Fiscal Regimes and Legal Reform to Attract Investment in the Energy Sector

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Fiscal pressures on producer governments continue unabated after the price downturn of 2014  
- Prompting governments to make continued adjustments to 
  - fiscal terms  
  - NOC roles  
  - local content requirements  
  - and other upstream investment terms

Fiscal evolution, thus, has become a dynamic process  
- instead of being stagnant for years, as was the practice earlier

As a global investor, we welcome fiscal evolution,  
- as we can decide on a dynamic basis whether to invest under the new terms or not  
- Several countries now invite investors to bid some of the terms as part of the licensing process,  
  - providing us with the opportunity to contribute in the fiscal evolution process
However, Evolution carries risk....

- Fiscal disruption changes the distribution of income from existing assets
  - thus enhancing the risk especially in fiscally evolving regimes
  - The drawdown in E&P spending since 2014 has increased the potential costs of regulatory missteps and delays for resource-focused governments
  - as such the fiscal evolution post-2014 has largely been positive from E&P players’ standpoint

Which frontiers are the focus of investment interest represents a combination of factors
- not all of which are under host governments’ control
- frontier and early stage countries can do little or nothing about their geology, technological advances, or the oil price
- However, what they can control is the design, packaging, and marketing of their upstream opportunities to try to maximize investor interest
A country's understanding of its own resource maturity and competitors is another factor in appropriate policy formation:

- However, lack of experience
- Limited institutionalization and
- A desire by nearly all producing countries to maximize returns – whether via taxation and/or in terms of local content and employment can limit a country's ability to establish a commercially attractive policy framework.

This is often the crucial differentiator:

- Based on which an investor can take a call for opportunities in different countries located in the same geological province.
A Fiscal Regime Heat Map
Some examples of Fiscal Evolution……

**Norway:** *Leading the way in sharing exploration costs*……

- **Norway**, *Western Europe’s largest oil and gas producer*, is seeking to attract more oil firms to explore in the Arctic Barents Sea.

- Norway allows companies to deduct 78 percent of their exploration costs from taxable income.

- This means that if income is derived from petroleum activity taxed at a rate of 78 percent, the state, through the tax system, covers a corresponding share of the cost incurred to earn this income.
  
  - Since 2005, companies without taxable income have been reimbursed for the value of this benefit directly in cash.
  - This has so far amounted to over 100 billion Norwegian crowns ($12.54 billion).
  - In 2014 alone, the government paid 14.2 billion Norwegian crowns in reimbursements to the petroleum sector.
Some examples of Fiscal Evolution……

❖ UK: North Sea…graded fiscal incentives and taxing late-life assets

❖ Governments with North Sea production plan to encourage investment in the sector
  • including plans to allow purchasers to benefit from the 'transferable tax history' of late-life assets

❖ Seeks to address concern in industry about the "value gap" that exists
  • between new entrants to the market wishing to buy late-life oil and gas assets and operators selling those assets
  • The value gap exists, in part, because new entrants may not be eligible for tax reliefs for decommissioning of assets
  • UK government working on a “transferrable tax history”

❖ Graded fiscal incentives also being introduced to address this value gap
  • The UK regime favours developers by offering tax allowances that encourage investment in small, old, or technically challenging fields
Colombia—Migrating commitments between blocks

- In 2015 the National Hydrocarbons Agency (Agencia Nacional de Hidrocarburos, ANH), the body that licenses and regulates oil blocks, showed itself to be adaptable in the face of economic headwinds.

- An accord extended the deadlines for exploration work:
  - permitted firms with more than one exploration block to migrate their total investment commitments between blocks.
  - This allows them to focus their investments on bringing their most attractive properties to production.

- Another important regulation, announced in August 2015, was a relaxation of capital adequacy requirements:
  - Under previous legislation, E&P firms were required to put down a 10% guarantee for total investment over a 36-month period.
  - This has been changed to a 10% downpayment on the first 12 months of operations.
  - The measure frees up cash flow for firms facing liquidity problems.
India

- a case of very positive fiscal evolution is evident in our country

- Through the new HELP and OLAP policy, the government has taken a very progressive approach
  - in which production-sharing contracts have been replaced with revenue sharing,
  - a simpler model to operate with a lot of flexibility.
  - It also allows all kinds of hydrocarbons to be exploited within a single license.

- Established a new data centre in collaboration with the DGH (Directorate General of Hydrocarbons)
  - working towards the acquisition of new data in the less explored and unexplored areas.

- Discovered Small Fields Bid Round facilitates quick monetization of small discovered fields
  - which could not be done in the past due to fiscal challenges.
  - The revenue-based scheme is simpler to operate, understand and implement in comparison to the previous profit-sharing scheme.
Thank You