Hydrocarbon Exploration Licensing Policy

Why in news?

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

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What's the problem with NELP?

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- The New Exploration Licensing Policy (NELP) has been in existence for 18 years. Over the years, various issues have arisen in NELP.
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- Presently, there are **separate policies and licenses** for different hydrocarbons.
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- There is overlapping of resources between different contracts.
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- Unconventional hydrocarbons (shale gas and shale oil) were unknown when NELP was framed.
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- While exploring for one type of hydrocarbon, if a different one is found, it will need separate licensing, thus, adding further to the cost.
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- The **Production Sharing Contracts** (PSCs) under NELP are based on the principle of "profit sharing".
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- 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.
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- 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.**
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- Another feature of the current system is that **exploration is confined to blocks** which have been put on tender by the govt.

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- 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.
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- 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.
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What are key features of HELP?

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- India has announced HELP, which offers single license to explore conventional and unconventional oil and gas resources.
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- The new policy also gives the investors the much needed freedom in pricing and marketing for crude oil and natural gas.
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- There will be a **uniform licensing system** which will cover all hydrocarbons, under a single license and policy framework.
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- 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.
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- 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.
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- 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%.
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- The **contractor will have freedom for pricing and marketing** of gas produced in the domestic market on arms length basis.
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- 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.
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Why HELP is necessary?

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

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