bidders will be required to quote revenue share in their bids and this will be a key parameter for selecting the winning bid.
\n
- An **'Open Acreage Licensing Policy'** will be implemented whereby a bidder may apply to the Government seeking exploration of any block not already covered by exploration. This will enable a faster coverage of the available geographical area.
\n
- A concessional royalty regime will be implemented for deep water (5%) and ultra-deep water (2%) areas. In shallow water areas, the royalty rates shall be reduced from 10% to 7.5%.
\n
- The **contractor will have freedom for pricing and marketing** of gas produced in the domestic market on arms length basis.
\n
- To safeguard the Government revenue, the Government's share of profit will be calculated based on the higher of prevailing international crude price or actual price.
\n

\n\n

Why HELP is necessary?

\n\n

\n
- The country currently faces a situation where oil and gas constitutes a major and increasing share of total imports.
\n
- Oil production has stagnated while gas production has declined. There is a need for a concerted policy measures to stimulate domestic production.
\n
- Thus, the new policy regime marks a generational shift and modernization of the oil and gas exploration policy.
\n
- It is expected to **stimulate new exploration activity** for oil, gas and other hydrocarbons and eventually reduce import dependence.
\n
- It is also expected to create substantial **new job opportunities** in the petroleum sector.
\n
- The introduction of the concept of revenue sharing is a major step in the direction of “minimum government maximum governance”.
\n
- Marketing and pricing freedom will further simplify the process.
\n
- These will remove the discretion in the hands of the Government, reduce disputes, avoid opportunities for corruption, reduce administrative delays and thus stimulate growth.
\n

\n\n

\n\n

Source: PIB

\n

SHANKAR IAS PARLIAMENT
Information is Empowering