

OIL FROM TAMIL EELAM OIL WELLS BY 2010 - MINISTER FOWZIE (OF COURSE HE IS WRONG).

Likely date of Oil flowing from Tamil Eelam Oil wells in the GOM is 2014-2015. Fools do not realize it is war zone, in a separation war between GOSL and LTTE. Without compensation to the local Tamils NO foreigners can just take the oil from contested regions. - Tamils For Justice. (Singhalese and GOSL take note). GOSL and BOI sign so many agreements and nothing happens. Case in point, Noricholai Coal power plant with the Chinese, (10 years), Sampoor Power plant in Trincomalee, now 2 years. Tamil lands and homes has not been surveyed yet. Action can be instituted in India for human rights violations against the ONGC and oil companies, and compensation forced on them. No foreign companies cannot be allowed to take over Tamil homes, land, beaches, schools, and fishing grounds. The foreign companies should bear responsibilities and obligations, and are not covered by corrupt governments, military oppression and forced agreements.

Fowzie expects "first barrel by 2010"

USD 100 mn. initial investment by Cairn India in oil search here. The importance the government places on the oil exploration effort for which an agreement was signed last week was underscored by the presence on that occasion of both the President and Prime Minister as well as a large number of cabinet ministers. While Petroleum and Petroleum Resources Development Minister A.H.M. Fowzie, who signed the agreement with Cairn India to explore for oil and natural gas in the Mannar Basin was upbeat about prospects, saying "Cairn will start work within six months. In 2010 they will give me the first barrel of oil." The prospector however was more cautious with Indrajit Banerjee, the Chief Financial Officer and Executive Director of Cairn India, cautioning: "Oil and gas is a risky business. Success is not always guaranteed." Cairn is investing Rs.100 million in exploring the block allocated to them in Mannar Basin waters with depths extending from 200 to 1,800 metres. The company said that their program includes seismic work and drilling of three wells in the initial three years of the 8-year exploration period. Cairn Lanka (Pvt) Limited which has been floated here is a wholly owned subsidiary of Cairn India which will hold 100% participating interest in the block allocated to them for exploration. Banerjee said that the Mannar Basin in Sri Lankan waters has not been hitherto explored "and as such represents a frontier petroleum province." "The company has extensive experience in the region and will aim to work with all stakeholders as it embarks on its exploration program," he said. Noting that Sri Lanka needed 80,000 barrels of oil per day to meet domestic requirements, Fowzie was hopeful that both Cairn and Sri Lanka will benefit from the discovery of oil about which he was optimistic. He indicated at a news conference that followed the signing of last week's agreement that India was interested in the block that had been allocated to Cairn. He also said that Cairn had wanted certain amendments to the agreement that was signed "but we didn't give in." Cairn is very big in India where it operates two processing plants, 11 off-shore platforms, 200 kilometres of sub-sea pipelines and has exploration interest in 14 blocks across India with a net operated production of approximately 75,000 barrels of oil and gas equivalent. "We are currently in the midst of developing our Rajasthan project and are investing \$1.8 billion during 2008 and 2009. Once developed, the Rajasthan project will produce 175,000

barrels of oil per day when it reaches plateau production, accounting for over 20% of India's domestic crude oil production," Banerjee said.

Fowzie indicated that the government was keen on expediting allocating the various other blocks for exploration. Although India and China were allocated two blocks at the beginning of this year, no work for prospective oil in these areas had yet commenced.

Cairn said at the last week's new conference that it was delighted to be the first company to be awarded an exploration license by the Sri Lanka Government. However, oil prospecting has been done on-shore in Sri Lanka in the early 1970s when Russia drilled for oil unsuccessfully at Pesalai near Mannar and later when some off-shore oil wells were spudded in Sri Lankan waters.

Fowzie remarked that with the price of oil relatively low at that time, it was not economic for huge investments to be made in prospecting at that time and what had been attempted was basically a "one shot" effort.

The Reality of Oil Dream in Sri Lanka

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By Edward Theophilus Wanigasekera

Since oil crisis began in early 1970s due to Arab Israel war, Sri Lanka's government had been interested in oil exploration as many scientists in the country expressed opinion that there may be potential oil deposits in Mannar Bay to be discovered. When Mrs. Sirimao Bandaranaike was holding power in early 1970s, the opportunities for oil exploration was given to a Russian government sponsored company and newspapers in the country created a dream in the minds of Sri Lankans that oil will be discovered in Sri Lanka's land giving a rare opportunity to the country to enjoy the benefits of petro-dollars.

Still we can remember that Sinhala newspapers published headings that petroleum was discovered in Mannar area lands. There were some fabricated stories that crude oils put into dug holes for exploration purpose attempting to con the public on this matter. At least a decade after these incidents, people were on silent about oil exploration as it was a secret task.

The first experiments made by Russians did not realize the discovery of petroleum with commercially recoverable reserves. The enjoyment of petroleum benefits gradually became a pipe dream beyond the reality. The issue of oil exploration of the country was a topic of party politics because the nature of Sri Lanka's party politics is to destroy any things put forward by the government without considering the merits of it. During the 70 decade, petroleum exploration was a significant point that UNP used to unpopular SLFP government ignoring the critical aspects of the effort. Later Mrs. Bandaranaike offered the opportunity to oil exploration to a French company, which attempted to discover oil in off shore Mannar Basin as the attempts in land was not successful as expected before.

There are many stories in regard to undiscovered mining resources in various countries with mining resources. If there is commercially recoverable oil deposits in any area, people say that there should be trustable signals that dark oily mud should emerge from the earth where commercially recoverable oil deposit exists. Same way any area suspects that gold deposits exist, a specific plant is growing in the area because that plant needs gold mineral in soil to be successfully grown. These stories are not mere fabrication but they are scientifically truth according to mineral scientists. However, such signals were not noticed by people in areas, where gold or oil are believed to be deposited except recent story about emerging fire from a hole in Chilaw – Munneswaram area that signal confirmed that possible natural gas deposits in that area. The experiments by Egyptian scientists disclosed that there may be gas deposits in Chilaw area but they are methane type toxic gas than natural gas, which could be used for domestic purposes.

The UNP government elected in 1977 also had interest in oil exploration despite political insults for oil exploration in early 1970s. Some Sri Lanka's born scientists expressed opinion that there may be possibilities for commercial deposits of oil in land area from Mannar bay

to Mulaitheivu through rice bowl. Due to this opinion, LTTE movement also was quite concerned that their territory will be subject to oil production and Prabhakaran also was mad on possible petro-dollars, which could be generated from Elaam land with a view to becoming quickly richer at a cost of any amount of human lives. Prabhakaran and his war lords destroyed human lives to secure Vanni lands with an expectation to become an Oil Sultan in Elaam in the future.

While the war was going on, Norway became a peace mediator and some Sri Lankans viewed that Norway's interest on Sri Lanka's peace was based on black gold rather than actual peace to Sri Lanka. This argument was made by Sri Lankans on certain acceptable points that while the political authority in Norway were engaged in peace talks, Norwegian oil companies engaged in oil exploration activities in the country. Oil companies in Norway are multi national oil giants in the world.

The richness of Norway is based on the tax collected from oil companies. During the peace talks, Norwegian companies successfully engaged in off shore oil exploration and there is no doubt that data in relation to commercial deposits of crude oil in off shore were successfully acquired by Norwegian companies, which published that data is available for sale to those interested parties for the development of oil fields in the country. The data available for sale indicates that crude oil deposits are accumulated in deep sea from Mannar to down in the area of Block SL2007/01/001 in Indian Ocean, which belongs to Sri Lanka. The total area is covered 3400 sq km and it is believed that crude oils are deposited at depths 200 to 1800 metres in deep sea. The cost of development is fairly higher than in other countries because digging wells should be done in deep seabed, which attracts high costs to the developer.

Many people think that oil is a great resource to Sri Lanka as the rising oil price in the market has created tremendous economic problems to the country. Oil production in the country generates huge economic benefits as export revenue and saving import cost of fuel. We can obviously see that major oil producing countries have achieved tremendous economic achievements. That is why it is called crude oil is black gold. Notwithstanding the fact about oil production, the general attitudes of public on oil production is quite negative as they think only on revenue side but always ignore the expenses. In regard to gold too there are many misconceptions that finding gold will be a quick way to become rich but it is not true. Although commercial gold ore is found anywhere, the cost of production would be higher than the value of gold. Mercuric chloride is an essential chemical to separate gold from soil and the current cost of a litre of mercury is about US \$ 250.

This means that those companies, which produce mercury are richer than the countries where they have commercial deposits of gold ore. The story about black gold is worse than yellow gold. The discovery of oil deposits in Irish and Scotland seabed strongly affected the bankrupting UK to come up with a strong economic power in early 1970s. All countries with even large commercially recoverable oil deposits are not as fortunate as the actual benefits of oil production are decamped to oil developing companies rather than with the countries owned by massive oil deposits. This concept is applicable to Sri Lanka too as it has no technology and investment abilities in oil production.

Despite oil exploration interest in Norwegian companies in Sri Lanka, India and China were quite interested and willing to engage in oil production activities because both countries are major oil consumers. Japan also had the interest at certain level, the current data in relation to oil deposits was not able to attract Japan to oil development competition, which may have high risks in several forms compared to other countries. Japan always supports oil production in Sri Lanka on strategically interested point than gaining direct advantages from oil production. Japan considers that admitting new country to oil production will be caused to increase world oil supply, which may positively impact on the reduction of oil prices against current monopoly of oil supply.

Recently a large quantum of commercially recoverable oil deposits found in sea beds of Vietnam and Indonesia. African countries such as Nigeria have commercially recoverable oil deposits, however, such countries have not achieved dream of economic prosperity because

of large oil deposits like Middle East countries. The reason behind the less economic advantages from oil deposits is lack of investment and technological power.

Oil production composed of three stages that are exploration, development and commercial production. Many countries offer free lands to exploration companies to discover deposits. At the exploration stage exploring companies collect data on oil deposits and the distance of deposits from the surface of earth. These are preliminary investigations and the findings may not be commercially valuable or acceptable. The collected data keep as secret of the exploring company, which discloses the availability of oil deposits and sometimes it, estimates the quantum of deposits. In fact, the exploring company does not disclose exactly where is the oil deposits are contained but can point the finger to area where the deposits believed to be accumulated. If the exploration company is not interested in development the data collected will be sold to the companies which are interested in development. The exploration activities in Sri Lanka were done by Norwegian company but they were not interested in development.

If there is actually recoverable commercial deposits in the area, the cost of exploration could be used as pre production cost for capitalization in the accounting process with a view to later amortization of the cost. This is highly in profit determination and tax savings of the company.

The development stage oil productions begin after a successful contract between the oil own country and the developing company, which is accepted and allowed by a tender process. There will be serious negotiations with the developing company. Many countries with commercially recoverable deposits are supposed to realize the oil dream at this stage. Sri Lanka invited many companies from various countries for the bidding of oil fields development. For oil field development a colossal amount of expenditure will be incurred to various purposes in development stage. In case of Sri Lanka it is estimated that Cairn India (Pvt) Ltd will invest US \$ 112 Million for oil field development. The amount is an unaffordable quantum to Sri Lanka due current expenditure in the budget. These costs include digging wells, extracting oil from wells to refinery or exporting point etc. Most of expenditure in this stage especially for pipe line development, road development and transport facilities are unaffordable to Sri Lanka. At the development stage oil developing companies are faced to several risk factors, which may be quantified or may not. When consider the case in Sri Lanka, terrorism risk, risk of finding actual commercially recoverable deposits, political risks due to changes in government policies towards the oil production and environmental risk that may expose as a result of damaging to ocean species and other resources.

During the development stage, the company requires to dig wells of which all may not be produced commercially recoverable crude oil or sometimes they may be empty holes. Therefore, at the development stage, oil development companies incur a huge risks that should quantified through negotiations between oil producing country and the developing company. Sri Lanka's oil production successfully bid by an Indian company, which expects to take 90% of production as the cost of company and Sri Lanka will receive only 10% of total oil production. Accordingly, if the Indian company successfully produces 500000 crude barrels per day, Sri Lanka's government get 50000 crude barrels per day. In addition to 10% royalty a US \$ 50 million production bonus will be received by Sri Lanka's government. When we look at the deal, it looks like a huge disadvantage to the country but we must understand that it is the reality of oil production in the world. Sri Lanka's government looked for many companies and all companies in the world charge 85% - 90% of production to recover the cost incurred during the development stage. In addition to direct financial benefits Sri Lanka will gain indirect or non financial benefits such training local staff and the developing company's profits is subject to 15% of tax. To gain real advantage from this exercise, Sri Lanka should be received all production data because the share of the exploration company subject to go out of the country from the point of production. Oil exploration and development expertise are dissimulated with developed countries such

as USA, UK, Germany, France, Italy, Norway, Russia, China and India. Middle East countries also have this technology as a result of long term engagement in the industry. The countries, where they have excess funds to invest and technological know how could gain highest economic benefits from oil production. The countries, where they have no investment capacity and technological know how have to accept the deals of companies in developed countries, there is no alternative for this. Political parties in Sri Lanka have no idea about this so they are silent on this.

According to Australian tax regulations, certain cost of extractive industries during the development stage, could be capitalized as pre production cost and later they will be subject to amortization. In this way Australian government gives large tax benefits to mining companies. Despite these tax incentives we can see that the stock movement of these mining companies are slower than other companies because costs associated with mining companies create a higher risk to investors. This is not a strange for Sri Lanka too as Sri Lanka has a large deposits of commercially recoverable oil, it should give incentives to companies for the development and gain benefits.

The production stage cost is not allowed to capitalize but certain costs in relation to purchase or construction of assets are allowed to depreciate. What are the regulations in Sri Lanka for oil producing are unknown.

Many poor countries with huge natural resources are not getting due economic benefits from extractive industries. For example, Papua New Guinea has natural resources than Australia but economic gains from natural resources to PNG is lesser than Australia, where gains economics benefits from it resources. The other significant example is that East Timor is endowed with a massive natural gas resources but it cannot yield the benefits because it has neither capital for investment nor technology to apply. It should be lowered head to Australia to develop gas fields.

Some Sri Lankans obviously criticized oil deal with the Indian company as they do not know the truth about oil production. One thing Sri Lankan are needed to realize from oil deal that if Indian company will be able to produce one million barrels per day Sri Lanka will be able to get 100000 – 150000 barrels per day, which is more than enough fuel to the country and it would be the greatest incentives to move economically forward and it will be positively impacted on eradication of the poverty and social disparities of the country.

Rather than criticizing the oil contract, we wish to produce one million to two million barrels per day. A quarter century of ethnic war led Sri Lankans to sacrifice enough for their country. They have sacrificed their lives, kids, parents, their assets, their leaders and now they are deserve to gain benefits in return for the great sacrifice