Fiscal Regimes and Legal Reform to Attract Investment

Panel discussion ‘Scene setting’

11th April 2018
The Hydrocarbon upstream industry follows a range of Fiscal regimes...

**Petroleum Legal Arrangements**

- **Concessionary**
  - Service Contract
- **Contractual**
  - Production Sharing Contracts
- **Risk Service Contracts**
- **Pure Service**

**Additional Provisions to attract investments**

- **Accelerated capital cost allowances**
  - Difference in Depreciation method for tax and accounting

- **Depletion allowances**
  - Deduction from gross income to stimulate additional spends as the reservoir depletes

- **Interest deduction**
  - Interest deductible from taxable income which also qualifies for cost recovery

- **Loss carry forward**
  - Carry forward losses from one year to offset tax liability in future years

- **Investment credits**
  - Incentive to recover additional percentage of tangible capital expenditure

- **Tax holidays**
  - Period when no corporate tax will be applicable

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Countries too have made changes to their regimes and service contracts to encourage production through better terms...

**Changes in the Policy**

- **Mexico**
  - Before 2014, Pemex was the only company allowed to undertake E&P activities.

- **Iran**
  - Earlier Sanctions on Iran deterred investment in E&P by IOCs. Iran has now introduced Iran Petroleum Contract (IPC)

- **Thailand**
  - Concession agreements was only form of petroleum contract till 2017.

- **Indonesia**
  - Indonesia had production sharing contract regime. Introduced Gross-split PSC.

**Current Regime**

- **Mexico**
  - In 2014, Mexico allowed private E&P companies through License contracts, Production sharing contracts.
  - Out of 90 licenses offered, 70 been awarded.

- **Iran**
  - IPC allows increased contract period. Changes made to encourage investments and bring in new technology. Incentives offered for higher risk fields.
  - Total became the first IOC to sign under IPC; ~28 contracts under negotiation.

- **Thailand**
  - In 2017, Government introduced production sharing contracts and service contracts. Concession agreements will continue to be in place.
  - New bidding round (21st round) will include above agreements

- **Indonesia**
  - New regime of Gross-split is aimed at encouraging PSC operators to operate more efficiently.
  - Concluded bidding round for five blocks in 2017 and launched bidding round for 24 conventional and 2 unconventional blocks

Source: IEA, Clifford Chance, Out-Law, Pinsent Masons, Wood Mackenzie, Deloitte Analysis
### Fiscal regime evolution in the Indian Oil and Gas industry

#### Pre-NELP Regime
- Awarded 28 Exploration blocks to private companies
- NOCs have the rights for participation in the blocks after hydrocarbon discoveries
- PSC regime

#### NELP Regime
- International Competitive Bidding process
- Awarded 254 exploration blocks in the 9 bidding rounds
- NOCs compete with private players on equal footing
- PSC regime

#### HELP Regime
- **Open Acreage Policy** – option to select the exploration blocks.
- **Revenue Sharing Model** – easy to administer- no cost recovery
- **Single License** for exploration and production of conventional and non-conventional resources
- **No restriction on exploration activity** during contract period

#### DSF
- Launched Discovered Small Field (DSF) Policy monetize marginal fields.
- Revenue sharing model

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There are varied issues that impact attractiveness of the fiscal regimes offered by countries...

**Fiscal Instability**

Contractual/ tax changes owing to change in oil prices, investments in country, significant production or Asset sale

- Chile provides fiscal stability as an option to foreign investors who agree to pay a higher overall tax rate
- South Africa proposed that investors can stabilize royalty rates for 30 years by paying additional rates to the regular rates

**Legal**

Disputes arising owing to cost recovery, rights granted, accounting procedures, non-payment, delays, force majeure etc

- Australia launched specialist arbitral institution Perth Centre for Energy and Resources Arbitration (PCERA) for disputes arising out of Australia and wider APAC region.
- Many countries have addressed issues related to extraction / rights of conventional and unconventional resources from the same field

**Government take**

Government take is the total revenue that it receives from production and comprises of profit sharing, royalty, service fees, income taxes

- Canada, US have reduced ‘Government take’ (waiver of royalty, cess) for Enhanced Oil Recovery projects thereby stimulating investments
- The past few years have seen several countries aggressively planning bidding rounds with governments considering tax incentives, reduced royalties and other inducements to spur investments, improve access to technology etc
Discussion themes for today

**Fiscal regime evolution**
- Is there more innovation possible in O&G fiscal regimes to attract investments? Key lessons to be learnt?
- How can the regulatory framework work to provide greater long-term stability to potential investors?

**Minimization of disputes**
- What mechanisms can be adopted to reduce the number of disputes?
- How can disputes be resolved in a quick and efficient manner?

**Role of Government as a ‘partner in progress’**
- How to correctly ‘measure’ the quantum of government take and ensure balance?
- How can Govt.’s streamline ‘resource management’ & ‘benefits devolution’ to the society at large?
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