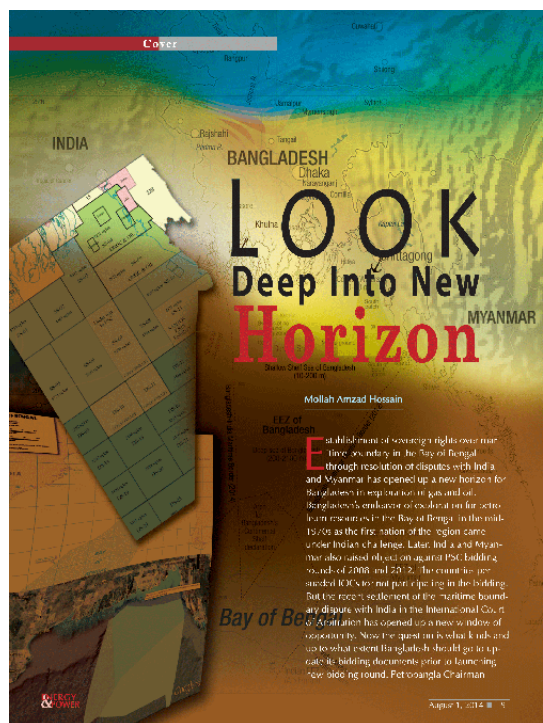


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Look Deep Into New Horizon



Look Deep Into New Horizon Mollah Amzad Hossain

Establishment of sovereign rights over maritime boundary in the Bay of Bengal through resolution of disputes with India and Myanmar has opened up a new horizon for Bangladesh in exploration of gas and oil. Bangladesh's endeavor of exploration for petroleum resources in the Bay of Bengal in the mid-1970s as the first nation of the region came under Indian challenge. Later, India and Myanmar also raised objection against PSC bidding rounds of 2008 and 2012. The countries persuaded IOCs for not participating in the bidding. But the recent settlement of the maritime boundary dispute with India in the International Court of Arbitration has opened up a new window of opportunity. Now the question is what kinds and up to what extent Bangladesh should go to update its bidding documents prior to launching new bidding round. Petrobangla Chairman has, off course, claimed of commencement of preparation. Necessary amendments will be made in the block maps reflecting the decision of the verdict.

The fiscal package of model PSC will be made more attractive. These will make IOCs more interested. Then by next December, the fresh bidding round will be announced.

Different views have been aired from within Petrobangla about the timing of bidding. "IOCs cannot be attracted by merely block map revision and fiscal package updating only. Acquiring and offering primary data package of geological information of Bangladesh area of the Bay of Bengal with the bidding document will be essential. These are not available now." Consequently works are ongoing for conducting a multi-client seismic survey in the entire Bangladesh region of the Bay of Bengal. By the end of 2014, one or more companies will be involved in the shallow and deep water offshore blocks for conducting the multi-client seismic surveys. By end 2015, we may be able to generate a package of primary information of possible resources in our part of the Bay of Bengal. Independent experts have also supported this initiative.

The 2012 resolution of maritime boundary dispute with Myanmar has left Bangladesh with 23 exploration blocks in the offshore. Five off these blocks have already been awarded under PSC to ConocoPhillips, ONGC and Santos-Kris Energy JV. Of all the 23 blocks, we have 11 shallow blocks (3 already awarded under PSC) and 12 deep water blocks (2 awarded under PSC). Now 18 blocks are available for fresh bidding round. Off these, 6 blocks including 2 in shallow water have about 1-10% overlapping with India. The block maps require updating for these 6 blocks. The straight dividing line separating the shallow and deep water blocks may also need to be slightly adjusted.

Actions and Success Stories of India and Myanmar

Myanmar has so far discovered about 9.1 TCF of gas at Shwe gas field in the shallow water block in the eastern side of Bangladesh territory. On the other side, at only 3 km away of Bangladesh block 11 in their block AD 7, Myanmar engaged PSC Operator Daewoo is preparing for exploration after concluding 3D seismic surveys. Whatever little information Bangladesh has about offshore blocks, these are off the eastern blocks adjacent to Myanmar territory. Virtually no information about the western blocks is now available with Bangladesh. India has also not made any significant achievement in their blocks adjacent to us.

According to Director General of Hydrocarbon (DGH) India, Cairn Energy, ONGC, Reliance and Gujarat Sate Oil together have achieved 17 discoveries in the Krishna Godavari (KG) basin of Indian

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State of Andra Pradesh. But nothing has been made public yet about the proven reserve. But ONGC publication has stated of a possible resource of 38 TCF. But Wikipedia shows discovered gas reserve of KG basin as 44 TCF.

It is very difficult to even guess to what extent of possible petroleum resource can be discovered in the Western Coast of Bangladesh. Because the KG Basin is far away from Bangladesh. Bangladesh does not have any information about its west coast. Hence initiative for acquiring required data and information prior to launching new bidding round will create greater opportunity for attracting IOCs in our area of Bay of Bengal.

The Amended Model PSC 2012

The gas price and corporate tax provisions of model PSC 2008 was updated in Model PSC 2012. The Model PSC 2012 fixed Ceiling and Floor price HSFO Singapore price as US\$ 200 and US\$ 100 per tonne. Gas price for shallow blocks was to be calculated at 100% of HSFO and deep water at 110% of HSFO. But when that also failed to receive any response the model PSC was further amended after extending bid submission dateline. Amended PSC now has Deep water gas calculation at 130% HSFO price. This makes gas price as 6.5 US\$ at delivery point at land. At the same time provision is created to increase gas price @ 2% annually after commencement of production. Petrobangla would bear the corporate tax on behalf of the IOCs. The provision for gas export even as LNG was completely rescinded.

Even these incentive packages are not considered as attractive as those of India and Myanmar. Hence the Model PSC requires further updating.

Fiscal Package of India & Myanmar:

India and Myanmar have made significant progress in offshore petroleum exploration although they entered much later than us. They have received encouraging response as they offered better fiscal package which they produced taking into consideration of international energy market. India so far conducted 9 PSC bidding rounds. Myanmar has also conducted few. Recently, they have concluded PSC after a successful bidding round. Local companies and IOCs are working in India while in Myanmar only IOCs are working.

India set up a committee last year for considering adoption of market-based gas pricing mechanism with a view for creating more dynamism in their exploration activities. The committee decided to revise gas price from 4.2 US\$ /MBTU to 8.4 US\$ / MBTU with effect from 1 April 2014. But Indian Election Commission stalled it. The new government has deferred the introduction of new gas price for 3 months. The local and foreign companies working in India has already informed that they won't be able to develop discovered gas resources if the new gas price is not introduced.

Gas price in Myanmar is more than US\$7.00/ MSCF. This is the wellhead price. The gas China and Thailand are buying from Myanmar is priced at 8.5-9.0 US\$/MSCF.

Myanmar has 25% corporate tax while in Bangladesh it is 37%. Myanmar allow 5 years tax holiday. India also provides some other tax benefits. They also allow gas sales to local third parties.

BAPEX and Offshore

The environmental activists and left leaning civil society are opposing engagement of IOCs through PSC for exploration of petroleum resources in the offshore without logical valid reasons. But the government is always telling that it has no financial capacity and technical expertise for offshore exploration. But the critics are not accepting it and continuing their protests. There are thoughts for keeping some blocks reserved for Bapex. Recently Petrobangla Chairman Dr Hussain Mansur said that in these reserved blocks, BAPEX will work in Joint Venture with foreign companies. Talks with Russian Energy Giant GAZPROM have already been initiated to this effect. Companies from China, Malaysia and Vietnam may also be involved in the process. Dhaka University Professor Badrul Imam has contested this initiative. He thought it would not be wise for BAPEX to go to offshore yet. He found no alternative but to rely on IOCs for offshore exploration.

What Should Bangladesh Do?

Experts believe Bangladesh must update its model PSC in line with the neighboring countries. "IOCs won't be interested if we cannot offer similar incentives in our PSC as those are available in our neighbors' document. So we must review model PSC again making necessary updating. Otherwise we may not achieve any success in our fresh bidding," said an expert.

A new provision for additional incentives may be created in the event any IOC agrees to invest making BAPEX and any local investor at their partner in offshore exploration. This will open window for local investors stepping into petroleum exploration. Local investors will be encouraged to work as partners of IOCs instead of being mere local agents.

There is no alternative but to create a database of information on offshore petroleum resource for attracting investment. The data and information now available with Petrobangla are outdated. There is no information now on western region of our Bay of Bengal. We have to acquire these through Multi-client seismic survey prior to announcing the bidding round. That will create more attraction for investors.

We must approach the offshore exploration in a systematic and planned manner. That will reduce cost. If we can create a situation where a single mobilization for drilling offshore exploration well can drill 10-12 wells in one year instead of 1-2 costs will be significantly reduced.

The bid evaluation and approval time must also be reduced as much as practicable. We must start talking with IOCs now. Bangladesh can arrange one or more investment conference with IOCs if they desire in this period.

In consideration of future gas transmission from shallow and deep water prospects, creation of an offshore Gas Transmission Company may be a thought now. This can be a joint venture of a foreign company with GTCL even. This will facilitate construction of offshore pipelines to bring the gas from offshore to onshore GTCL operated gas grid following the commercial discoveries. This may even allow smaller gas discovery to be monetized.

Conclusion

A new window of opportunity has been opened for energy-hungry Bangladesh following the resolution of maritime boundary disputes with India and Myanmar, which are now significantly advanced about the probable and possible petroleum resources in their offshore areas. Bangladesh is still relying on wild guess. We have to acquire the extensive data and information of probable resources in our 1 lakh 18 thousand sqkm Bangladesh offshore area. It will make our primary fuel supply planning for 2021 Or 2022 much more flexible. These resources will act as major option for our energy security. We must learn lessons from the experience of other successful countries from the economic point of view.

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