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# Is NL Getting its Fair Share?

November 15, 2006

# Four Levers of a “Fair Share”

## 1. Progressive Fiscal Regime

- Appropriate sharing of the downside and the upside in different price environments and in different field sizes in different phases.

## 2. Responsive and competitive land tenure policy.

- Creating an efficient and certain license structure where players within and without can “plan”, “execute” and “transact” in an fair market.

## 3. Government ownership and control.

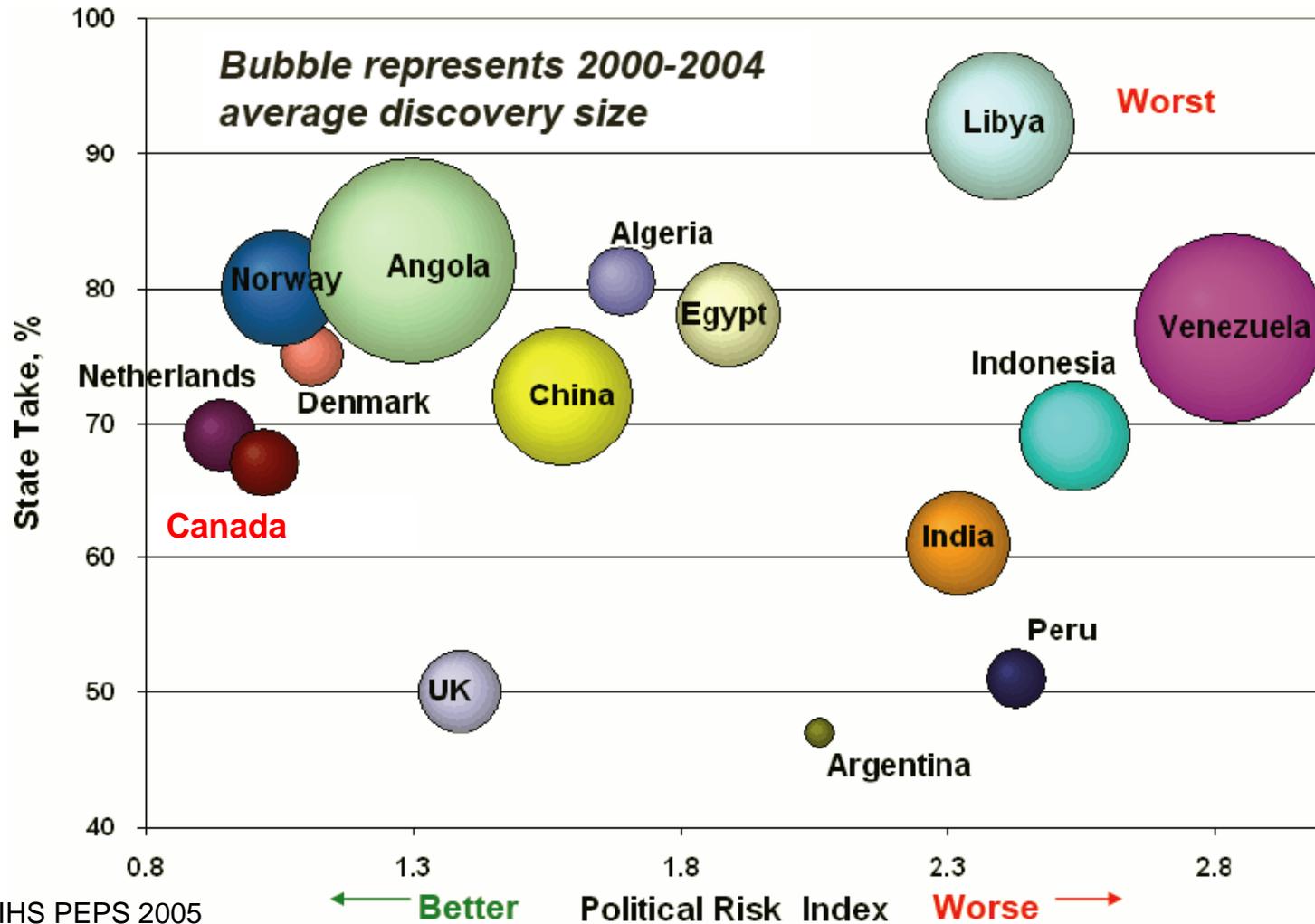
- Government/industry alignment of interests to ensure differing shareholder drivers are adequately addressed.
- Knowledge of how the most important driver in the economy is being managed.

## 4. Established Local Capabilities

- A viable and value-added service and supply sector.

# The 1<sup>st</sup> Lever - Progressive Fiscal Structure

Country Ranking Based on Political Risk and State Take

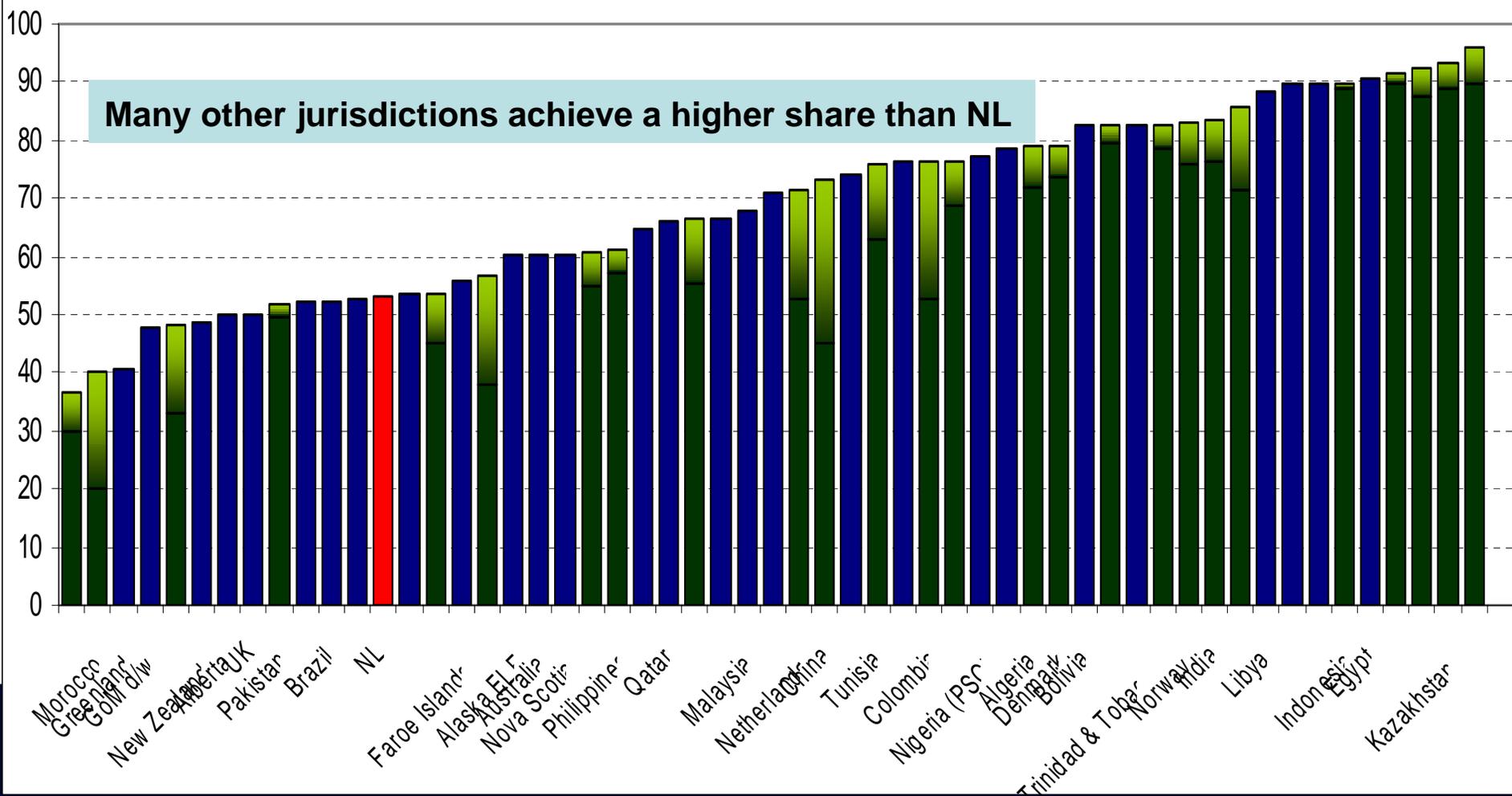


Source: IHS PEPS 2005

# Global Govt. Take...

Country Take from 100 mmbbl oil field, US\$35/bbl (real)  
 (Country Take % Pre-Take NPV10, includes state equity)

Source: Wood MacKenzie 2006



# Global Trends in Fiscal Terms

- **Government Take from oil and gas projects has been increasing in recent years:**
  - ❖ **Alaska** in process of replacing severance tax with profits tax (2006)
  - ❖ **Alberta** discontinues the Alberta Royalty Tax Credit (2006)
  - ❖ **UK** increased tax rate from 30% to 40% (2002) then 50% (2005)
  - ❖ **Russia** increased royalty and export duty rates (2002-2005)
  - ❖ **China** introduced windfall profits levy (2006)
  - ❖ **Algeria** introducing windfall profits tax and increasing state equity (2006)
  - ❖ **Venezuela** has increased royalty, tax and state equity rates (2004, 2005, 2006)
  - ❖ **Argentina** introduced then increased export duty (2002, 2004)
  - ❖ **Ecuador** introduced windfall profits tax (2006)
  - ❖ **Bolivia** increased royalty rate (2005) then nationalised assets (2006)
- **Others have benefited from industry bidding higher Government Take in auctions**
  - ❖ **Algeria, Libya, Nigeria, Angola**
- **Note: in Canada the fiscal terms have improved for investors through federal tax rate reductions**

# The 2<sup>nd</sup> Lever – Land Management

- *“Based on our extensive databases and knowledge, we can think of no other jurisdiction whose current upstream license terms enable investors to hold onto discoveries without time limit or significant financial commitment, as they are in Atlantic Canada”* Wood MacKenzie 2006
- Do you know what will become of the remaining 51 inactive SDL's, containing approximately 2 billion BOE – does industry know?
- How about companies not present in our basins? Is there a “deal flow”.
- Does our “auction system” for land rights favour larger and incumbent companies? Are we structurally set up to attract “new” entrants or the “right” entrants?
- Does our current fiscal regime meet all needs?
  - ❖ Heavy Oil/High Risk Royalty request?
  - ❖ What about the future? Tail-end production etc.

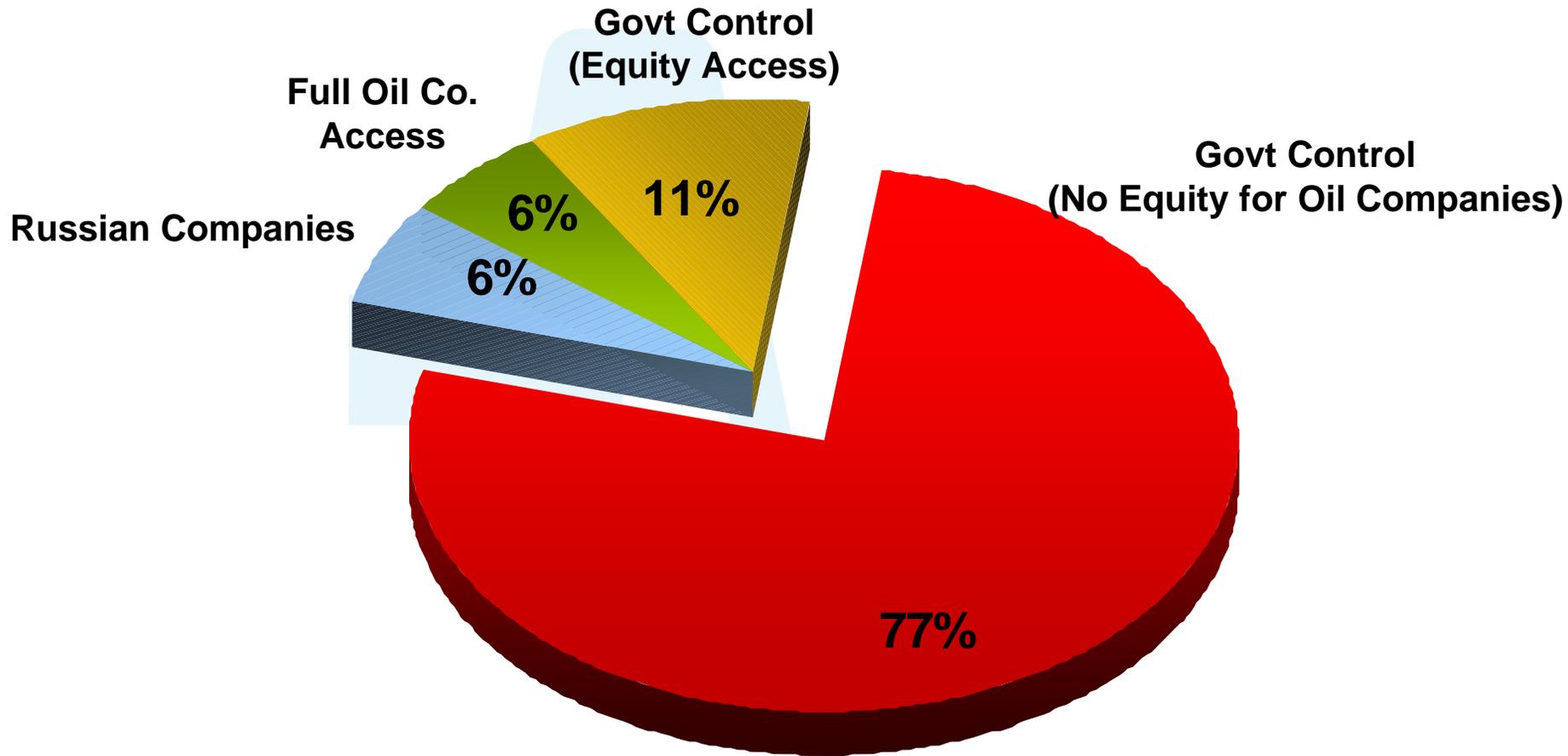
# Strategically managing our assets

- The structure and operation of the current licensing regime indicates that there are peculiarities in its design and operation that act to limit or delay, rather than promote and accelerate, successful drilling and production activity.
- Some suggestions for improvement – lets talk solutions:
  - ❖ Create “Time-based” incentive provisions for SDLs tenure
  - ❖ Create “Open Access” provisions to allow non-discriminatory access to third party facilities (platforms and pipelines)
  - ❖ Improve geologic data availability, release, and marketing
  - ❖ Require and/or standardize Joint Operating Agreements
  - ❖ Remove pre-emptive rights and/or “ROFR” from JOAs
  - ❖ Replace cash bids with work plan commitments

# The 3<sup>rd</sup> Lever - Ownership and Control

- Promotes alignment of interests among groups with different shareholder drivers
- Ensures government maintains greater knowledge and influence of the barrel.
- Purpose of government equity is self-sufficiency and/or economic security of a non-renewable resource across value chain:
  - ❖ Strategic development of long ignored resources
  - ❖ Creating proactive sustainable career and job opportunities for their people
  - ❖ Adding strategic complementary infrastructure (refineries/ gas processing/power generation)

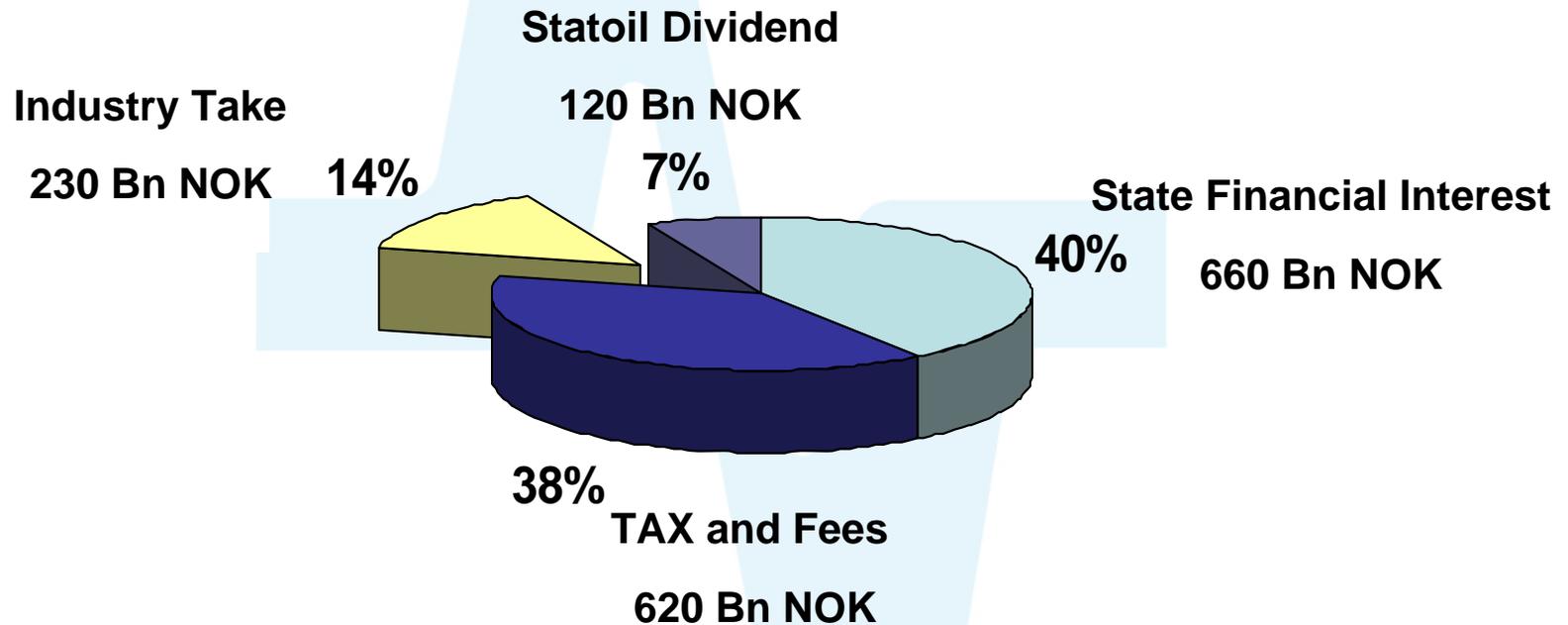
# Governments control ~88% of world reserves



Partnerships with Government controlled entities are common international practice

Source: PFC Energy

# Norway's Petroleum Wealth NPV Distribution (NOK2002)



Source: Storting Proposition No. 36 – Ownership of Statoil and the Future Management of the SDFI

**There is more to “fair share” than royalties and tax!**

# The 4<sup>th</sup> Lever - A Local Benefits

- Local benefits are key to building a sustainable economy and community.
- It is critical to ensure the proper strategic balance between developing key sectors of the economy and effective project execution.

# Summary...

- NL has a finite non-renewable resource that we must steward.
- We need to ensure that the people of the province garner a fair share of that resource while at the same time ensuring oil companies that we partner with also receive a fair return.
- The province needs to establish and effectively manage the four key pillars to ensure appropriate stewardship.
- We need to move toward a:
  - ❖ Knowledge-driven, competitive and transparent regulatory frameworks; and
  - ❖ progressive and responsive fiscal frameworks; which ensures
  - ❖ political **stability** and **certainty** and industry **access** and **activity**.
- We can't negotiate out of fear, however we can't fear to negotiate – JFK.



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