Exit Disputes
Financial and Fiscal Issues

Chris Moore

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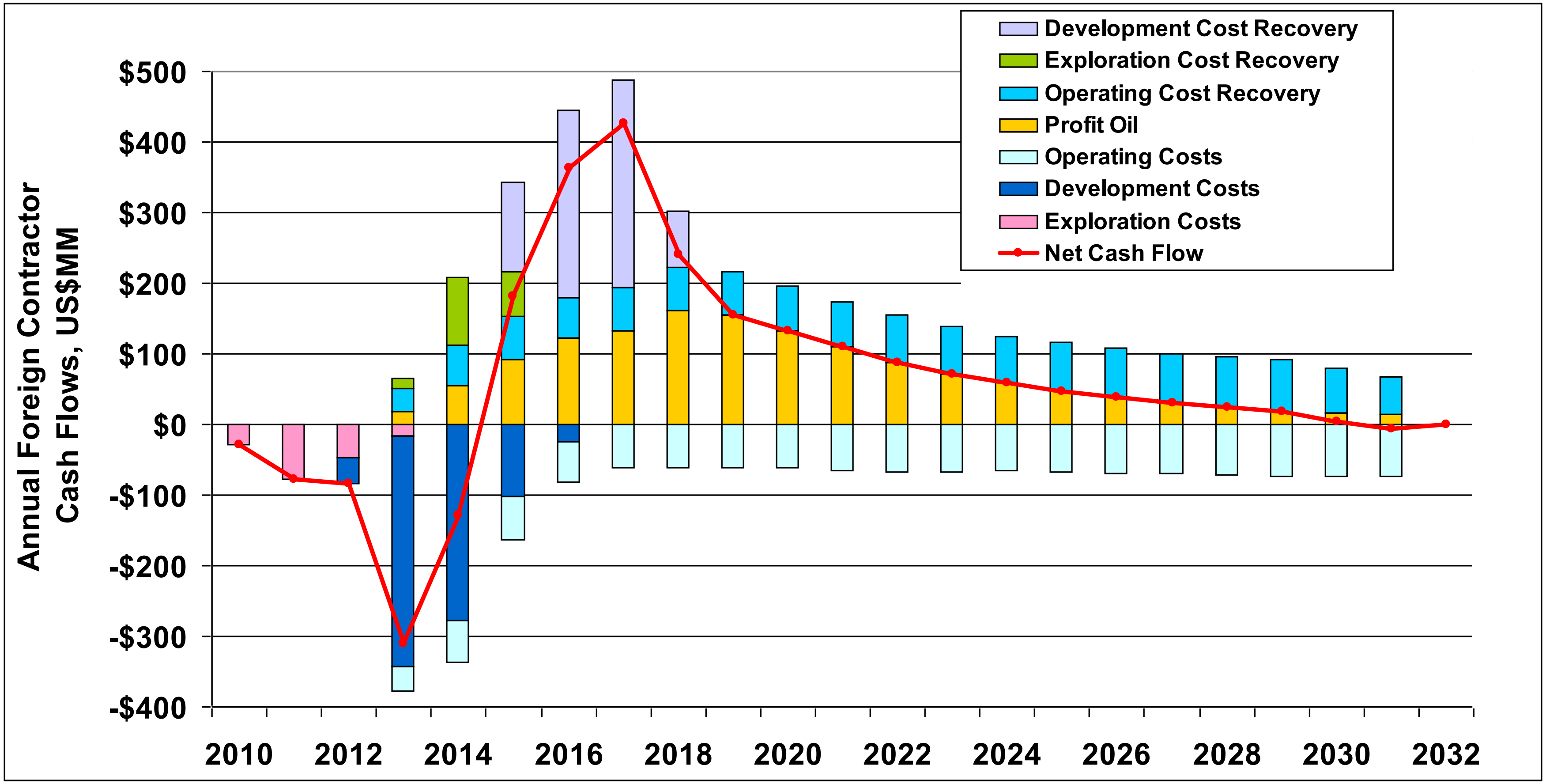
Example cash flow results for a "simple" tax-paid production sharing contract



Exit disputes relating to fiscal issues

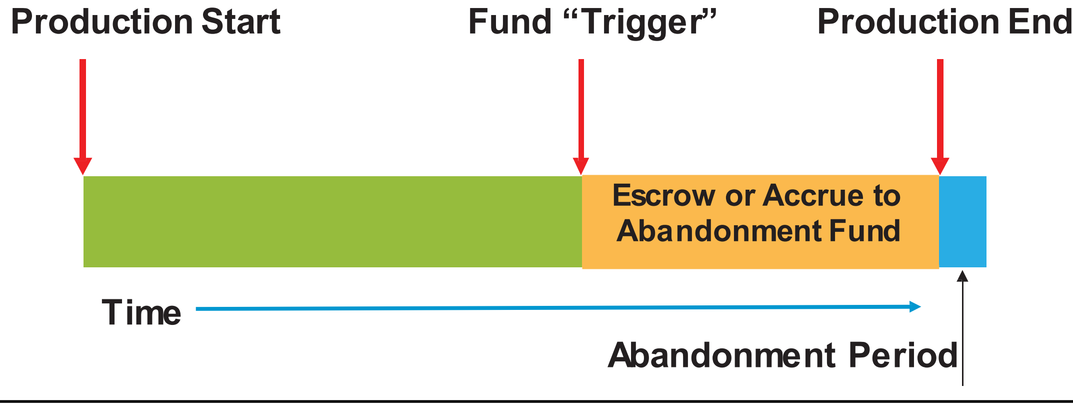
- ***Major disputes with respect to cost recovery or tax allowances commonly arise during development or in early production***
  - ***Work Program & Budget disputes are typically immediate***
  - ***Finalizing Annual Accounts should occur shortly after calendar year***
  - ***Unresolved audit exceptions usually time limited in theory and not material***
- ***Where Management Committee dispute resolution processes are poorly defined or lacking, disputes may remain unresolved at termination***
- ***Apart from these, the most significant potential dispute on termination is over fiscal treatment of decommissioning where this has not been adequately addressed during the life of the field***

Decommissioning Costs

- ***Any decommissioning costs incurred by a contractor should fall within the definition of petroleum costs and should be cost-recoverable and/or tax-deductible***
- ***Problem at end of economic life – no (or not enough) revenues to allow for cost recovery or tax deductions***
- ***Requires proactive method to accrue for costs through life of field***

Accounting for Decommissioning

- *If the contractor has a decommissioning obligation, it is a liability that is typically provided for in Profit & Loss Statement and recorded on the Balance Sheet*
- *Problem solved by making provisions cost recoverable and/or tax deductible*
  - *May or may not require actual cash deposits to an escrow account*
  - *Start date and provision calculation may vary*



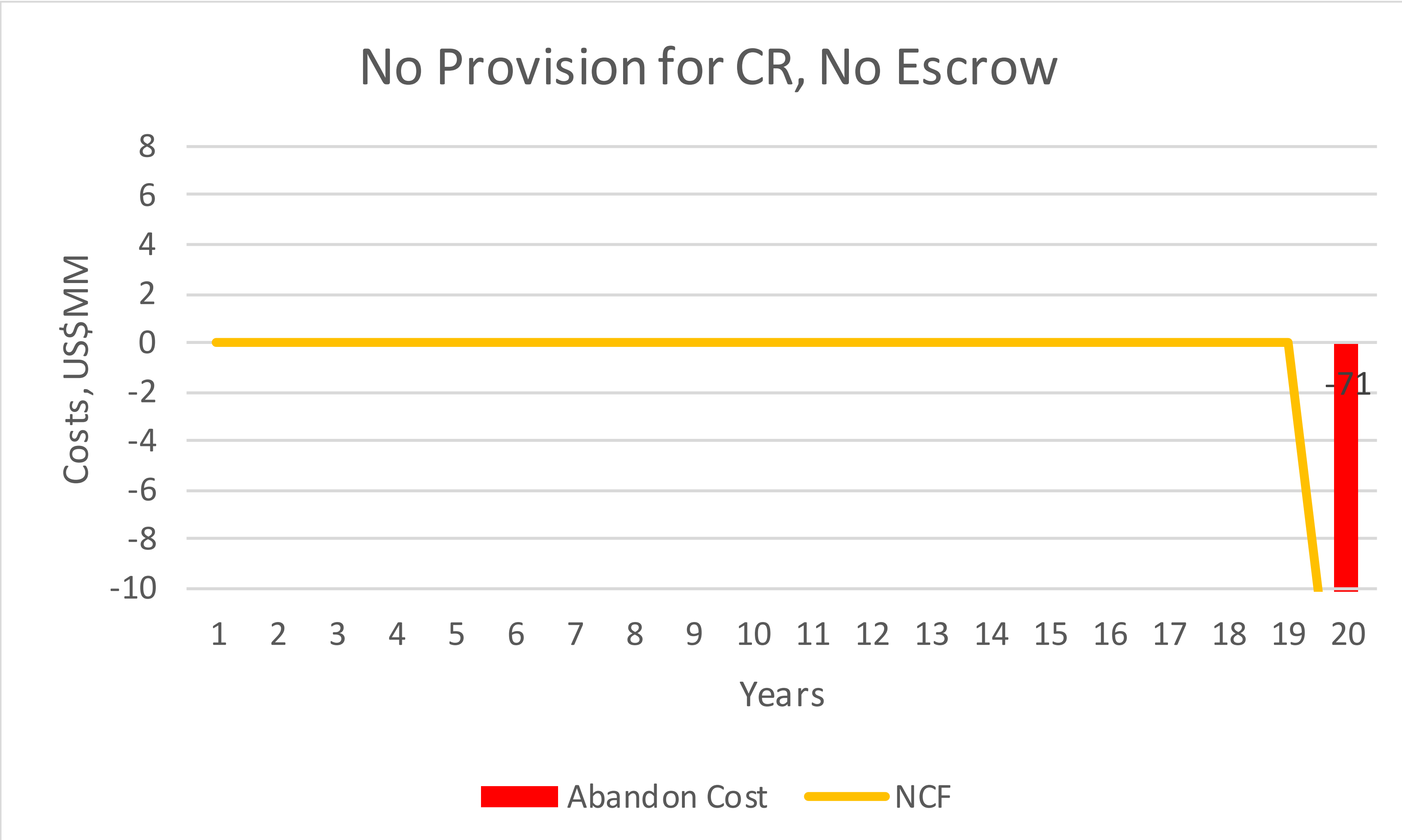
Global statistics

Based on sample of 43 contractual Host Government Instruments from top 50 oil producing nations

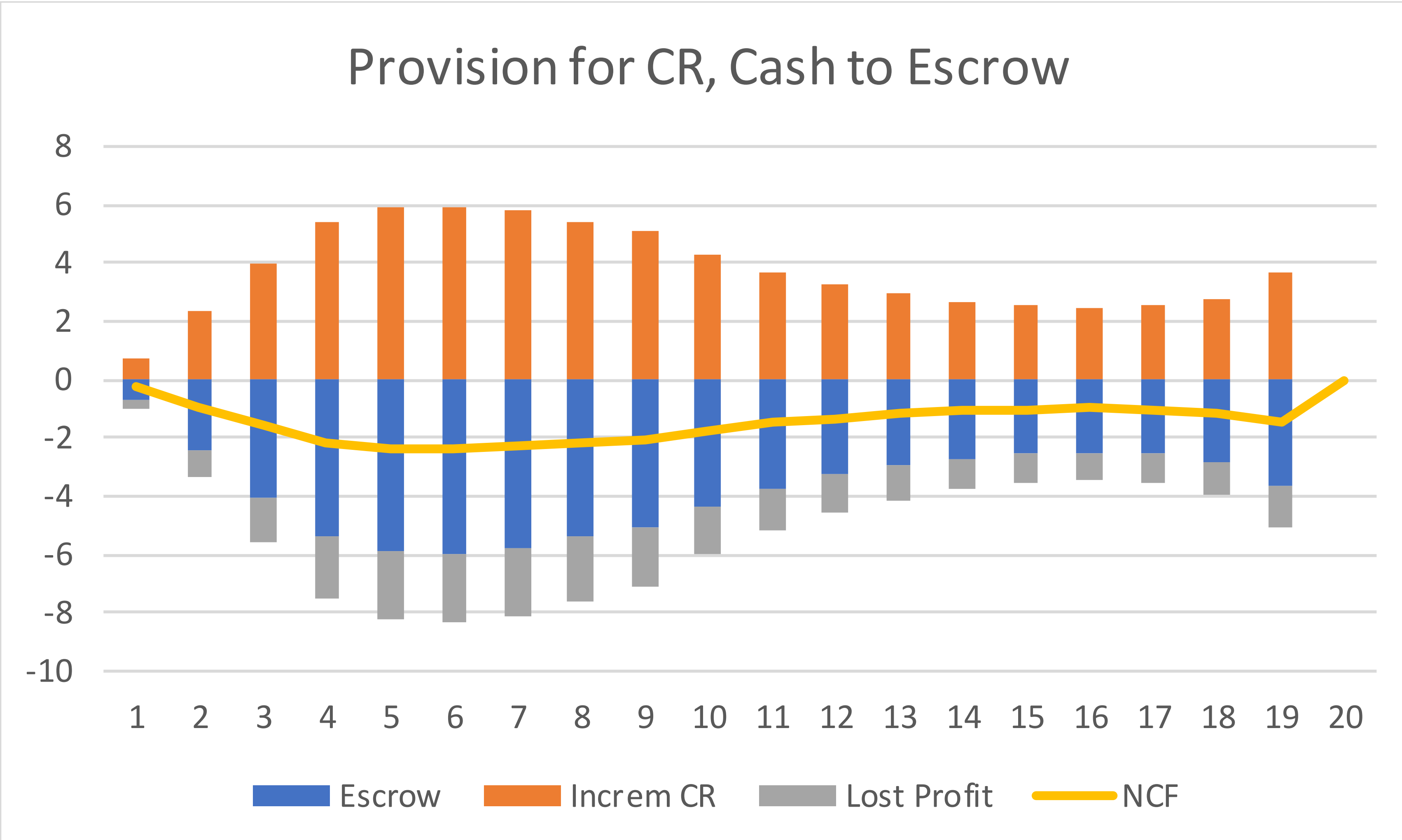
	Number of HGIs	%
No discussion	13	30%
Discussed but no financial provision allowed or required	10	23%
Cost-recoverable and/or tax-deductible provision	20	47%
Of which, current cost, unit of production	9	21%
Of which, calculation different or not prescribed	11	26%
Of which, funding into escrow required	17	40%
Of which, parent guarantee or insurance alternatives	3	7%

Money of the day Cash Flow impact of decommissioning

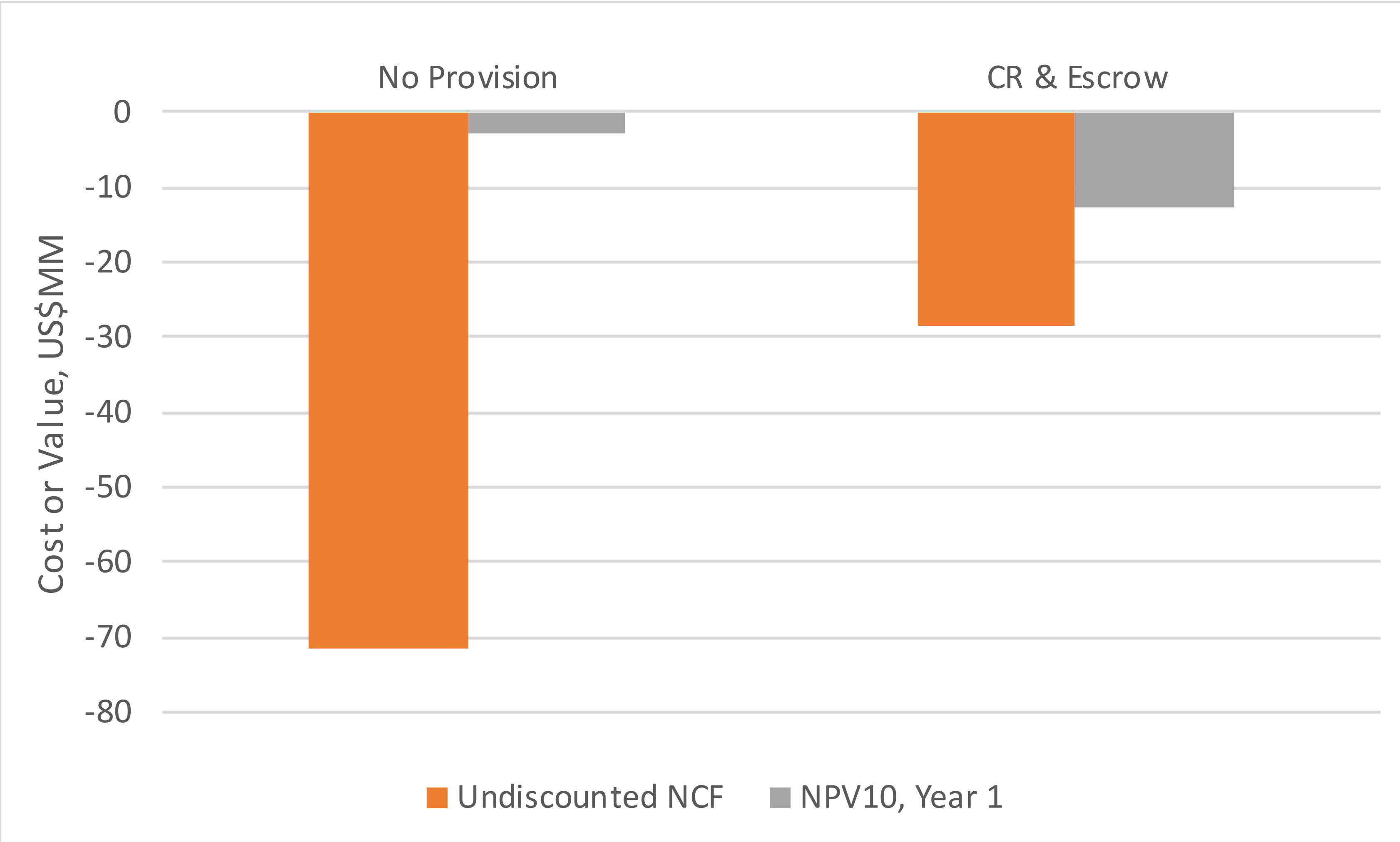
No fiscal provisions; $50MM current cost inflated to $71MM in year 20 (at 2% pa



Cash Flow impact of decommissioning
Cost-recoverable current cost UOP provision into escrow fund
40% contractor profit share after tax



Cash Flow impact of decommissioning
With and without fiscal treatment



Issues with retroactive fiscal treatment of Decommissioning Costs

- ***Most jurisdictions have limits on carry back of losses for tax purposes***
- ***Cost recovery accounts for prior years need to be re-opened***
- ***Tax calculations for prior years need to be re-opened***
- ***Accounting for time value of money and/or interest may be controversial***