



# **Study Group 1.3 Gas Rent and Mineral Property Rights**

**Marcos de Freitas Sugaya**



**4<sup>th</sup> WOC 1 Meeting  
Seoul  
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# WGC CS 1.3

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## **Fiscal regimes for the production of conventional and unconventional gas**

Chaired by Daniel Johnston (Consultant)

### **Objectives:**

Gas projects have different characteristics when compared with their oil counterparts, so a distinctive treatment is required from regulators, government authorities and stakeholders.

### **Topics of interest include**

Regulations, business models and fiscal incentives for the production of conventional and unconventional gas;

Reasons and causes for the unconventional gas revolution;

Incentives for the production of gas at remote locations or challenging conditions;

Fiscal regimes to sustain the production of gas in marginal, mature or tail end fields;

Gas rent and production sharing.

### **Session form:**

Presentation and discussion of case studies performed by invited speakers, committee members and authors selected from the call for papers.

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## **Gas on gas competition and upstream investment**

Chaired by Marcos de Freitas Sugaya (Petrobras)

### **Objectives:**

Over the last years a significant growth has been observed in the use of hub pricing mechanisms in lieu of the traditional long term contracts indexed in oil, and this is transferring market risks to the portfolio of gas producers. Could this significantly affect new upstream investment? Hub pricing is not a synonym of cheaper gas, and in the long term consumers could meet a completely different scenario.

### **Topics of interest include**

Gas pricing mechanism background;  
Tendencies in gas pricing for upstream investments;  
Price requirements for the production of unconventional gas;  
Upstream costs and project financing;  
Case studies on the production of gas.

### **Session form:**

Contributions selected from the call for papers and invited guests.

# Triennial report

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- ✦ About 50 pages completed
- ✦ Analysis of contractual models (concession, production sharing, service)
- ✦ Analysis of fiscal instruments (royalties, inland revenue instruments, etc)
- ✦ Case studies analysed (Angola, USA, Tanzania, Mozambique, etc)
- ✦ Fiscal regimes to promote the development of unconventionalals suggested
- ✦ Best practices defined

# Case study results

- Government take was the lowest among all case studies performed:

Country	Government take
Angola	86%
Norway	75%
UK	62%
USA	52%

- In spite of that, a significant effort to further reduce taxes is still under discussion (to stimulate production and reduce imports)
- Benefits target the independent producers in lieu of the production of unconventional

# Impact of benefits

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- Drilling activity could decrease by 30% if current tax treatment of IDCs, percentage depletion and passive loss exception were ended (Inhofe *et al.*, 2013).
- Reduction of 3.8 million bpd in 10 years if tax treatment of IDCs was ended (WoodMackenzie *apud* Inhofe *et al.*, 2013)

# Conclusions

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- Development of unconventional gas mostly the consequence of a strong political will to reduce foreign energy dependency
- Fiscal instruments were key to independent producers, which were ultimately responsible for the revolution of unconventional gas

# Thank you!