Why India Is Overhauling Its Oil & Gas Policy

By Haley Zaremba - Mar 12, 2019, 5:00 PM CDT

India is making major policy changes in order to attract more foreign investment and exploration in its oil and gas fields. As part of a considerable overhaul in how they allow and manage oil and gas exploration permits, the Indian government will no longer charge any percentage of profit on oil and gas extracted from certain under-explored areas. The idea behind this change, approved by the Union Cabinet at the end of last month, is to boost domestic hydrocarbon production by attracting private and foreign investors with deep pockets.

This change is a considerable one, coming after more than 20 years of equal contracts across all sedimentary basins in the subcontinent. Now, under the new contractual regime, there is far more flexibility to cater contracts to the particular basins they concern, allowing for different rules in areas that already see significant development and extraction versus regions that have yet to see the arrival of commercial oil and gas producers in any significant way.

On top of this change in contract policy, producers will now get to operate with complete freedom when it comes to pricing and marketing in future bidding rounds, according to an official statement about the new rule changes. In all future bid rounds, all oil and gas blocks will be primarily awarded based on the bidders' commitment to exploration work.

The change in contract policy will not apply to already well-established sedimentary basins, considered as Category-I, including Krishna Godavari, Mumbai Offshore, Rajasthan, and Assam, where commercial production is already in full swing. In these Category-I basins, oil and gas producers will still have to pay a share of their oil and gas revenue to the Indian government. It is in the less developed Category-II and Category-III basins that oil companies will now enjoy the newfound privilege of not paying any percentage of their profits in the basin. In these areas, production companies will only be charged prevalent royalty rates on oil and natural gas - a much lower price of admission.

Detailing these prevalent royalty rates, the official government statement on the policy change said, "To expedite production, concessional royalty rates will be applicable if production is commenced within four years for onland and shallow water blocks, and five years for deep water and Ultra-deepwater blocks from the effective date of the contract".

This newest policy change is not the first attempt on the part of the Indian government to attract new players to their oil and gas sector in order to raise domestic output levels. Just two years ago the government, controlled by the Bharatiya Janata political party (the biggest political party in India and the largest in the world measured by primary membership numbers), introduced the Hydrocarbon Exploration and Licensing Policy (HELP) which offered maximum revenue for new blocks awarded to companies, but HELP was not successful in boosting private or foreign involvement in Indian oil and gas exploration. The objective of last month's rule change is to correct this misstep and "to increase exploration activities, attract domestic and foreign investment in unexplored/unallocated areas of sedimentary basins, and enhance domestic production of oil and gas".

Just one day after India's Union Cabinet approved this policy change, Philippines-based energy, oil, and gas company Atlantic, Gulf and Pacific Co. of Manila Inc. (AG&P) announced a new expansion of its production in India. On March 1, India's Petroleum and Natural Gas Regulatory Board (PNGRB) granted the firm the rights to construct natural gas facilities with service to consumers in an additional nine concession areas in 23 districts across the states of Andhra Pradesh, Karnataka, Tamil Nadu and Kerala. The Filipino firm won contracts for nine out of 50 geographical areas in what was the 10th round of bidding for natural gas concessions across India.

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