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State Participation and Fiscal Treatment of National Resource Companies

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State participation is popular....

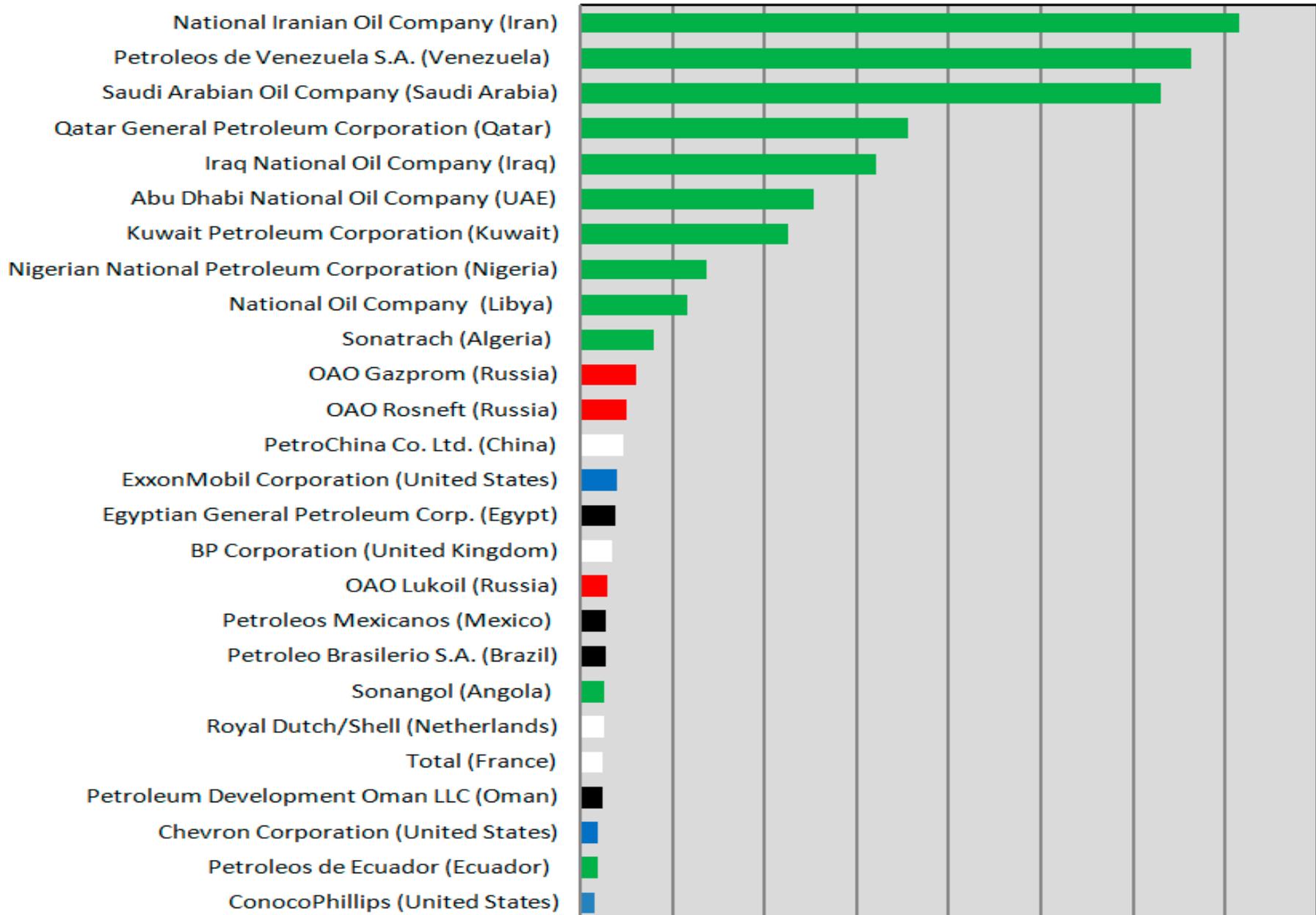
- Chart for 2014 from *petrostrategies inc.*
[http://www.petrostrategies.org/Links/worlds largest oil and gas companies.htm](http://www.petrostrategies.org/Links/worlds_largest_oil_and_gas_companies.htm)
- Refers to claims on reserves of oil and gas in 2014
- About 90% of reserves and 75% of production.

Nationally owned companies should be accountable, with well-defined mandates and an objective of commercial efficiency.

(NATURAL RESOURCE CHARTER– Precept 6)

Million Oil Equivalent Barrels

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000 400,000



Types of state participation vary

- Full ownership and control of assets below and above ground: Mexico, Saudi Arabia, Kuwait, Iraq (until 2006)
- Contractual schemes with dominant state partners; Venezuela, Bolivia, China, Malaysia
- Contractual schemes with large private capital: Angola, Egypt, Indonesia
- Minority interests by state companies

Goals of public/private association

(Tordo and colleagues, 2011)

siteresources.worldbank.org/INTOGMC/Resources/9780821388310.pdf

- Accelerate learning through the association with experienced industry participants
- Reduce information asymmetries between industry participants and the state
- Increase government share of rents
- Reduce exploration sole risk to the state
- Accelerate the exploration and production of the country's resources while maintaining control over sector activities.

Distinctions...

- Production sharing scheme differs from state venture interest
- Earlier NRCs both received production shares and participated in contractor (sole concessionaire)
- Most petroleum projects are unincorporated joint ventures (UJVs) → “venture interests”
- Most mining projects operate as incorporated companies → “equity holdings”

Fiscal equivalence

- 100% state ownership = 100% rent tax
- Paid participation = “Brown Tax” or R-based cash flow tax
- “Free” equity = dividend tax
- Production sharing with cost recovery similar to royalty and income tax
- “Carried interest” similar to a resource rent tax...
- Thus state participation is part of the fiscal regime.

9 Principles for NOC reform

Thanks to NRG1 2014 (Heller, Mahdavi and Schreuder)

<http://www.resourcegovernance.org/publications/reforming-national-oil-companies-nine-recommendations>

Defining and financing a commercial mandate

1. Carefully define commercial and non-commercial roles.
 - Limit non-commercial activities where sophisticated or expensive commercial activities heighten the risk and cost of conflicts of interest.
2. Develop a workable revenue retention model.
3. Procure external financing by listing some NOC shares on public stock exchanges or issuing external debt where appropriate.

Limiting political interference in technical decisions

4. Define clear structures and roles for state shareholders.
5. Empower professional, independent boards
6. Invest in NOC staff integrity and capacity.

Ensuring transparency and oversight

7. Maximize public reporting of key data.
8. Secure independent financial audits, and publish them.
9. Choose an effective level of legislative oversight.

National resource companies and the Treasury

(1)

- Resource payments belong to the state
 - Royalties, production shares, rent taxes
 - NRCs may be “collection agents”
- Venture interests or equity shares could be
 - EITHER simple Treasury holdings (NRC as agent again)
 - OR commercial portfolio owned and operated by NRC
- Resource companies should not be an “alternative budget”
 - Avoid quasi-fiscal activities.

National resource companies and the Treasury

(2)

- Rules for treatment of NRC interests in commercial operations
 - Does any concessional element accrue to the state?
 - Can NRC borrow to fund risky activities?
- Implications of commercial status
 - Venture interests pay all normal upstream levies and taxes
 - NRC as a company subject to normal business tax
 - Dividend policy towards the Treasury as shareholder.

National resource companies and the public

- Public accountability through commercial code and through legislature
- Direct public participation through share sales
 - Parent enterprise
 - OR subsidiaries grouping specific assets
- Both make ultimate capital-raising easier.