

**STATEMENT BY**  
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**MINISTER OF THE ENVIRONMENT & HOUSING**  
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**THE LEGISLATIVE REGIME FOR PETROLEUM EXPLORATION**

**CHECK AGAINST DELIVERY**

Mr. Speaker, today I stand in this august chamber to usher in the dawn of a new day in The Bahamas. Months of hard work has now culminated in this moment, where I am able to say to the members of this Chamber and the people of the Commonwealth of The Bahamas that a new compendium of legislation reforming the upstream Petroleum regime in the Bahamas, with your leave, will be tabled today, which will create a paradigm shift in Petroleum Exploration in The Bahamas.

The legislation seeks to encourage domestic and foreign interest in exploration activities. While the upfront investment in offshore drilling is high, the returns have the potential to be significant. The legislation which will be tabled today reaffirms that petroleum resources belong to the State, representing the people of the Commonwealth of The Bahamas. Since 1971, petroleum exploration in The Bahamas has been governed by the Petroleum Act 1971 and the Petroleum Regulations 1978, both of which were amended in 1987 and the latter again in 1994. Twenty years following the last amendment further refining of the legal frame work for this industry is absolutely necessary.

There have been significant changes in exploration technology which has improved the quantity and quality of information available about different geological structures, and about the way reserves are identified, developed and produced, leading to a massive growth in reserves and supply and new interest in frontier exploration. This has enhanced the likelihood of finding oil and gas, and has extended the reach of surveyors, geologists and explorers into new frontier areas, such as The Bahamas.

Only forty years ago, all offshore oil was considered unconventional; today offshore oil production accounts for 30 per cent of global supply. This growth has not been without its critics who point to the possible environment hazards involved with the incursion into new frontier areas

and cite the 2010 Deepwater Horizon Oil Spill in the Gulf of Mexico as the most notorious example of these hazards. With this in mind, it is incumbent on The Bahamas to modernize its legislation in face of these new realities. Consequently, the compendium of legislation comprised of **The Petroleum Bill 2014, The Petroleum Regulations 2014, the Petroleum (Health & Safety) Regulations 2014, The Petroleum (Offshore Environmental Protection and Pollution) Regulations 2014, the Sovereign Wealth Fund Bill 2014 and the Sovereign Wealth Fund (Petroleum) Regulations, 2014** were advanced by the Ministry of The Environment & Housing, the Office of the Attorney General and its international environmental lawyers, Hogan and Lovells' and The Commonwealth Secretariat. In addition, the Commonwealth Secretariat also provided advice on the fiscal regime and provided modeling which will lead to the Bahamas getting a fairer return from its natural resource.

## **THE PETROLEUM BILL 2014**

The Petroleum Bill modernizes the legislation that provides for petroleum exploration, drilling, production and related matters. While it retains the substance of the old Act, new provisions, along with the accompanying draft Regulations, once passed will enable the Bahamas to conform to current international industry standards.

The Crown may now explore for petroleum resources in partnership with another entity or alone, and the Minister may enter into production sharing agreements with other petroleum exploration and production companies. This is important as the new fiscal regime, will provide for the State taking a significant share of revenue associated with petroleum production.

The Bill also expands the financial provisions, to both increase the rate of royalties and provide for payment of royalties into a Sovereign Wealth Fund. New provisions in the Bill provide for liability for environmental damage and pollution to rest solely with the licensee or lessee, with hefty fines and the possibility of imprisonment. Moreover, every licensee or lessee must take out and maintain insurance against liability for personal injury, damage to property and pollution damage.

The Bill also inter alia makes provision for terrestrial as well as marine exploration; limits the amount of blocks per licence; and imposes significantly higher fines for unapproved exploration activities.

The Petroleum Bill 2014 empowers the Minister to make Regulations for operations under the Act. In that regard, my Ministry will be advancing

three Regulations – one dealing with general administrative matters; one with health and safety and a third dealing with the environment for the upstream industry. There is also provision in the Bill for the Minister to advance Regulations for the downstream petroleum sector, which my Ministry will advance in the very near future and will involve broad stakeholder consultation.

## **THE PETROLEUM REGULATIONS 2014**

The proposed Petroleum Regulations set out how the Act should be implemented. A significant new feature is the inclusion of the licensee's or lessee's responsibility for industrial and technical education and training, scholarships and programmes for preparing Bahamians for working in the industry.

The Regulations also explicitly oblige holders of licenses or leases not to conduct activities which may unreasonably impede or obstruct shipping, fishing or aviation, and prohibits the conduct of operations that are not in the national interest and to the rights and interest of The Bahamas. A copy of the proposed Petroleum Regulations will be circulated for information purposes for colleagues.

## **THE PETROLEUM (HEALTH AND SAFETY) REGULATIONS, 2014**

The proposed Petroleum (Health & Safety) Regulations, 2014 are modeled, in part, upon the Health and Safety in Employment (Petroleum Exploration and Extraction) Regulations of New Zealand and become applicable once the lessee is in production phase. The Regulations are comprehensive and a copy will be circulated for information purposes for colleagues.

## **THE PETROLEUM (OFFSHORE ENVIRONMENTAL PROTECTION & POLLUTION CONTROL) REGULATIONS, 2014**

The proposed Petroleum (Offshore Environmental Protection & Pollution Control) Regulations, 2014 set out the activities required for environmentally sound industrial development through protection of our

environment. These Regulations will encourage consideration of environment criteria in the review of exploration plans, facilitate the implementation of procedures and principles for the protection of the environment and promote preventative environmental protection through pro-active approaches. The Regulations mandate management systems and practices that prevent and minimize harmful impacts on the environment, through accident prevention, industrial pollution management, regular follow up and assessments and the provision of technical reports to the Government. These Regulations will ensure that the Bahamas will also advance the best international environmental practices adopted by other countries since the 2010 Deepwater Horizon Oil Spill in the Gulf of Mexico. Having regard to the importance of the environment to our existence and way of life, all efforts have been made to fully integrate protection of the environment into the regulatory and business process that govern the exploration and production of oil and gas in The Bahamas. A copy will be circulated for information purposes to colleagues.

#### SOVEREIGN WEALTH FUND BILL, 2014

As the Petroleum Bill, 2014 vests the property in all petroleum in the Government; we have also drafted a Sovereign Wealth Fund Bill, 2014 and Sovereign Wealth Fund (Petroleum) Regulations, 2014. The Sovereign Wealth Fund Bill will establish how the proceeds from petroleum will be used for the benefit of the country's economy and citizens. A sovereign wealth fund is an investment fund managed by a government agency on behalf of a nation or sovereign state. Sovereign Wealth Funds can be characterized as "maximizing long-term return, with foreign exchange reserves serving short-term currency stabilization and liquidity management". It should be noted that Sovereign Wealth Funds have existed for more than a century, but since 2000, the number of sovereign wealth funds has increased dramatically. The Central Bank of The Bahamas will have the responsibility as Manager of the Fund, which follows the model advanced by most sovereign countries that have such a facility. In addition, the Sovereign Wealth Fund Bill also makes provision for funds derived from oil, gas, minerals and other natural resources to be deposited to the fund. This will enable future revenues from natural resources such as aragonite, sand, salt and our rich bio-diversity ( all of which will be reviewed for legislative and fiscal reform) to be deposited to the Sovereign Wealth Fund. This will secure future wealth for generations of Bahamians yet born.

The public is hereby advised that it is my Ministry's intention to allow the public and relevant stakeholders to comment on the provisions of the compendium of legislation, which will also be made accessible on the Bahamas Governments' website and on my Ministry's webpage before we proceed with the debate. In the New Year we will advance a public awareness and education campaign to ensure that our citizenry understand the importance and significance of the legislation and the sector.

The new fiscal regime to be advanced by the Government in relation to the upstream petroleum sector will ensure maximum revenue to the Government. Not only will we receive royalties for Petroleum and Natural Gas if produced, but we will also receive a significant share of the profits and as profits increase, the total Government share of the revenues must also increase.

We will also introduce additional fees where rights of licencees and lessors are transferred.

Therefore, we are moving from a fiscal regime, which existed over the last 40 years, which was primarily based on flat filing fees, bonds, licence rentals, lease rentals, 12.5% minimum royalties up to 25% on petroleum on a sliding production scale, with NO STATE PARTICIPATION, NO PROFIT SHARING SCHEME, NO ADDITIONAL PETROLEUM ENTITLEMENT AND NO TAX ON TRANSFER OF RIGHTS.

This new compendium represents a new paradigm, where filing fees, security and acreage rentals will still apply. However, we will get much more than that.

1. Petroleum Royalties will be 12.5% minimum up to 30% on petroleum on a sliding production scale;
2. The Government will have the right to opt-in on a case-by-case basis;

3. The Government will obtain 40%-70% PROFIT SHARING BASED ON AN AGREED FORMULA INCLUDING REASONABLE COST RECOVERY LIMITS;
4. The Government will obtain through an additional Petroleum Entitlement, 10-15% rate of return on investment thresholds to be determined by the Government;
5. The Government will also obtain 12% on the financial consideration of transfers of rights.

The objective of the compendium of legislation and the new fiscal regime is to ensure that the Bahamas advances the upstream petroleum sector responsibly and sustainably. It enables us to implement a cutting edge legal framework to protect the industry and the environment. The fiscal regime, will secure a fair share of revenues for the Bahamas and Bahamians and it will be progressive.

I would like to publicly thank my Permanent Secretary, Ms. Camille Johnson, whom I believe to be the Bahamas' foremost public service expert in geology and petroleum exploration; the Office of the Attorney General, its legal advisor Hogan and Lovells and the team from Commonwealth Secretariat for their collective efforts and hard work in the preparation of the compendium of legislation. Last week we tabled and had the first reading of a Bill to amend the Electricity Act to advance our Renewable Energy agenda and make net billing a reality for our citizens. Today, we take another giant leap forward in advancing the country's Energy Security.

I urge the public, don't mind the naysayers, better days are ahead.