HMRC - OT26685 - Production Sharing Contracts - What Is A PSC?

A PSC is an individual contract negotiated between an oil producing country through its authorised representatives and an oil company (the contractor). PSCs are frequently used as the legal vehicle for oil exploration and production by countries that wish to exploit their oil and gas reserves, while at the same time retaining control of their natural resources.

Under a typical PSC all oil rights remain the property of the state. The state may authorise its national oil company to act in its place in relation to the PSC. The contractor is permitted to carry out exploration, production and marketing in respect of the oil in a designated area.

The venture is a high risk one for the contractor, who has to put up the finance for the exploration and any subsequent development, but there are potentially high rewards to match.

The terms are such that in most cases the oil company can book the reserves for accounting purposes.

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