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

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Reality Check …..

- 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**

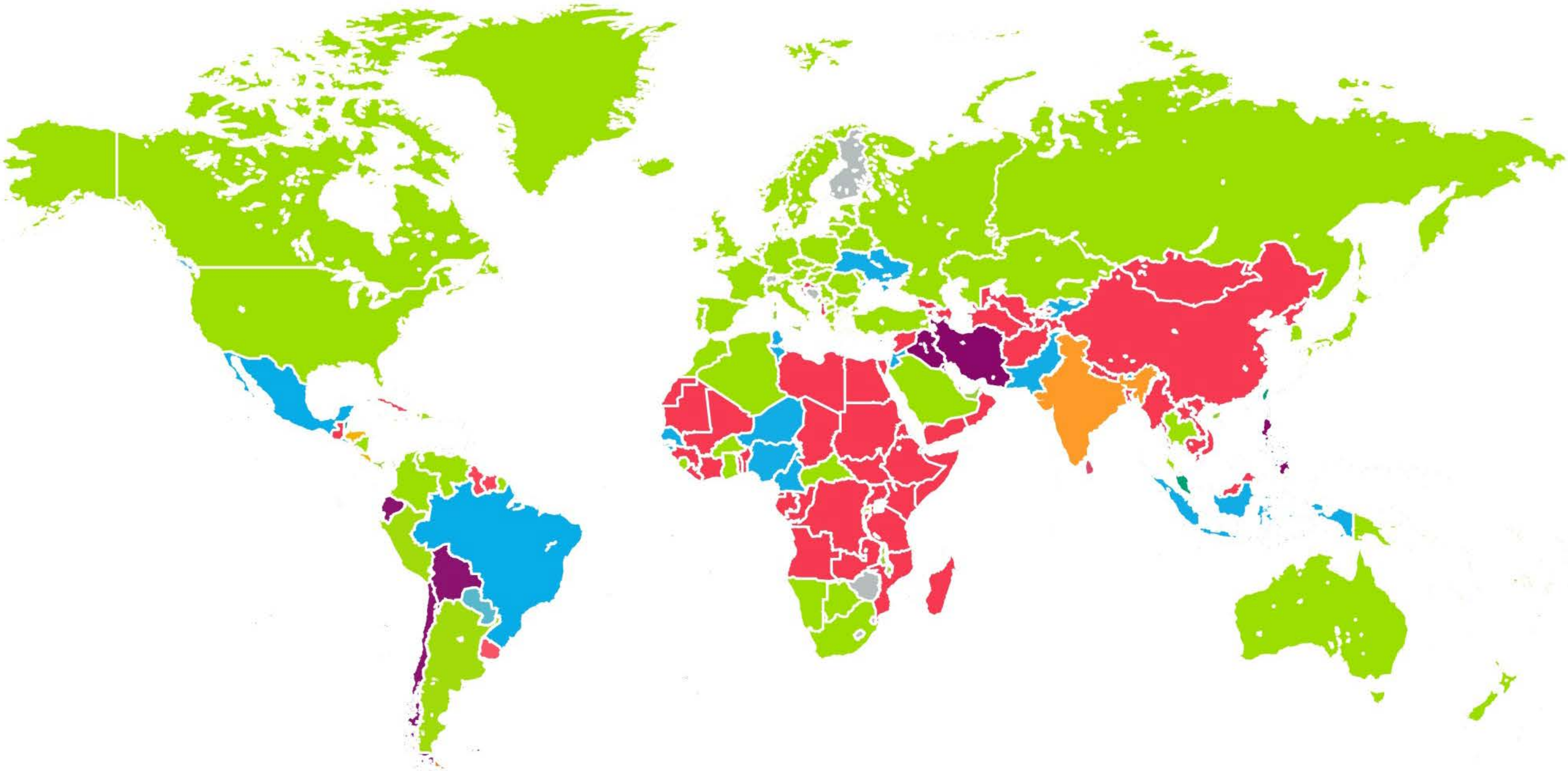
Regulatory maturity as a factor…….

- **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



Royalty/Tax

Production Sharing

Gross Production (Revenue) Sharing

Service Contract

Mixed/Various

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

Some examples of Fiscal Evolution……

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

And of course, India……

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