Answer-to-Question-_1_

This is my answer of Part A, Q1

Production sharing contracts PSC

under the PSC the government is own the oil and gas resources and gives right to share production , known as profit oil to the oil and gas companies.

the oil and gas companies perform upstream activities in exchange of percentage of the profit, also combiend with royalties which imposed on the amount of produced of oil and gas
the cost recovery and profit sharing are two important components of the PSC regimes as the oil and gas co seeks to recover costs in addition to profit oil (Cost oil).
cost recovery is reimbursement mechanism that allow the oil and gas co to recover the cost it paid during the exploration , development and production activites E&P process; and it's capped with limit that cann't be exceed.
the oil and gas co carry forrowared unused costs that didn't reach the cap.
the PSC also include which costs are recoverable and which are not (Bonuses are not recoverable).
Profit sharing is a mechanism that split the revenues from oil between the co and the government after the co recover its costs.
split may be based on fixed percentage / sliding scale (examples R Factor , Daily productions , cumulative productions).
PSC regimes incentives inclding depreciation uplift that increasing the depreciation allowance.
Ring fincing can apply to PSC regimes.

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the government imposes taxes on companies profit oil but in some cases the government pays taxes on behalf of the co.
the PSC may including articles exempt the co from certain taxes like VAT.

Regarding the Service contract:-

the government owen the oil and gas resources and the International Oil and Gas IOG receive fees for its E&P services.

Unlike the PSC regimes ; the company will recive its fees for exploration ,drilling and production services regardles of the outcome of the development process.

the regime is best used when the oil and gas is already discovered while it's not enciuraged in exploration process as the profit incentive is much lower.
Countries examples including KSA , Mexico and Iraq.

Finally the Concession regimes:-

in this regime the oiland gas companies own the oil produced and the companies pay the due corporate taxes based on the profits of thier activites.
the oil and gas corpoate tax rates may be higher than other activites in some countaries like Norway imposes 50% hydrocarbon tax in addition to the corporate tax.
such regime countaries inclode US, Canada , Norway and US.

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the countries also may apply ring fincing to deny the offsetting of the profits of oil and gas activites to losess from other activites and vice versa and the losses from one filed cannot offset by profits from other fileds.

royalties are imposed on the amount produced of oil and gas.

the regime may include incentive like immediate deductions for developments costs , depreciation uplift and immediate deductability of exploration and evaluation expenditure like the UK (upstream concession system).

incentive also include depreciation uplift that enables higher depreciations.
the consolidation may be allowed for the merges and acquisitions under tax regimes in order to offsit the profits of one group company to the losses of another one.

Answer-to-Question-_3__

This is my answer to Part B Q No 3

Emission Trading Schemes (ETS)

Emission Trading Schemes (ETS)are the most common approach to reduce the GHGs emission , the largest example is the EU ETS which began in 2005

it is a cap and trade system with the cap set on total amount of GHDs which can be emitted.

the cap is reduced over time so the total emissions falls.

participants who are likely to emit more than their allocation have a choice between taking measures to reduce their emissions or buying additional allowances.

the low price of the related emission allowance represents significant issue for the EU ETS
the ETS generaly placed at large user stage of carbon cycle.

Carbon Taxes:-

Are taxes imposed in order to reduce the emission of greenhouse gases to takle the impacts of global warming , it places a cost on energy sources to reduce emissions of GHGs.

Generally it's implimented on the burning of fossil fuels , coal , petroleum and natural gas.

the UK impose the climate changes levy on energy supplied to end user.

while in the US carbon tax is recommended to apply at refinery or at the first point where the fossil fuel enter the economy.

Carbon Taxes advantages include:-

Carbon tax remain revenue neutral as it allows other types of taxes to be reduced.

Can be implimented quickly to amending tax provisions.

The cost is predictable so provide a stable price.

Increasing the cost of carbon based fuels will motivate the companies to switch to clean energy , which reducing emissions.

Carbon Taxes disadvantages include:-

Activity may reallocate to countries with no carbon taxes (partially where tax is set at high level).

The tax rate may need several changes before becoming effective.

GHGs emissions may not decline if the consumption remains unresponsive to price increase.

May not be effective if Lobby group sucessfuly secured exemptions for highly effected industries and may be substantially reduce the effectivness of carbon taxes.

It imposes harsher burden on such low incomes when making fossil fuels more expensive.

Answer-to-Question-__7_

This is my answer for Part C Q No 7

State Equity and carried intrests

In typical oil and gas development the contract with the government may provide for a state equity which is generally combined with other taxation methods .

The government may pay for it's equity on commercial terms (at the market price or under concessional term) where it pays it for it's equity stake at price lower than market price ; the government may also pay for it's share equity in case the development is successful (for example if the commercial discovery is made).

State equity may be paid by the government through a reduction in the tax liability of the oil and gas company or the government provision of some facilities to the project such as hurbor facilities , roads and pipelines.

The government may pay it's share equity from the proceeds of oil and gas production ;in this case the oil and gas company carry the risks of not being reimbursed for expenditure if the project not achive significant commercial success.

State equity is issue for the new projects and mergers and acquisitions when the State equity / the option to the government to acquire State equity will significantly affect the oil and gas comany's net return from the investment.

Answer-to-Question-_8__

This is my answer of Part C Q No 8

The main idia of the ring fencing provisions is the oil and gas company cannot offset losses of an oil and gas field / other business activities with the profit of another as the oil and gas companies pay a lot of costs in the initial stages of E&P activites and without income from production (They suffer losses).

Ring fencing is beneficial to governments as it will start receiving revenue from the fields that starting oil and gas productions without giving deductions to other fields ; it can also help the governments by preventing IOCs from allocating costs to the most profitable areas.

another advantage also for the governments is in case of a progressive tax rate was imposed as the IOC may pay taxes on excess profits in one area while it suffered a losses.

The advantage of ring fencing - it will not encourage IOCs to undertake explorations activities (they will not be able to offset the losses from such activites).

Ring fencing will not be considered as an issue for IOCs (If ALL the fields making profits) as ultimately all the costs will be recovered later but it may cause an issue if some fields

generated profits while the others are not ; in the same time ring fencing will prevent existing companies having an advantage over new entrants with only one license.

it may encurage tax planning if ring fencing regime is more onerous than standard tax regime.

((If a company operates in several ring fencing areas it has to calculate the profits separatly for each on of them and it cannot consoildate them for the purpose of taxation))

Ring fencing country exmples:-

Qatar

ring fencing applied so that losses under PSC cannot be used to offset profits under other PSC.

Kazakhstan

ring fencing is applied where the oil and gas operations losses or profits cannot offset other activities income ot expense.

Norway

ring fencing is applied so the limitation of 50% of onshore losses may be used to offset offshore profits in a cleare incentive to prefer offshore exploration.

United Kinddom

Oil and gas activites are subject ot 30% ring fence corporation tax

the ring fence provisions deny offsiting onshore losses with offshore profits but provids a 100% 1st year allowance for capital expenditure from ring fencing trade.

Denmark

applies ring fencing provisions accordingly the losses from non oil and gas activites cannot offset profits from hydrocarbon production (Denmark imposes CIT with rate of 25%).

Greenland

No field ring fencing but the oil and gas explorations income / cost may not be offset against income and cost from other activites.

Answer-to-Question-__2_

This is my answer for part A Q No 2

1)

Key factors could be creating a PE as per the OECS MTC model tax convention on Income and Capital article 5 which stated that for the definition of Permenant Establishment (PE) fixed place of business through wich the business of an enterprise is carred on which can inclode a place of managment , branch , office , workshop , a mine , an oil and gas well a quarry or any other place of extractions of natural resources .
As according to article 5-1 defined the PE as fixed place of business
wile article 5-2 inclode examples of what can be considered as PE.
Article 5-3 discuss the constructions PE and that a working site will be considered as PE if it lasts more than 12 months.
Article 5-5 discuss agency PE and stated that dependednt agent who conclode contracts on behalf of the enterprise without material changes shall establish a PE.

Action point 7 of the OECD BEPS should be considered (report on Preventing the artificial avoidance of PE status)

According to article 7 of the OECD MTC companies performing

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seismic surveys and drilling services may be taxed in the sourse stae as the services they are performing stablish a PE

the preparatory or auxiliary nature activites should be considered also according to article 5 MTC.

in addition to the structure of the company in each countary based on the related contracts with th governments

2

all tax laws should be fowlloed as pr each country tax system.
related duble tax treaties should be implimented to pay the due and accurate tax due.
Transfer Pricing regulations should be followed and correctly implimented for all transcations beteen related parties and must be according to arm's length , the related documentations should be submitted during legal dates like (Master file , Local File , CBCR)BEPS actions 8-10 & 10 should be considered
other BEPS actions should be considerd

VAT rules & customs duties rules have to be followed, being aware of VAT refund rules to be correctly implimented.
All inome tax returns to be prepared and submitted correctly and pay the due taxes within legal dates
Defeered tax accounting have to be considered in line with IAS 12
Tax depreciations should be matched with countries laws.
WHT payments to be in ine with applicable laws
BEPS action point 2 of hybrid entity to be considered

3

The companies must have a correct tax structure that must be matched with laws
Transfer Pricing rulse must be correctly followed in order to avoid any inspection differences and corespondant adgustments.
Havaning APA advanced pricing agreements with the tax authorities is allowed to avoide any future variances in the inspection step by the tax authority.
correct implimentations of intrest deductions.
Thin capitalization rules to be considered in addittion to CFC "Controlled Foreign Corporation"
Forward / option contracts to be correctly from tax point of viwe proceeded.

4

The tax treaties having an impact on the tax liability of oil and gas copmanies by impleminting the following articles

Residency articles 4
PE article 5
Attribution of profit , article 7
Dividends article 10
Intrest article 11

Royalties article 12

Capital gains article 13

allsuch articles are affecting the tax liabilities of oil and gas companies transactions between different countaries wich will directly have an impact of the tax liability and the amount of tax that should be paid in each country according to the correct implimentations of duble tax treaties

5

some challanges that could be faced by the oil and gas companies is that the governments may increase the corporate income tax rate

it can also introduce new supplementary charges / increase the charges that already applied to the oil revenue

it can delay any VAT refund or disregard any utilizable tax losess accumelated by the company in the initial year of the project.

it can introduce new withholding taxes on income streams

it can introduce new restrictions / customs charges for the import or export of equipment used in explorations and productions.

The companies can rely upon existing Bilateral Investment Treaties BIT which signed between states in order to protect the companies and it can be used by the companies of oil and gas when the governments unilaterally breach the treaty by increasing the tax rate / create any unlawful tax restrictions regarding the project.

Related Arbitrary cas laws include

Roslnvest Vs Russian Federation case

Duke Energy Vs Peru Case (the court held that the way the law was interpreted was a viloation of the tax stabilization commitment)

EnCana Vs Ecuador

Mobil Vs Venezuela (the court held that the fact that a Netherland entity inserted into ownership structure to obtain protection of a BIT was legitimate.