

OIL REGULATION

Oman



Oil Regulation

Consulting editors

Bob Palmer

Mayer Brown

Quick reference guide enabling side-by-side comparison of local insights into oil industry issues worldwide, including commercial, policy, regulatory, licensing and legal system overview; expropriation provisions; license revocation and amendment mechanisms; state participation; royalties, taxes and tax stabilisation; joint ventures; reservoir unitisation; guarantees and security deposits; transfer to third parties; title to facilities and equipment; decommissioning and abandonment; transportation; cost recovery; health and safety; environmental; labour; tax; commodity price controls; competition; seismic data; treaty, foreign ownership and cross-border sale considerations; and recent trends.

Generated 25 May 2022

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Contributors

Oman



Mansoor Jamal Malik
mansoor.malik@amjoman.com
Al Busaidy Mansoor Jamal & Co



Ravinder Singh
ravinder.singh@amjoman.com
Al Busaidy Mansoor Jamal & Co

GENERAL

Key commercial aspects

Describe, in general terms, the key commercial aspects of the oil sector in your country.

Oman is the largest oil and gas producer in the Middle East that is not a member of the Organisation of the Petroleum Exporting Countries (OPEC) (excluding Qatar). While there is activity in offshore oil and gas blocks in Oman, oil is largely an onshore activity. The production and export of crude oil and natural gas is the biggest contributor to the Omani economy. According to the Central Bank of Oman's Annual Report for 2020, the average daily oil production during 2020 fell by 2.1 per cent to 950.7 thousand barrels, and aggregate oil production fell to 348 million barrels compared to 2019. Of the total production, crude oil production was down by 9.1 per cent at 278.8 million barrels, while production of condensate rose by 45.2 per cent to 69.1 million barrels.

Oman's exported crude is the basis of a major trading classification, DME Oman, which is listed on the Dubai Mercantile Exchange. Oman exported 287 million barrels of crude oil during 2020, lower by 7.5 per cent compared to 2019. Furthermore, the hydrocarbon sector accounted for 59.7 per cent of total merchandise exports during 2020.

According to the Central Bank of Oman's Annual Report for 2020, the hydrocarbon sector constituted 26.6 per cent of the nominal GDP and 68.2 per cent of the government revenues during 2020.

Regarding oil reserves, Oman's total proved oil and condensate reserves as at 31 December 2020 stood at 4,706 million barrels.

With regards to oilfields, a primary oilfield is the Lekhwair oilfield in the north-west part of the Fahud salt basin. Other important oilfield areas are the South Oman salt basin, which contains several oilfields, and the Mukhaizna oilfield, which contributes around 13 per cent to Oman's entire oil output.

Oman's main oil terminal, Mina Al Fahal, is located near Muscat and the majority of the country's crude is either exported or processed at the refinery for domestic use, with the exception of small volumes produced from DNO Block 8 West Bukha in Musandam, which are planned to be exported from the new terminal nearby. The Mina Raysut port near Salalah has an oil pier with one dolphin berth for handling tankers of up to 45,000 deadweight tonnage.

Government-owned companies produce the majority of the oil in Oman. The two main state-owned companies operating in this field are:

- Petroleum Development Oman LLC (PDO), which is the main operator of oil assets and producer of oil in Oman. PDO pumps the bulk of the sultanate's crude oil. The government owns a 60 per cent stake in the company, with the remaining shares divided between foreign interests: Shell (34 per cent); Total (4 per cent); and PTTEP Oman E&P Corporation (2 per cent). PDO operates 205 oilfields, including the sultanate's largest block, Block 6. Block 6 is the main onshore oil concession in Oman, covering approximately 40 per cent of the country's land acreage.
- OQ Group, which resulted from the integration of the ORPIC and Oman Oil groups of companies, which were leading in the processing, transmission, and distribution of oil. Further state-owned companies are planned to be integrated by the government of Oman into OQ; these include Oman Gas Company SAOC, Salalah Methanol SAOC, OOCEP, Oman Trading International, Oxea, Duqm Refinery and Petrochemicals Industries, and Salalah Liquefied Petroleum Gas. According to press statements, the ultimate aim of the integration is to help increase oil production through efficiency by raising the production rate from 655,000 barrels per day to 1 million barrels per day by 2030.

The government encourages private companies to undertake oil and gas activities in Oman and, as a result of government efforts, blue-chip companies such as BP, Occidental, Shell, Total and Partex are undertaking oil and gas

activities in Oman. Shell, Total and Partex have long maintained influential presences in Oman. BP and Occidental Petroleum are also major international oil companies with significant footprints in Oman, and Eni entered the country with an offshore block in 2017. In addition, there is a large group of foreign-owned exploration, survey and drilling companies operating in Oman, such as KCA Deutag, Schlumberger, MB Petroleum, Gulf Petrochemical Services and Trading, and Abraj.

Law stated - 04 April 2022

Energy mix

What percentage of your country's energy needs is covered, directly or indirectly, by oil or gas as opposed to nuclear or non-conventional sources? What percentage of the petroleum product needs of your country is supplied with domestic production?

Oman's domestic oil consumption stood at 295,236 barrels per day in December 2019, which represents an increase from 283,961 barrels per day for December 2018.

Regarding gas consumption, the total consumption of natural gas during 2021 reached 37,948 million cubic metres. Oman LNG and Qalhat LNG projects ranked highest in terms of natural gas consumption, accounting for about 16,129 million cubic metres, or 35 per cent of the total consumption in 2019.

Law stated - 04 April 2022

Government policy

Does your country have an overarching policy regarding oil-related activities or a general energy policy?

The government's overall detailed policy for the domestic oil and gas sector is not publicly available; however, it is generally based on satisfying the local demand and using the produced oil and gas to push forward the substantial developments currently being undertaken by the government. Dealing with growing domestic gas needs is one of the key challenges facing local policymakers as the economy and population continue to expand. This major challenge led to the commencement of projects aimed at both boosting local production and importing gas from abroad; for example, Qatar supplying gas to Oman via Dolphin Energy's underwater pipeline. As part of Oman's 2040 Vision, the government aims to reduce Oman's reliance on the contribution of oil and gas activities to the economy through economic diversification. Vision 2040 specifies economic diversification and fiscal sustainability as one of the national priorities, in addition to other areas that would support this diversification such as the private sector, investment and international cooperation.

The Council for Financial Affairs and Energy Resources, which formerly acted in coordination with the Ministry of Oil and Gas and its various departments for the direction of activities relating to the exploration, extraction and production of both natural gas and oil, and the setting out of the policy governing the oil and gas industry in the country was abolished pursuant to Royal Decree 108/2020 and its functions have been assigned to the Council of Ministers of Oman. Additionally, the Ministry of Oil and Gas's name has changed to the Ministry of Energy and Minerals by virtue of Royal Decree 96/2020 and its mandate has expanded to cover regulation of the mining sector.

Law stated - 04 April 2022

Registering a licence

Is there an official, publicly available register for licences and licensees? Is there a register setting out oilfield ownership or operatorship, etc?

There is no publicly available register for licences. Copies of the relevant licences may be requested from the licensees themselves. The Commercial Registration database, which is available on the Ministry of Commerce, Industry and Investment Promotion's website, allows the public to access commercial registration files of Omani companies and branches; such files indicate whether the company or branch is licensed to undertake oil and gas activities. However, it does not show the number, validity period and other information pertaining to the licence. There is no publicly available register setting out oilfield ownership or concessions. The shareholding structures of operators who are not unincorporated joint ventures or joint stock companies, however, can be found on their respective commercial registration files accessible on the abovementioned website.

Law stated - 04 April 2022

Legal system

Describe the general legal system in your country.

Oman is a civil law country. Article 2 of the Basic Law of Oman (Royal Decree 6/2021) (the Basic Law) states that Islam is the religion of Oman, and that Islamic shariah is the basis of legislation in Oman. Article 96 of the Basic Law provides that all laws and regulations should comply with provisions of the Basic Law. Key laws governing day-to-day transactions include Royal Decree 55/1990, issuing the Commercial Law of Oman, and Royal Decree 29/2013, issuing the Civil Transactions Law. Legislation in the Sultanate consists of primary and secondary legislation. Primary legislation consists of Royal Decrees and Royal Directives issued by HM the Sultan of Oman. Secondary legislation is issued pursuant to ministerial decisions and instructions according to specific powers delegated by Royal Decrees to the relevant executive or ministerial body. Enforcement and upholding of law is undertaken by the executive power (eg, ministries and public bodies) within their respective spheres of competence, by security and prosecution departments (eg, the Royal Oman Police and public prosecution), and by the courts of law. The regular judicial system consists of a three-tier hierarchy, with a Court of Cassation (Supreme Court) in Muscat, courts of appeal at Muscat, Nizwa, Sohar, Ibra, Ibri and Salalah, and approximately 45 primary courts in different provinces.

The Industrial Property Rights Law, issued by Royal Decree 67/2008, governs the protection and use of, inter alia, patents, trademarks, trade secrets, utility models and industrial drawings against infringement. The Intellectual Property Department at the Ministry of Commerce, Industry and Investment Promotion is the national office in charge of registration of intellectual property rights. Oman is a member of the World Intellectual Property Organization and has ratified multiple key treaties in the area of intellectual property protection, for example, the Madrid Protocol and the Paris Convention for the Protection of Industrial Property.

Pursuant to the Civil and Commercial Procedure Law issued by Royal Decree 29/2002, applications should be made to the competent court in Oman for the recognition and enforcement of foreign judgments, arbitral awards and orders. An order seeking execution of a foreign judgment or award will not be permitted by an Omani court unless the conditions provided for by law have been satisfied. Oman is a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and its ratification of the Convention is in force under Royal Decree 36/1998. Arbitral awards obtained from tribunals constituted in New York Convention member states should be held to be enforceable as a matter of Omani law. An award rendered by a foreign arbitral tribunal (such as the London Court of International Arbitration) as envisaged in the transaction documents would be directly enforceable in Oman through the Omani courts, subject to the limitations contained within the New York Convention and the provisions of Omani laws.

Oman has robust anti-bribery and anti-corruption legislation covering domestic bribery and corruption. Bribery and corruption are prohibited by the following Royal Decrees:

- the Criminal Law of Oman, issued by Royal Decree 7/2018;
- the Protection of Public Funds and Avoidance of Conflict of Interest Law, issued by Royal Decree 112/2011;
- the Tender Law, issued by Royal Decree 36/2008; and
- the Civil Service Law, issued by Royal Decree 120/2004.

Omani law prohibits the offering, acceptance or facilitation of a bribe of a public official, and also prohibits a public official using his or her office in an improper manner or for personal gain or where a conflict of interest would arise. Penalties for offences under these laws include fines together with imprisonment of both the person offering the bribe and the public official accepting it. Crimes of corruption are heavily punished by law.

Law stated - 04 April 2022

REGULATION OVERVIEW

Legal framework for oil regulation

Describe the key laws and regulations that make up the principal legal framework regulating oil and gas activities.

The Oil and Gas Law, issued by Royal Decree 8/2011, is the key piece of legislation in the sector. The law sets out broad and general obligations for parties that are granted interests in hydrocarbon assets in Oman. To date, the executive regulation of the Oil and Gas Law has not been issued.

Rights to explore and exploit oil and gas assets of the sultanate are granted pursuant to exploration and production sharing agreements, which set out the detailed rights and obligations of parties that have been granted rights to explore or exploit hydrocarbons in Oman.

Law stated - 04 April 2022

Expropriation of licensee interest

Are there any legislative provisions that allow for expropriation of a licensee's interest and, if so, under what conditions?

The Oil and Gas Law provides that, irrespective of their location in Oman, oil and gas substances in their natural form are the property of the sultanate. However, the government of Oman (represented by the Ministry of Energy and Minerals) typically grants qualified and licensed state-owned and private contractors and operators certain rights by way of entry into concession and production sharing agreements with them, which should be ratified by way of Royal Decree.

Consequently, expropriation of a licensee's interest cannot, from a legal standpoint, take place since the government of Oman holds the ultimate ownership of hydrocarbons and the lands they are located within. It may, however, be possible for the government to terminate the concession and production sharing agreements with a licensee as per the terms of such agreements and to take over the production process and its outcome for a variety of reasons, for example, the licensee's breach of law or breach of contract, or for public interest purposes. However, unilateral termination by the government of concession and production sharing agreements entered into with licensees rarely happens.

Law stated - 04 April 2022

Revocation or amendment of licences

May the government revoke or amend a licensee's interest?

Yes. It is possible for the government to revoke or amend a licensee's interest on the basis of the Oil and Gas Law or the concession and production-sharing agreements entered into with a licensee.

Law stated - 04 April 2022

Regulators

Identify and describe the government regulatory and oversight bodies principally responsible for regulating oil exploration and production activities in your country. What sanctions for breach may be imposed by the regulatory and oversight bodies?

The primary regulator is the Council of Ministers, which replaced the former Council for Financial Affairs and Energy Resources by virtue of Royal Decree 108/2020. The Council of Ministers acts in conjunction with the Ministry of Energy and Minerals. Its regulatory authorities derive from legislation as follows.

As per Royal Decree 37/97 and Royal Decree 108/2020, the Council of Ministers:

- considers state investments in oil and gas;
- formulates the general policy regulating the production and transport of oil and natural gas; and
- fixes oil and gas sale prices for the purposes of local consumption.

As per Royal Decree 96/2020, the Ministry of Energy and Minerals has the following authorities in relation to the energy industry:

- proposes and presents to the Council of Ministers policies and plans in respect of energy and minerals sectors for approval;
- implements policies and plans in relation to energy and minerals sectors;
- prepares studies for optimum use of the energy and mineral resources;
- develops and manages the energy sector in line with Oman's requirements and recent developments involving the sector, in coordination with the concerned bodies;
- considers available alternatives to energy resources, and ensures implementation of the state's general policy in this regard, in coordination with the concerned bodies;
- manages and supervises the surveys of oil and gas wealth resources in Oman, and the necessary economic studies for projects relating to the use of such wealth resources in coordination with the concerned bodies;
- oversees all activities relating to oil and gas exploration and the use thereof by companies granted concession rights;
- analyses international market conditions of oil and gas and utilises this assessment for developing the crude oil and natural gas production marketing policies;
- enters into oil, gas, and energy agreements with specialised companies and monitors their performance of the terms and conditions of such agreements;
- safeguards interests that Oman has with specialised companies working in the oil and gas and energy industry, and ensures their compliance with relevant legislations;
- manages and supervises governmental investments in the oil and gas sectors in Oman in coordination with the concerned bodies; and

- proposes draft laws and royal decrees, and issue regulations and decisions relating to its responsibilities.

The Ministry of Energy and Minerals is the main regulator in charge of enforcing administrative penalties for breaches of the Oil and Gas Law, its decisions and the agreements it enters into with licensees with regards to oil and gas. It may also refer offenders who committed acts that may be classified as criminal offences to public prosecution. Administrative penalties typically take the form of suspension or revocation of the licence granted by the Ministry of Energy and Minerals, the imposition of fines on the offenders and the confiscation of tools and instruments used to commit the offence. Criminal penalties mainly include imprisonment and fines.

Law stated - 04 April 2022

Government statistics

What government body maintains oil production, export and import statistics?

The Ministry of Energy and Minerals and the National Centre for Statistics and Information maintain the statistics.

Law stated - 04 April 2022

NATURAL RESOURCES

Title

Who holds title over oil reservoirs? To what extent are mineral rights on private and public lands involved? Is there a legal distinction between surface rights and subsurface mineral rights? At what stage does title to extracted oil transfer to the licensee, lessee or contractor?

Article 3 of the Oil and Gas Law makes it clear that, irrespective of their location in Oman, oil and gas substances in their natural form are the property of the state. In this respect, the state is represented by the government which, in turn, is represented by the Ministry of Energy and Minerals. Oil and gas substances may be owned by licensees following their processing or conversion to forms other than their natural state (eg, plastics).

Law stated - 04 April 2022

Exploration and production – general

What is the general character of oil exploration and production activity conducted in your country? Are areas off-limits to exploration and production?

The majority of oil exploration and production activities are conducted onshore; however, there are also several offshore activity sites such as the offshore Block 52, awarded to Eni and Oman Oil Company Exploration & Production LLC, Yumna oilfield in block 50 located offshore in Oman, and West Bukha field in Block 8 located offshore in the Strait of Hormuz. Oman has several natural reserves and protected cultural landscapes where the undertaking of oil and gas activities is not allowed, except with the permission of the Environment Authority. It is mandatory to obtain approval from the Environment Authority should an oil and gas project be contemplated and to undertake an evaluation of the project before its licensing and implementation to assess its potentially harmful impact on the environment and to plan any measures necessary to reduce or eliminate it.

Law stated - 04 April 2022

Exploration and production – rights

How are rights to explore and produce granted? What is the procedure for applying to the government for such rights? To what extent are the terms of licences or contracts negotiable?

The government (represented by the Ministry of Energy and Minerals) typically grants qualified and licensed state-owned and private contractors and operators the right to explore, extract and produce oil through concession and production sharing agreements with them, which should be ratified by way of Royal Decree to be effective.

The scope of negotiability of such agreements, which are generally very sophisticated and comprehensive standard templates, is narrow, and the Ministry of Energy and Minerals is typically reluctant to accept changes unless these are commercially or legally justifiable. The cost and time frame for the process of entry into, and approval of, such agreements would generally vary case by case. As for licences issued by the Ministry of Energy and Minerals, these constitute non-negotiable regulatory instruments.

Law stated - 04 April 2022

Government participation

Does the government have any right to participate in a licence? If so, is there a maximum participating interest it can obtain and are there any mandatory carry requirements for its interest? What cost-recovery mechanism is in place to recover such carry? Does the government have any right to participate in the operatorship of a licence?

The government does not have a right to participate in a licence. The government is only entitled to a share of the production under the exploration and production sharing agreements (EPSAs). The size of the share is negotiated based on the scale and economies of the project. The cost-recovery mechanism, if any, will be specified in the relevant concession and EPSAs (which are not publicly available).

Law stated - 04 April 2022

Royalties and tax stabilisation

If royalties are paid, what are the royalty rates? Are they fixed? Do they differ between onshore and offshore production? Aside from tax, are there any other payments due to the government? Are any tax stabilisation measures in place?

Since the majority of oil production activities are based on EPSAs, dues payable to the government (represented by the Ministry of Energy and Minerals) are based on the terms of the particular agreement entered into. These agreements provide that the revenue from oil production is to be shared between the government and the concession holder or company in an agreed ratio (eg, 20:80 or 30:70, as the case may be) after meeting the costs involved. At present, royalty rates are not available. A formula may be agreed between the government and the concession holder in the EPSA for computation of the amount of income tax to be paid by the concession holder.

Additionally, the government may agree to grant a concession holder an exemption in the concession agreement from certain taxes, levies and duties applicable under Omani law for the term of the concession agreement. While the Foreign Capital Investment Law (Royal Decree 50/2019) and the Executive Regulations of the Foreign Capital Investment Law of Oman (Ministry of Commerce, Industry and Investment Promotion's Decision No. 72/2020) provide for tax exemptions for, inter alia, 'strategic projects', it is unclear whether these apply to oil companies. We are not

aware of any tax stabilisation legislation in effect in Oman with respect to oil-related business activities.

Law stated - 04 April 2022

Licence duration

What is the customary duration of oil leases, concessions or licences?

Although the original term of the first concession agreements was 75 years, more recently oil concession agreements have been granted for much shorter periods. Generally, a three-year exploration licence is granted, subject to an extension of three years. If oil is discovered and found to be commercially viable, then agreements and contracts are entered into with the government (represented by the Ministry of Energy and Minerals) for a 10-year or 20-year period. In the event of a declaration of a commercial discovery in a concession area during the exploration stage, the Oil and Gas Law gives the licence holder priority in obtaining a concession for the exploitation of the area.

Law stated - 04 April 2022

Extent of offshore regulation

For offshore production, how far seaward does the regulatory regime extend?

The regulatory regime extends up to the international offshore border of Oman. The borders of Oman were demarcated through peaceful negotiation under the reign of the former ruler, HM Sultan Qaboos Bin Said, with all the neighbouring countries, namely the United Arab Emirates, Yemen and Saudi Arabia.

Law stated - 04 April 2022

Onshore offshore regimes

Is there a difference between the onshore and offshore regimes? Is there a difference between the regimes governing rights to explore for or produce different hydrocarbons?

There are no separate legal regimes for onshore and offshore exploration and production, since the Oil and Gas Law draws no specific distinction between onshore and offshore activities regarding the applicability of its provisions. It may, however, be possible that the contents of EPSAs would slightly differ based on whether the oilfield is located onshore or offshore.

Law stated - 04 April 2022

Authorised E&P entities

Which entities may perform exploration and production activities? Describe any registration requirements. What criteria and procedures apply in selecting such entities?

The Oil and Gas Law does not specify which types of entities are eligible to apply for a concession. Concession holders will either be required to incorporate a subsidiary in the form of a commercial company pursuant to the Omani Commercial Companies Law (Royal Decree No. 18/2019) and the Foreign Capital Investment Law (Royal Decree 50/2019), or to register a foreign branch office with the Ministry of Commerce, Industry and Investment Promotion. It should be underlined that oil-related business activities are not among those prohibited to foreigners; hence, it is possible to set up a 100 per cent wholly-owned foreign company in the oil business in Oman.

The tender documents for a specific block issued by the Ministry of Energy and Minerals should typically specify whether the successful bidder will be required to incorporate a subsidiary and, if so, the time frame for completing the registration formalities for such an entity. If the successful bidder is required to incorporate a subsidiary then the time frame for completion of such incorporation formalities should take no longer than five to 10 business days (depending on the form of the subsidiary) from the date of receipt of the required documentation. The fees payable for the registration of a company or branch office are generally modest and do not exceed a few thousand rials depending on the type of business entity to be incorporated. Exploration and production activities may be conducted only by holders of exploration and production permits or concessions from the Ministry of Energy and Minerals, as per the terms of the agreement entered into by them with the government.

Law stated - 04 April 2022

Regulatory powers over operators

What controls does the regulatory body have over operators? Can operatorship be revoked?

The Ministry of Energy and Minerals enforces the Oil and Gas Law and ensures compliance by contracting parties with both the law and the terms of the agreements. The Ministry of Energy and Minerals may typically audit the operators, and request documents, information and reports from them and issue instructions and notices to them to take certain measures (eg, curing breaches) in relation to their activities. Further, the Ministry of Energy and Minerals may terminate agreements or licences for breach of law or contract, or for public interest reasons.

Law stated - 04 April 2022

Joint ventures

What is the legal regime for joint ventures?

A joint venture can be either a contractual (unincorporated) joint venture or a corporate joint venture. An unincorporated joint venture is generally regulated and governed by contract (to the extent that its terms do not conflict with the provisions of the Commercial Companies Law), while an incorporated joint venture is governed by the robust provisions of the Commercial Companies Law and its articles of association or constitutive contract. Foreign-owned companies must also comply with the terms of the Foreign Capital Investment Law.

An unincorporated joint venture may be formed by two or more corporate entities or individuals. The corporate entities (ie, the joint venture partners) must be registered in Oman in order to form part of an unincorporated joint venture. Such joint venture will not be registerable with the Ministry of Commerce, Industry, and Investment Promotion and will not have the legal status of a business entity.

Law stated - 04 April 2022

Reservoir unitisation

How does reservoir unitisation apply to domestic and cross-border reservoirs?

There is no legal or regulatory guidance on this subject. Regarding cross-border reservoirs, the relevant governments would agree on the limits of production.

Law stated - 04 April 2022

Licensee liability

Is there any limit on a party's liability under a licence, contract or concession?

Article 12 of the Oil and Gas Law states that the Ministry of Energy and Minerals shall, prior to entry into a concession agreement, request the counterparty to provide and maintain throughout the term of the agreement a financial security, the value of which ranges between 2 per cent and 5 per cent of the value of the agreement, to ensure that the counterparty fulfils its contractual liabilities. In the case of failure to meet these liabilities, the security will be confiscated by the Ministry of Energy and Minerals. The Oil and Gas Law is silent as to whether such liabilities are joint or several. The liability of the party under a concession may be dealt with in further detail in the concession agreement and EPSAs.

Pursuant to article 183 of the Civil Transactions Law, the contracting parties are prohibited from agreeing to limiting or exempting each other from the payment of damages for tort. Additionally, the Omani courts do not hold themselves bound by liquidated damages clauses and may, pursuant to article 267 of the Civil Transactions Law, reduce (or increase) the value of liquidated damages to correspond with the actual direct losses suffered by an aggrieved contracting party.

Law stated - 04 April 2022

Guarantees and security deposits

Are parental guarantees or other forms of economic support common practice or a regulatory requirement? Are security deposits required in respect of any work commitment or otherwise?

The Oil and Gas Law has no provisions on parental guarantees or other forms of economic support. Parental guarantees are not, in our experience, common practice; however, they may be demanded by the government (represented by the Ministry of Energy and Minerals) where the party to the concession agreement is a special purpose vehicle or an entity with insufficient financial credentials. If, however, the licensee is a branch, the parent company is generally required as part of setting it up to provide an undertaking confirming that it will be responsible for all of the branch's debts and liabilities.

Law stated - 04 April 2022

LOCAL CONTENT REQUIREMENTS

Minimum requirements

Must companies operating in your country prefer, or use a minimum amount of, locally sourced goods, services, capital or personnel?

In 2012, Petroleum Development Oman LLC, along with the Ministry of Energy and Minerals and 12 other oil and gas companies, launched an in-country value (ICV) programme to develop the local market and train Omanis to increase their employment chances. As part of this programme, a special ICV committee was formed by the Ministry of Energy and Minerals to prepare strategies and policies and issue decisions necessary to enhance ICV in the oil and gas market.

Additionally, several legal provisions and laws provide for ICV obligations, such as:

- article 36 of the Oil and Gas Law, which provides that concession holders shall recruit qualified national

manpower and, in coordination with the Ministry of Energy and Minerals, prepare annual training programmes aimed at coaching the Omanis for professional and technical works and higher executive positions and responsibilities related to operations to gradually replace the expatriate manpower with them;

- article 18 of the Labour Law, issued by Royal Decree 35/2003, provides that employers must abide by the specified Omanisation percentages – breach of Omanisation percentages is punishable by the Labour Law; and
- the law establishing the Public Authority for Privatisation and Partnership, issued by Royal Decree 54/2019, which provides for, inter alia, a programme called Tawazun (which translates to 'equilibrium' in Arabic) governing the mandatory contributions to ICV to be made by foreign investors who enter into infrastructure-related contracts with the government (or with companies owned by the government) (eg, through the purchase of local goods, through the hiring of local contractors or through the training of Omani manpower). The Public Authority for Privatisation and Partnership has been dissolved and replaced by the Ministry of Finance pursuant to Royal Decree 110/2020.

In addition, exploration and production sharing agreements (EPSAs) and their tender documents typically list the specific ICV with which the counterparty must comply.

Law stated - 04 April 2022

Social programmes

Describe any social programme payment obligations that must be made by a licensee, lessee or contractor.

The Oil and Gas Law does not provide for such payments; however, they may be required in the context of ICV if provided for in the relevant EPSA.

Law stated - 04 April 2022

TRANSFERS TO THIRD PARTIES

Approval to transfer interests

Is government consent required for a company to transfer its interest in a licence, concession or production sharing agreement? Does a change of control require similar approval? What is the process for obtaining approval? Are there any pre-emptive rights reserved for the government?

Article 19 of the Oil and Gas Law provides that a party with whom the government (represented by the Ministry of Energy and Minerals) has entered into a concession agreement cannot waive or give up its rights or liabilities stipulated in the concession agreement without the written approval of the Ministry of Energy and Minerals. Approval for the transfer of all or part of an interest in a concession agreement is granted by means of a Royal Decree. No specific procedure for obtaining the Ministry of Energy and Minerals' prior approval has been laid down in the Oil and Gas Law. It is likely that the concessionaire may be required to submit a written application, supplemented with relevant documentation and evidence of the financial and technical capability of the proposed transferee. Owing to the requirement for a Royal Decree, the process may take several months to process and complete, and each case will depend on its own set of circumstances. Regarding a change of control, there is no express provision under the law that may require the government's prior approval for a change of control of a concessionaire; however, concession agreements and exploration and production sharing agreements typically provide for the requirement of such approval, except where the transfer is being made to an entity that controls or is being controlled by the licensee.

Omani law provides for no statutory or regulatory pre-emption rights in favour of the government of Oman. Pre-emption rights are available to the government only if it is a shareholder in the corporate concession holder.

Law stated - 04 April 2022

Approval to change operator

Is government consent required for a change of operator?

Article 19 of the Oil and Gas Law provides that it shall be unlawful for the concessionaire to waive or transfer its rights or liabilities stipulated in the concession agreement without the prior written approval of the Ministry of Energy and Minerals, and that a royal decree shall be issued on such waiver or transfer. While this is not expressly set out in the Oil and Gas Law, a change of operatorship would amount to a disposal of the operator's rights under the joint operating agreement and will not be effective without prior approval of Ministry of Energy and Minerals.

Law stated - 04 April 2022

Transfer fees

Are there any specific fees or taxes levied by the government on a transfer or change of control?

The Oil and Gas Law does not set out specific fees or taxes on a transfer or change of control.

Law stated - 04 April 2022

TITLE TO FACILITIES AND EQUIPMENT

Title holder

Who holds title to facilities and equipment used for oil exploration, development and transportation activities during the term and on termination of a licence, PSC or service contract?

During the term of the concession agreement or exploration and production sharing agreement, such assets are the property of the licensed holders of concession who constructed them under the agreements. Upon termination of the licence or agreement, the concession holders must, pursuant to article 16 of the Oil and Gas Law, restore the concession to its original state within a period determined by the Ministry of Energy and Minerals and remove all of the fixtures, machinery and equipment in the area at their own expense; the Ministry of Energy and Minerals may, however, and case by case, offer to purchase assets from the concession holders.

Law stated - 04 April 2022

DECOMMISSIONING AND ABANDONMENT

Laws and regulation

What laws or regulations govern abandonment and decommissioning of oil and gas facilities and pipelines? In summary, what is the obligation and liability regime for decommissioning? Are there any other relevant issues concerning decommissioning?

No specific and detailed legal regime is prescribed in the Oil and Gas Law with respect to the abandonment and decommissioning of oil and gas facilities. Such provisions are more likely to be set out in the concession agreement or exploration and production sharing agreement and may include a particular work programme that sets out the

measures to decommission disused facilities and pipelines, and the removal of debris and environmental monitoring of the relevant area after removal of the facilities and pipelines. Article 16 of the Oil and Gas Law, however, provides that the concession holder shall, after the termination of the concession agreement for any reason whatsoever, restore the concession area to its natural position within the period fixed by the Ministry of Energy and Minerals for each case separately by removing any premises, factory, machinery, equipment, appurtenance, leftovers or other substances, or any other kind of property at its own expense; this provision is likely to also apply to abandoned and decommissioned oil and gas facilities.

Law stated - 04 April 2022

Security deposits for decommissioning

Are security deposits required in respect of future decommissioning liabilities? If so, how are such deposits calculated and when does their payment become due?

The Oil and Gas Law does not require the concession holder to submit a security deposit for future decommissioning liabilities.

Law stated - 04 April 2022

TRANSPORTATION

Regulation

How is transportation of crude oil and crude oil products regulated within the country and across national boundaries? Do different government bodies and authorities regulate pipeline, marine vessel and tanker truck transportation?

All crude oil from the northern and southern fields is collected and blended into the Omani export blend. The transportation of crude oil and crude oil products is governed by the regulations laid down by the Council of Ministers. In this respect, the Council of Ministers regulates all aspects of the petroleum industry, including formulating the general policy regulating the production and transport of oil and natural gas. According to article 4 of the Oil and Gas Law, oil and gas cannot be transported or stored without a licence from the Ministry of Energy and Minerals, and transport and storage should be conducted in accordance with the requirements and standards issued by the ministry after coordination with the Council of Ministers.

In addition, regarding oil and gas pipelines, article 28 of the Oil and Gas Law provides that oil and gas pipelines shall have prohibited areas with a width of 25 metres on each side of the pipeline centre. The article further provides that the Ministry of Energy and Minerals may, in coordination with the competent authorities, specify a smaller prohibited area for populated areas.

Further, the Civil Defence branch of the Royal Oman Police issues permits for the transport and storage of all hazardous materials. The Environment Authority issued Regulation 25/2009 regarding the use of and trading in chemical substances, which applies to oil and gas substances. Further, Royal Decree 10/2016 sets out a general framework regulating the land transport of goods and individuals.

Law stated - 04 April 2022

COST RECOVERY

Determining recoverable costs

Where oil exploration and production activities are conducted under a production sharing contract, describe how recoverable costs can be determined and how recovery can be realised.

Any cost recovery mechanism will be specified in the exploration and production sharing agreements or the joint operation agreements, which are not publicly available.

Law stated - 04 April 2022

HEALTH, SAFETY AND ENVIRONMENT

Requirements

What health, safety and environment requirements apply to upstream oil-related facility operations onshore and offshore? What government body is responsible for this regulation; what enforcement authority does it wield? What kind of record-keeping is required? What are the penalties for non-compliance?

According to article 22 of the Oil and Gas Law, the concession holder must:

- develop a comprehensive security plan to meet all security and safety requirements in the concession area that satisfies the provisions set out in applicable laws; and
- coordinate with the Royal Oman Police for its approval.

The plan must be renewed every two years. Additionally, article 37 of the Oil and Gas Law provides that the concession holders shall formulate the rules and take the measures required to safeguard the manpower at the sites where the operations are carried out.

Furthermore, the Ministry of Labour sets out vocational health and safety requirements in Decision No. 286/2008 (as amended) with which all employers must comply. One of the chapters in the Labour Law governs health and safety requirements in the workplace and reiterates the obligations of both employers and employees in this respect. In this regard, the Ministry of Labour may:

- inspect workplaces;
- identify health and safety violations;
- instruct employers to remedy such violations; and
- take action against the employer should they fail to abide by such instruction.

With respect to environmental protection, article 39 of the Oil and Gas Law provides that the concession holders must carry out their operations with due care, in accordance with the technical standards provided for in their exploration and production sharing agreement and in a manner that guarantees environmental protection. Concession holders are required to obtain an environmental permit before beginning the project. An application, supported by an environmental study, should be made to the Environment Authority.

The penalties that may be imposed on the concession holder for breach of health, safety and environmental requirements include administrative penalties (imposition of administrative fines, suspension or revocation of licence, rectification of breach at the concession holder's expense) and criminal penalties (imprisonment, a fine or both)

depending on the nature of the breach and its severity.

Law stated - 04 April 2022

LABOUR

Local and foreign workers

Must a minimum amount of local labour be employed? What are the visa requirements for foreign labour? Are there anti-discrimination requirements? What are the penalties for non-compliance?

The officially published Omanisation targets for the oil and gas industry, setting the minimum percentage of employees that should be Omani nationals, are as follows:

- 90 per cent of employees in production and operation;
- 82 per cent of the employees in direct services;
- 88 per cent of the employees in assisting services; and
- 82 per cent of the employees in any local companies.

Regarding visa requirements for foreign labourers, the employer (as sponsor) applies for both the labour licence from the Ministry of Labour and the employment visa from the Royal Oman Police.

To employ a foreign worker, a labour licence is required, and the employer must submit an application at the relevant directorate within the Ministry of Labour. The application must fulfil the following requirements:

- the employer is compliant with Omanisation rules;
- the total number of requested staff to be foreign nationals is appropriate for the operations of the employer; and
- the requested expatriate staff bear the appropriate certifications and qualifications.

Thereafter, the employer must apply for an employment visa at the Royal Oman Police. Certain requirements must be met by the employee for a valid visa application:

- the employee must be between 21 and 60 years old;
- the person must be of the same sex as stated in the labour licence; and
- the nationals of certain countries require a medical certificate.

The visa fees payable for the employment of expatriates in Oman have, pursuant to a Ministry of Labour announcement dated 13 March 2022, been reduced by more than 85 per cent from 2,001 Omani rials to 301 Omani rials, and 211 Omani rials for employers meeting their Omanisation target.

Once the employment visa is cleared, the employee must obtain a residence card from the Royal Oman Police to legally reside in Oman for the duration of employment. This is done after the foreign employee reaches Oman.

The applicable penalties are varied and depend on the nature and severity of the offence. Penalties generally include administrative penalties (eg, administrative fines) and criminal punishment (eg, imprisonment and fines).

Law stated - 04 April 2022

TAXATION

Tax regimes

What is the tax regime applicable to oil exploration, production, transportation, and marketing and distribution activities? What government body wields tax authority?

Oil excavation companies pay 55 per cent income tax on their taxable income resulting from oil sale proceeds in accordance with the Income Tax Law, issued by Royal Decree 28/2009. This tax is deductible from the government's oil production share under the applicable exploration and production sharing agreement.

Royal Decree 9/2017 introduced significant amendments to the Income Tax Law. For example, it increased the standard corporation tax rate from 12 per cent to 15 per cent and the minimum tax-free threshold of 30,000 Omani rials has been removed. It also expanded the scope of the 10 per cent withholding tax to payments made by an Omani company (or a permanent establishment of a foreign company) to a non-resident to payments of dividends, interest and fees for the provision of services.

Finally, the value-added tax (VAT) has been introduced by Royal Decree No. 121/2020 (the VAT Law). The VAT Law came into effect six months following the date of its publication (that is, on 18 April 2021) and imposes VAT at a base rate of 5 per cent on most goods and services imported into Oman, while goods and services exported from Oman to outside the Gulf Cooperation Council area are zero-rated. Article 51 of the VAT Law provides that the supply of crude oil and its derivatives and natural gas are subject to VAT at zero rates.

The Tax Authority of Oman is the main body in charge of enforcing the tax laws and regulations.

Law stated - 04 April 2022

COMMODITY PRICE CONTROLS

Crude oil mining

Is there a mandatory price-setting regime for crude oil or crude oil products? If so, what are the requirements and penalties for non-compliance?

The price-setting mechanism is regulated by the Council of Ministers and the Ministry of Energy and Minerals.

Law stated - 04 April 2022

COMPETITION

Competition enforcers

What government bodies have the authority to prevent or punish anticompetitive practices in connection with the extraction, transportation, refining or marketing of crude oil or crude oil products?

Pursuant to Royal Decree 67/2014 (the Competition Law), the Competition Protection and Monopoly Prevention Centre has the authority to prevent or punish anticompetitive or manipulative practices in all business sectors in Oman, except with respect to activities relevant to public facilities fully owned or controlled by Oman. It is not clear what 'public facility' means under the aforementioned law and whether it covers all or part of the activities relating to the oil sector.

Law stated - 04 April 2022

Obtaining clearance

What is the process for procuring a government determination that a proposed action does not violate any competition laws? How long does the process generally take? What are the penalties?

The standards for determining whether conduct is anticompetitive or manipulative are set out in the Competition Law, which provides that the businesses that are deemed to be in a dominant position in the market are prohibited from engaging in practices that would undermine, reduce or prevent competition. A juristic or legal person is deemed to be in a 'dominant position' if it has control of, or influence over, more than 35 per cent of the relevant market; market share is the sole factor for determining a business's dominant position. The Competition Law also prohibits businesses or individuals from entering into agreements or contracts whose purpose is to harm commercial competition in Oman, particularly regarding the following:

- pricing, discounts, sale or purchase terms and conditions or provision of services;
- limiting production or supply to the market;
- flooding the market leading to unrealistic prices;
- market sharing on a time, customer or geographical basis;
- preventing third parties from carrying out economic or commercial activity within the market;
- refusal to deal;
- making the conclusion of any arrangement conditional on obligations unrelated to the subject matter of the transaction or the agreement; and
- bid-rigging and setting stipulations under the tender conditions including without being limited to listing the trademarks of the commodity or a description of the same.

The penalties for breach of the Competition Law covers both administrative penalties and criminal punishments, depending on the nature and severity of the violation.

Law stated - 04 April 2022

DATA

Seismic data

Who holds title to seismic data collected during the term of and on termination of a licence, PSC or service contract? Can the regulator require the data owner to report or release the data?

This matter is not regulated under the Oil and Gas Law; hence, it is likely covered by the exploration and production sharing agreement, which may determine who has the right to seismic data, and whether reports regarding such data must be delivered to the regulator or third parties.

Law stated - 04 April 2022

INTERNATIONAL

Treaties

To what extent is regulatory policy or activity affected by international treaties or other multinational agreements?

Oman is not a member of the Organization of the Petroleum Exporting Countries (OPEC) (but is a member of the World Petroleum Council and the World Trade Organization) and is not bound by the OPEC production and export guidelines. On occasion, however, it has coordinated with OPEC and complied with its decisions to cut oil production to raise oil prices. Oman's oil is used as a benchmark to price the crude oil exported from the Middle East to Asia, largely as a result of it being an independent producer and, therefore, not subject to the price swings induced by OPEC. Oman has ratified multiple bilateral investment treaties, such as the free trade agreement (FTA) with the United States. The FTA is a bilateral treaty between the United States and Oman permitting free trade in consumer, industrial and agricultural products. Oman is a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and also the Riyadh Arab Agreement for Judicial Cooperation.

Law stated - 04 April 2022

Foreign ownership

Are there special requirements or limitations on the acquisition of oil-related interests by foreign companies or individuals? Must foreign investors have a local presence?

Without prejudice to the restrictions and requirements listed under the Oil and Gas Law regarding the transfer of interest in concession areas and operations to third parties, foreign companies are currently allowed to own 100 per cent of Omani companies pursuant to the new Foreign Capital Investment Law, without prejudice to the activities reserved for Omanis, which are set out in the Ministry of Commerce, Industry, and Investment Promotion's Decision No. 209/2020.

Foreign investors must set up a commercial entity (eg, a commercial company or a branch) or have a commercial agent representing them to conduct transactions in Oman.

Law stated - 04 April 2022

Cross-border sales

Do special rules apply to cross-border sales or deliveries of crude oil or crude oil products? Are there any volumetric supply obligations for the local market that prevail over the export rights of the oil producer?

No special rules apply to cross-border sales or deliveries of crude oil or crude oil products. In practice, all of these deliveries are export transactions. Such transactions are closely controlled by the shareholders of the relevant operating companies.

Law stated - 04 April 2022

UPDATE AND TRENDS

Current trends













What are the current trends in your jurisdiction? What can we expect in the near future? Are there current proposals to change the regulatory or statutory frameworks? What areas may be of particular interest to foreign investors?

The current trends are economic diversification to reduce Oman's reliance on the oil and gas sector as the dominant sources of GDP, consolidation of the major state-owned oil and gas companies, and reliance on foreign-listed bonds

and sukuk to finance the country's internal expenses and development projects. It is expected that efforts to diversify the economy will accelerate under the leadership of the new Sultan of Oman, HM Sultan Haitham bin Tariq Al Said, and further large-scale projects will be implemented to push the economy forward and mitigate and reduce the impact of the negative economic impact of the covid-19 pandemic. Oman has largely removed the local partnership requirements after the new Foreign Capital Investment Law came into force in January 2020, and several ambitious programmes and initiatives have been taken by the government to further attract foreign investors, for example, the launching of a public-private partnership programme pursuant to Royal Decree 52/2019. Substantial legislative reform is underway in Oman with the aim of increasing governmental efficiency, achieving economic prosperity and combatting the impact of the covid-19 pandemic. It is expected that numerous new key laws will be issued in the coming months, including but not limited to new labour, banking and investment laws.

Law stated - 04 April 2022

Jurisdictions

	Argentina	Martelli Abogados
	Brazil	Campos Mello Advogados
	Denmark	Bech-Bruun
	Ecuador	Robalino
	Egypt	Soliman, Hashish & Partners
	Faroe Islands	Bech-Bruun
	Ghana	Kimathi & Partners Corporate Attorneys
	Greenland	Bech-Bruun
	Iraq	DWF LLP
	Italy	CMS Italy
	Japan	TMI Associates
	Mexico	Dentons López
	Myanmar	Myanmar Legal MHM Limited
	Nigeria	ENR Advisory
	Norway	Kvale Advokatfirma
	Oman	Al Busaidy Mansoor Jamal & Co
	Peru	CMS Peru
	Thailand	Chandler MHM Limited
	United Arab Emirates	Devine & Severova FZ LLC
	United Kingdom	Mayer Brown