Taxation of natural resources: principles and policy issues

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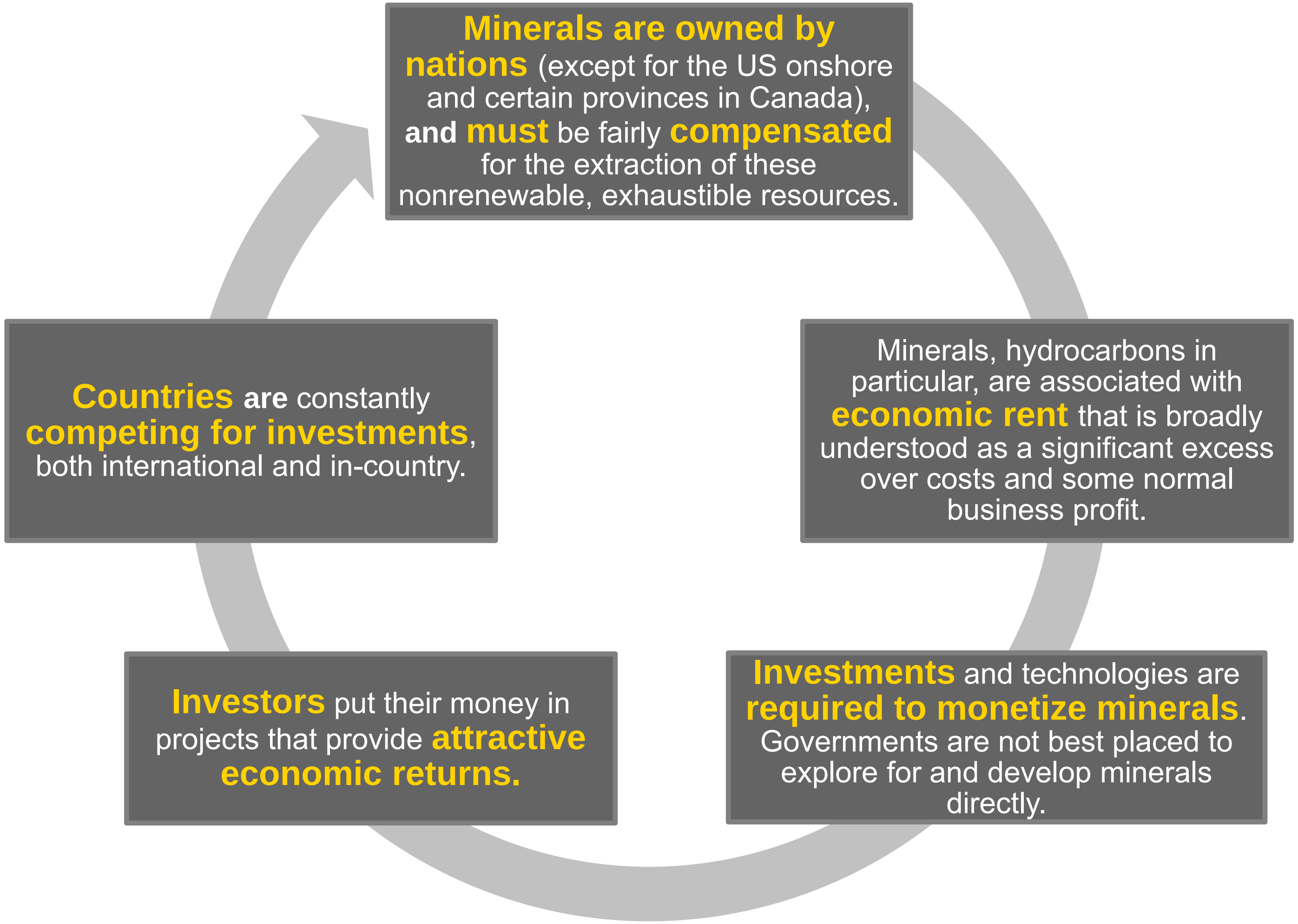
Introduction

Simplified economic and political framework for minerals



Fiscal regimes for minerals

Specifics of minerals

- Great uncertainty (geology, costs, commodity prices)
- Varying rents
- Exhaustible resource
- Very long (and limited) project's period
- Significant risked capital requirements due to upfront exploration investments

General corporate tax regime

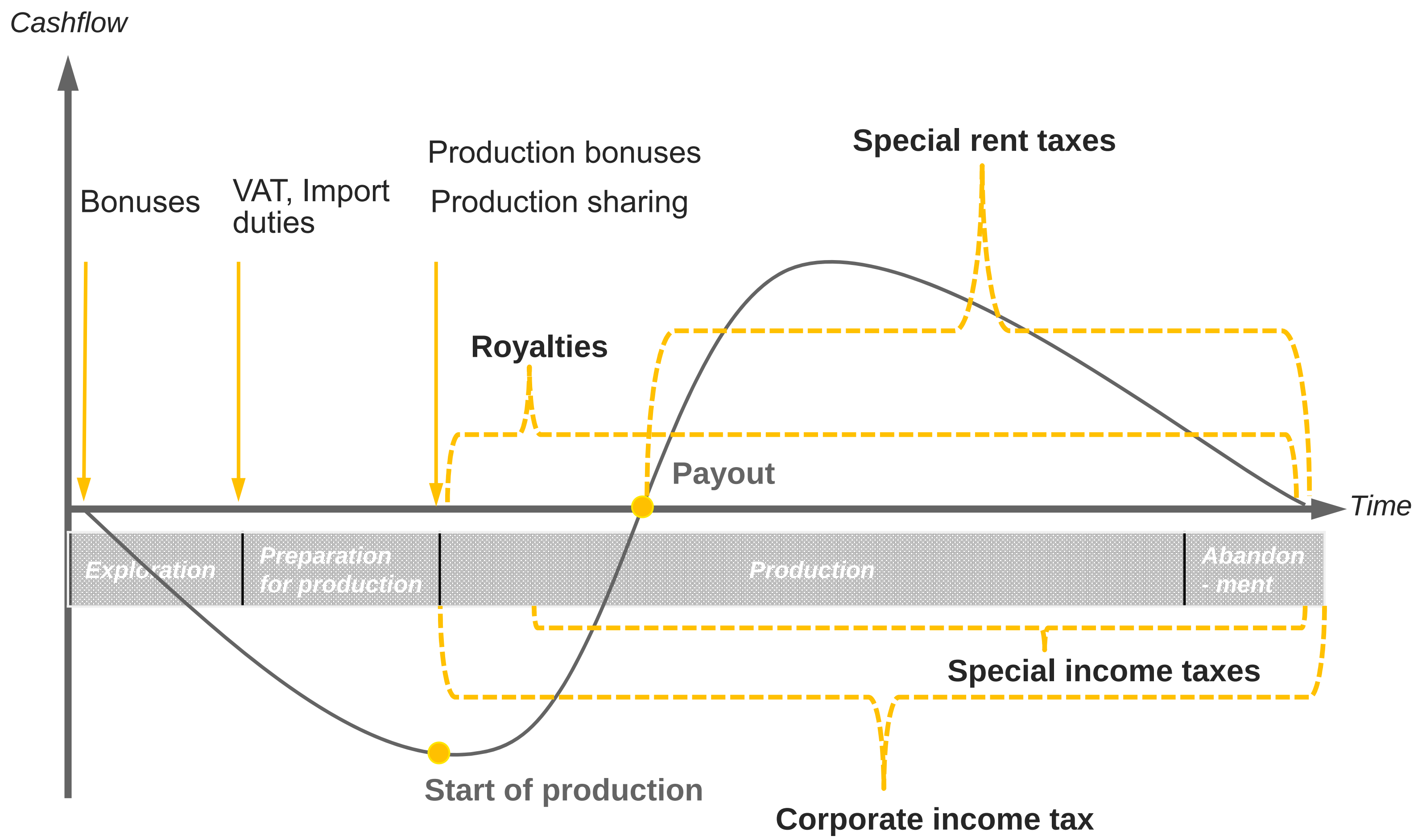
Rent capture and policy issues

- General tax regime does not capture a fair share of economic rent
- Regulatory and licensing policies are not sufficient to manage economic behavior of investors and deal with a spectrum of issues such as:
  - promotion of exploration
  - cost-efficient operations
  - reserve maximization
  - marginal fields/projects development
  - re-investments
  - domestic development and local content
  - budget predictability

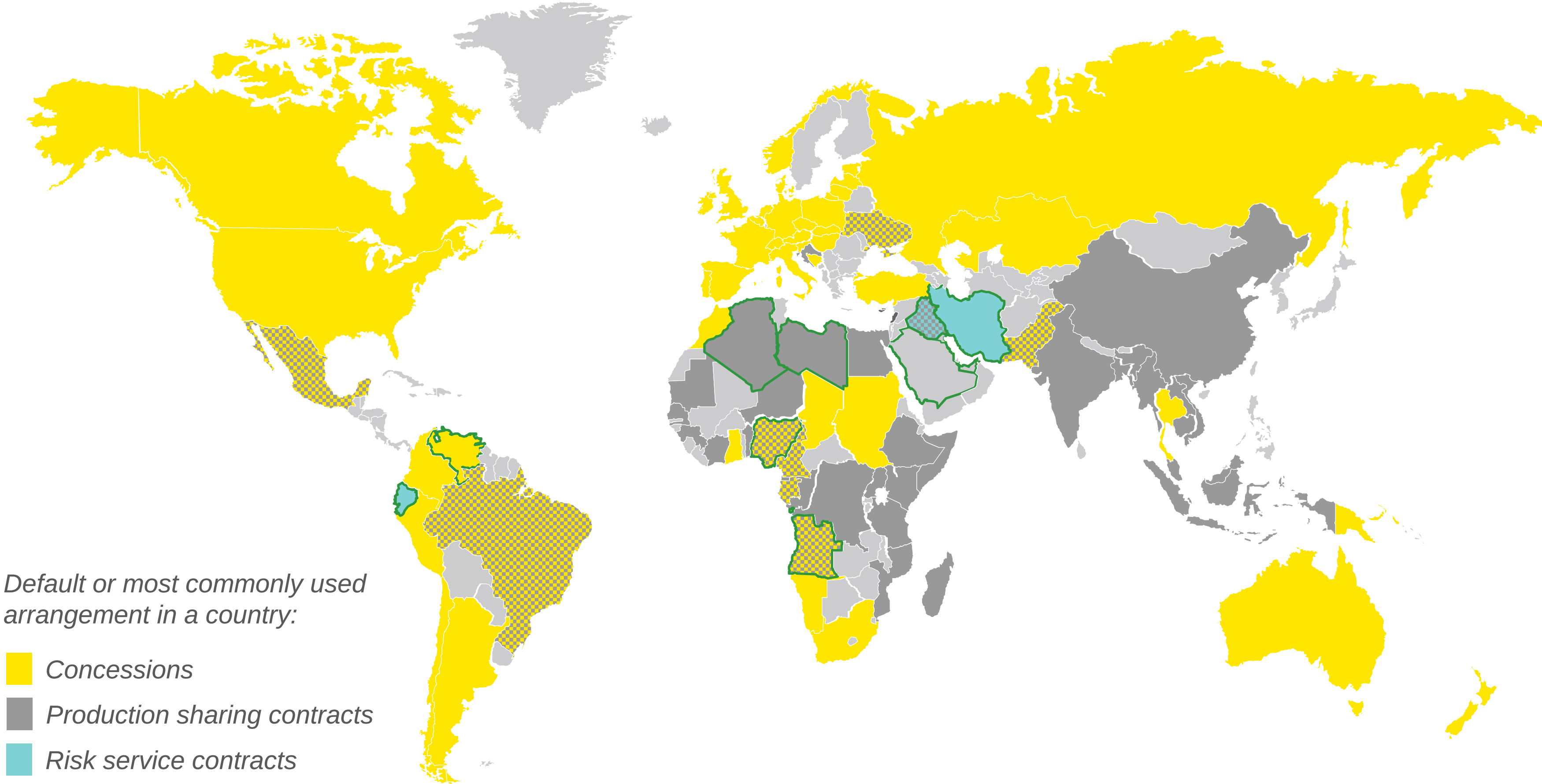
Fiscal regime for minerals

The timing of government to impose taxes is crucial for profitable extraction of minerals

Illustration – natural resource extraction lifecycle



Legal arrangements for minerals (hydrocarbons): global snapshot

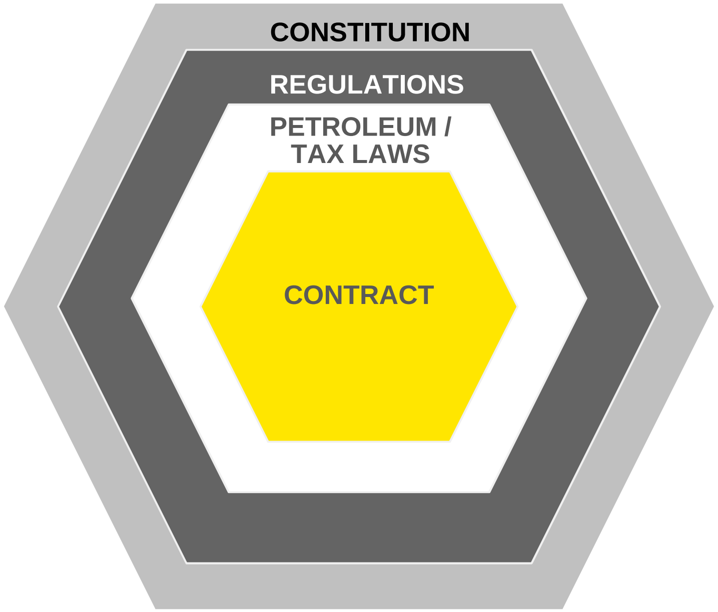


Default or most commonly used arrangement in a country:

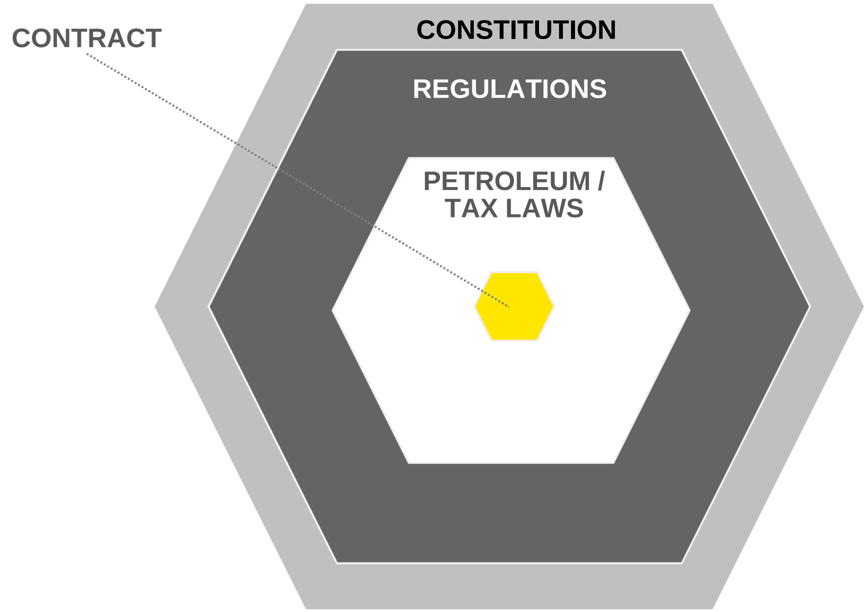
- *Concessions*
- *Production sharing contracts*
- *Risk service contracts*
- *Mixed*
- *OPEC countries*

Shift of countries towards contracts with lesser number of terms

Both concepts are feasible and have their pros and cons. The observation is that countries move toward the second concept as they review and develop their fiscal policies.



- More fiscal and other terms envisaged only in a contract
- More terms are biddable/ negotiable



- Less terms envisaged only in a contract
- Less terms are biddable/ negotiable

Transfer pricing Africa footprint overview

ALGERIA: TP legislation based on OECD, documentation requirements, 25% penalty on TP adjustment

IVORY COAST: TP legislation based on OECD, documentation requirements

SENEGAL: TP legislation , documentation requirements

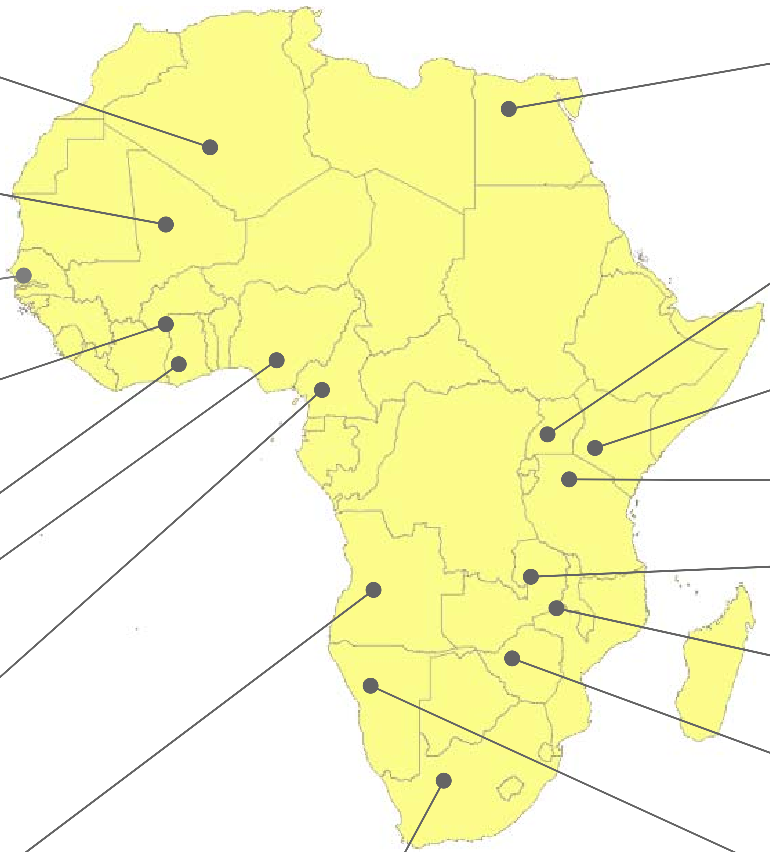
BURKINA FASO: TP legislation based on OECD, documentation requirements

GHANA: TP legislation based on OECD, documentation requirements, thin cap

NIGERIA: TP legislation based on OECD, documentation requirements, thin cap, APA program

CAMEROON: TP legislation based on OECD, documentation requirements, thin cap

ANGOLA: TP rules finalised in October 2013, documentation requirements if revenues exceed USD 70m.



EGYPT: TP legislation, documentation requirements, thin cap, active revenue authority, APA program

UGANDA: TP legislation based on OECD, documentation requirements, severe penalty provisions, thin cap

KENYA: TP legislation based on OECD, documentation requirements, thin cap, active revenue authority

TANZANIA: New TP rules came into effect in 2014

ZAMBIA: TP legislation based on OECD, thin cap

MALAWI: TP legislation based on OECD, documentation requirements, thin cap

ZIMBABWE: TP legislation based on OECD, thin cap

NAMIBIA: TP legislation based on OECD, thin cap

SOUTH AFRICA: TP legislation based on OECD, documentation requirements, thin cap, active revenue authority

REST OF AFRICA: TP is regulated through general anti-avoidance or arm's length principles

Impact of current low oil price environment
Our methodology and approach

To analyse the impact of the oil price drop we have selected 115 regimes in 50 countries for five types of oil projects:

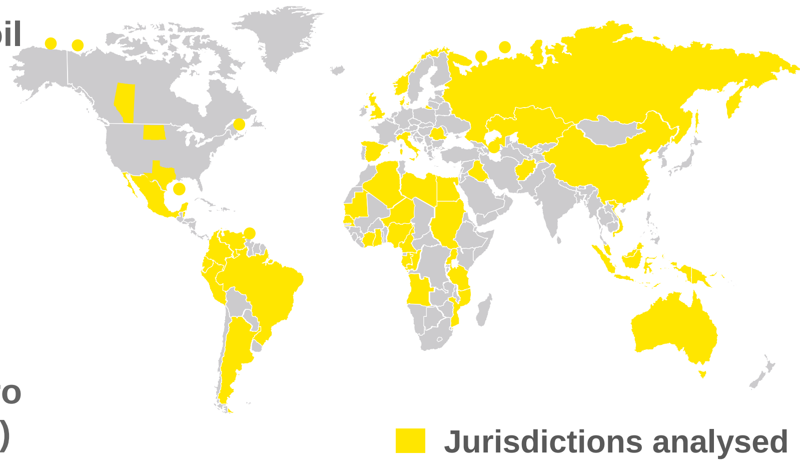
- Onshore
- Onshore unconventional
- Shallow water
- Deep water
- Arctic

Our analysis has used the economic model of Dr. Pedro Van Meurs (under our global cooperation arrangement)

Cost data for each country and each type of oil project was based on Wood Mackenzie's Upstream Data Tool

The fiscal regimes were analysed under six oil price cases:

- US$100/bbl (benchmark case)
- US$60/bbl
- US$55/bbl
- US$50/bbl
- US$45/bbl
- US$40/bbl



115 Regimes analysed in

50 countries

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Countries' responses so far

Major recent changes triggered by the new oil price environment

US
Revision of royalties/severance taxes by many states

UK
Significant changes including reduced headline corporate tax rate from 62% to 50% and new 'investment allowance' aimed at supporting the industry

Russia
Exploring optimal approaches to change the existing oil and gas regime

Mexico
Revision of IRR thresholds for the Round One PSCs

China
Increase in price threshold for the windfall tax (from US$55/bbl. to US$65/bbl.)

Colombia
Incentives to support interest in offshore opportunities (special 15% corporate income tax (general is 25%) and special customs terms

How Africa will or will need to respond?

Kazakhstan
Decrease in export duty (royalty-like) from US$11/bbl to US$8/bbl, discussions on further modifications to the tax regime aimed at increasing its sustainability

Argentina
In response to the significant drop in oil prices the export tax (royalty-like) has been modified (twice) to significantly decrease the duty rate

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