TAXATION OF OIL AN NATURAL GAS RESOURCES
Table of Contents

2007-03531

LAW LIBRARY OF CONGRESS

TAXATION OF OIL AND NATURAL GAS RESOURCES IN SELECTED COUNTRIES

CHART ONE

This chart gives an overview of the taxation of petroleum activities in Algeria, Australia, Brazil, Bolivia, Canada, and Mexico.

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Corporate Tax		30% of taxable income.[5]	Corporate income tax of 25%.	Corporate income tax of 25%.	Resident corporations taxed on world-wide income and non-resident corporations taxed on domestic income.	___
National Income Taxes		Applicable to individuals. Different rates for residents and non-residents. For residents: a tax-free threshold of 6,000AUD and then a sliding scale of 15c to 47c in the dollar and a medicare levy of 1.5%.	___	___	Federal income tax on resource industries now subject to the normal 21% corporate tax rate plus a 1.12% surtax. Reductions available for small businesses. Surtax to be eliminated in 2008. Corporate rate to be reduced to 19% by 2010.	___
Regional Income Taxes		___	___	___	Provinces have separate income tax. In British Columbia, the higher rate is 12%. In Alberta, the general corporate tax rate is 12.5%. Small business tax rate is 4.5%.	___

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Special Tax on Petroleum	Tax on the petroleum income in the amount between 30% and 70% depending on the amount of that income. A complementary tax of 30% or 15% depending upon whether the taxpayer is a beneficiary of a discount. A windfall tax between 5% and 50% when the price of oil exceeds US$30 per barrel.	Petroleum is subject to excise duty as are alcohol and tobacco.[6]	___	___	___	The oil and gas sectors in Mexico are controlled by Petroleos Mexicanos (Pemex), a state-owned entity. The tax regime applicable to Pemex exploration and production division includes the following duties: Ordinary duty on hydrocarbons: Under a fiscal regime that came into effect last year, a variable tax rate will apply during 2006-09, depending on the average Mexican crude oil export price and the specific year. The rate would vary from 78.68% to 87.81% in 2006 and will stabilize at 79% in 2010 and thereafter. This duty applies to the value of extracted production, net of certain permitted deductions (including specific investments, some costs and expenses, and the other duties). Duty on hydrocarbons for the oil revenues stabilization fund: The rate of this duty will be 1% to 10% of the value of the extracted oil, depending on the average Mexican oil export price. It will apply only if the export price for the oil exceeds US $22/bbl. Extraordinary duty

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Special Tax on Petroleum (cont.)						on crude oil exports: The rate will be 13.1% of the realized value of oil exports exceeding the estimated value of oil exports budgeted by Congress. Duty on hydrocarbons for fiscal monitoring of oil activities: The rate will be 0.003% of the produced oil's value. Based on the federal budget, the proceeds will help fund the federal auditing entity.
Investment Credits		—	—	—	Investment tax credits largely phased out except in East and Quebec. For qualified R & D, the usual rate is 20%.	—
Severance Taxes		—	—	—	—	—
Production Taxes		Petroleum Resource Rent Tax (PRRT). Profits based on tax of 40% of net	—	The new tax on hydrocarbons is 32% of the	British Columbia assesses production tax credit for wells on	—

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Production Taxes (cont.)		revenues of a project. Net revenues are sales receipts less eligible expenditure. PRRT is paid to the federal government for oil and gas production on the continental shelf beyond the three nautical mile limit to the limit of Australian waters.[7] The PRRT is not applicable to the North West Shelf (NWS) or the Joint Petroleum Development Area (JPDA). PRRT is applicable to natural gas projects that source their natural gas in Commonwealth waters in relation to the natural gas production phase (but not to the conversion of the natural gas to other products, such as liquefied natural gas (LNG)). Thus, where it is not possible to calculate a price at the point where the gas is moved into processing, a residual price methodology (RPM) is used to determine the gas transfer price and the project's PRRT liability.		production.	freehold land started on February 2004.	
Production Sharing Arrangements		The Joint Petroleum Development Area (JPDA) between Australia and East Timor that is subject to a	—	Six percent of the production, as participation goes to the	When allowed, royalties are generally set on a case-by-case basis.	Mexican law allows Pemex to enter into contracts involving works and delivery of services.[8]

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Production Sharing Agreements (cont.)		Production Sharing Contract (PSC)).		National Treasury.		However, it also states that any remuneration should be made in cash, and under no circumstances will a percentage of the goods or participation in the results of the exploitation be granted.[9]
Royalties	Royalty tax as agreed upon in the relevant agreement.	OnShore Royalties are payable to states and territories. The general rate is 10% of net wellhead value of production. Offshore Royalties are payable to the federal government and are applicable to the North West Shelf (NWS) production area.[10] Royalties are payable on value of all petroleum (including gas) between 10 and 12.5% of the wellhead value. Revenue is shared with the state of Western Australia.	See attached report for details.	Eleven percent in the highly productive areas (departamentos). One percent of compensatory royalty in the Beni and Pando departments.	Yes. Please see endnote.[11]	___
Royalty Waivers		Federal government waives excise where the applicable state introduces a Resource Rent Royalty (RRR) and enters into a revenue sharing agreement with the federal government.[12] Currently this is applicable to production from Barrow Island, Western Australia.	___	___	Yes, please see endnote.[13]	___

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Suspension Volumes		—	—	—	—	—
Depreciation		As per the company tax regime, petroleum companies are permitted: Deduction of Capital expenditure in either equal installments over 10 years (before June 30, 2001) or over the effective life of the asset; Deduction of Environment Impact Statement capital costs over 10 years or the life of the project.	—	—	May use depreciation or Capital Cost Allowance (CCA). In both cases, assets are put in classes. More common CCA rates are from 4% to 25% declining values.	—
CO2 Tax		—		—	—	—
Operating Expenses		As per the company tax regime, petroleum companies are permitted: Immediate deduction of operating costs.	—	—	The Canadian Oil and Gas Property Expense is at 10% annual depreciation on a declining basis. The Canadian Development Expense amounts to 30% annually.	Five percent on pipelines and storage is deductible.[14]
Exploration Costs		As per the company tax regime, petroleum companies are permitted immediate deduction of petroleum exploration and prospecting expenditures, and, deductions for exploration and allowable capital expenditure.	—	—	Generally, fully deductible when incurred.	Under a fiscal regime that came into effect in 2006, investment in exploration has been made 100% deductible from taxes.[15]

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
R&D		Australia has a non-industry specific research and development (R&D) tax concession under which companies may deduct up to 125% of expenditures on R&D activities from their assessable tax income. An additional 50% deduction (the "175% premium R&D tax concession") may be available to companies that are eligible for the 125% deduction and that increase their R&D expenditure relative to their average of such R&D expenditures over the previous three years. An "R&D tax offset" is available to companies with an annual turnover of less than 5 million AUD whose aggregate R&D amount is between 20,000AUD and 1 million AUD per year.	___	___	Usual rate of depreciation is 20% of expenses. Canadian-Controlled Private Corporation may deduct 35% of expenses.	Duty on hydrocarbons for the Fund for Scientific and Technological Research on Energy: The rate will be 0.05% of the value of produced oil. Based on the federal budget, the proceeds will go to the Mexican Petroleum Institute to be used for energy-related research. Investment in development is 16.7% deductible.[16]
Uplift		Applicable to PRRT. Uplift on exploration expenditure - 15 percentage points above the Australian Government long term bond rate (LTBR), and uplift on other expenditures (such as capital and operating expenditures)- 5	___	___	___	___

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Uplift (cont.)		percentage points above the LTBR. Exploration expenditures incurred more than 5 years before the "Statement of receipt" are compounded at a rate relevant to the Gross Domestic Produce.				
Area Fee		See section on PRRT.	Yes. Please see attached report for details.	—	Saskatchewan imposes different royalty rates on different regions. Other Western provinces assess royalties on different types of oil and gas.	—
Net Financial Costs		—	—	—	—	—
Losses Carried Forward		As per the company tax regime, deductions for exploration and allowable capital expenditure are deductible (without limit) and any excess contributes to a tax loss for the year (applies to 1999/2000 and subsequent tax years).		—	Non-capital forward seven years, back three years. Capital losses back three years, forward indefinitely.	—
Dividends Oil Co.		—	—	—	—	—
Value Added Tax		Australia's Goods and Services Tax is applicable to petroleum products. From July 1, 2006 fuel tax credits will provide a credit for the fuel tax (excise duty) included in the price	—	Refund of no more than 13% of the expenses incurred in production.	Federal Goods and Savings Tax is 6% in 2007. Provincial rates are from 0% (Alberta) to 10% (Prince Edward Island).	—

	Algeria	Australia	Brazil[1]	Bolivia[2]	Canada[3]	Mexico[4]
Value Added Tax (cont.)		of fuel, when used for specified activities (e.g., entities using fuel in their business).[17]				
Capital Allowance		As per the company tax regime, petroleum companies are permitted deductions for allowable capital expenditure.	—	—	—	—
Crude Oil Excise Tax		The federal government imposes a crude oil excise on crude oil produced on-shore (such production is not subject to PRRT or RRR). Currently this applies to the NWS production area and state and territory waters. The rate of excise will depend on the annual rates of production, date of discovery, and date of commencement of reservoir and production.	—	—	—	—

---

[1] Please see attached report for Brazil (Appendix A).

[2] New Hydrocarbon Law (Law 3058 of May 17, 2005).

[3] *See* PRICEWATERHOUSE COOPERS, OIL AND GAS TAXATION IN CANADA, http://www.pwcglobal.com/extweb/pwcpublications.nsf/4bd5f76b48e282738525662b00739e22/25381a8d7c3df72d85256ebe005fdbbe/$FILE/oag_2004v2.pdf#search='oil%20and%20gas%20taxation%20in%20canada.

[4] Situación Financiera de Petróleos Mexicanos, Libro Blanco, Noviembre 2006 (Financial Report of Pemex, White Book, November 2006). *See also* Juan Coppel & Rigoberto Yépez, *Mexico Adopts New Tax Structure for Oil, Gas Exploration, Production*, OIL & GAS JOURNAL, vol. 104, issue 21, June 5, 2006.

[5] *See* Australian Taxation Office Web site available at: http://www.ato.gov.au/businesses/content.asp?doc=/content/44266.htm&pc=001/003/019/001/006&mnu=&mfp=&st=&cy=1.

[6] Excise Tariff Act 1921 (Cth) imposes a duty of excise on alcohol, tobacco and some fuel products produced or manufactured in Australia. Customs Tariff Act 1995 (Cth) imposes customs duty of goods imported into Australia that would be subject to excise if manufactured in Australia.

[7] Agreed between the federal government and governments of the states and territories in the 1979 Offshore Constitutional Settlement (OCS).

[8] Ley Reglamentaria del Articulo 27 Constitucional en el Ramo del Petróleo (Oil Law), Diario Oficial de la Federación (D.O.), Nov. 29, 1958.

[9] *Id.*

[10] Petroleum (Submerged Lands) Act 1967 (Cth) §129.

[11] Royalties on oil and gas in the provinces are collected by provincial governments. In British Columbia, for most gas, royalties are 12% of sales price below select price and are 40% above select price. The maximum royalty rate is 27%. For most new oil, assessments are 30% on rates greater than 159m3/month. For third tier oil, the rate is 12-24% subject to sensitive price reduction. Alberta has highly complex formulas that take many factors into account. Rate on propane and butanes were previously at 30%. The Sulphur royalty is 16.66% of production. For oil, the reference rate is 572.1 m3/month. The base rate is 10% and marginal rate is 40%. For tar sands, the rate is 25% of net project revenue. Alberta gives a Royalty Tax Credit between 25 – 75% on the first Can$2 million in royalties.

[12] Petroleum Revenue Act 1985 (Cth).

[13] British Columbia has a deep royalty program and marginal royalty program. It offers a royalty credit for the extraction of gas from coalbeds. A Can$30,000 production tax credit is available for wells on freehold land started by February 2004. Alberta has a deep gas royalty holiday and an Otherwise flared solution gas royalty program. It give a royalty holiday for twelve months or the first Can$1 million of production.

[14] *Analysis, Mexico (Oil)*, ENERGY ECONOMIST, issue 290, Dec. 1, 2005.

[15] *Id.*

[16] *Id.*

[17] Fuel Tax Act 2006 (Cth).

2007-03531

LAW LIBRARY OF CONGRESS

TAXATION OF OIL AND NATURAL GAS RESOURCES IN SELECTED COUNTRIES

CHART TWO

This chart gives an overview of the taxation of petroleum activities in Nigeria, Norway, Russia, Saudi Arabia, and Venezuela.

	Nigeria	Norway[1]	Russia[2]	Saudi Arabia	Venezuela
Corporate Tax	Taxed under the Petroleum Profits Tax Act.[3] Gas production currently taxed at 30%, same as general companies tax. LNG taxed at 45%[4]	Taxes levied at 28%.	—	—	There is an Extraction Tax of 1/3 of the value of the hydrocarbon extracted. The Export Registration Tax is 1.0% of the value of all hydrocarbons exported from any port in Venezuela.[5]
National Income Taxes	Personal income taxed under Personal Income Tax Act, with rates set under Sixth Schedule. As of 1998, the rates varied by income level, from 5% to 25%.[6] No personal income taxes for large investments in oil and gas in special zone.[7]	Special tax on petroleum activities at 50%. There were amendments to petroleum taxation in 2007.[8] In Norway, the overall tax burden for oil companies is 78%, and the tax burden for lenders is 28%. The oil companies thereby can achieve a tax benefit by financing their operations through interest bearing loans rather than through their own capital. In order to prevent improper tax adjustments, and to clarify and simplify the tax regulations, the Norwegian government has proposed amendments to the rules on	—	The income tax rate on taxpayers engaged in the production of oil and hydrocarbon materials is 85%. The income tax rate on taxpayers engaged only in natural gas investment activities is 30%. There is also an investment tax imposed on taxpayers engaged in natural gas investment, gas liquids and condensates within the kingdom, its exclusive	Taxes levied against oil at 50%.

	Nigeria	Norway[1]	Russia[2]	Saudi Arabia	Venezuela
National Income Taxes (cont.)		petroleum taxation in the National Budget for 2007. The new rules will mean that interest charges and currency gains and losses tied to an interest bearing debt are treated separately from other financial posts. Deductions for interest charges for exploration activities shall be established based on the taxable capital value on the shelf. This means that the taxable value of assets that are tied to the exploration activity decides the amount of interest charges that must be deducted from the income taxed under the special petroleum tax (of 50%). The company's surplus interest charges and other financial posts are deducted against income from the onshore district (tax rate of 28%), but with a subsidiary right to carry and deduct eventual negative net amounts from the general tax base for the shelf (that carries a tax rate of 28%). Furthermore, oil companies can pledge or transfer their demands for payment from the state of the tax value for their exploration costs.		economic region or its continental shelf between 30% and 85% depending on the annual rate of return derived from as investment activities.	
Regional Income Taxes	Personal income taxed at the state level.[9]	—	—	—	—

	Nigeria	Norway[1]	Russia[2]	Saudi Arabia	Venezuela
Special Tax on Petroleum	Tax holiday for gas transmission and distribution under "Pioneer Status."[10]	Special tax on petroleum activities at 50%. (See section on National Income Tax).	See Use of Natural Resources Tax in Appendix E.	—	—
Investment Credits	Tax credit currently at 5% for gas production and 10% for LNG.[11]	—	—	—	—
Severance Taxes	—	—	—	—	—
Production Taxes	—	See section on Special Tax.	—	—	—
Production Sharing Arrangements	Nigeria offers companies the chance to enter into agreements with the Nigerian National Petroleum Corporation (NNPC). Partner percentage varies by contract from 5%-80%.[12]	—	—	—	—

	Nigeria	Norway[1]	Russia[2]	Saudi Arabia	Venezuela
Royalties	Royalty oil, a portion of production, is reserved for NNPC under production sharing agreements. Rates vary over time and sometimes depended on water depth, ranging from 20% for shallow water to 0% in water deeper than 1000 m.[13] Royalty for gas production now at the rate of 7% on shore and 5% offshore.[14]	No royalty given from 2006.	—	—	Taxes levied at 30% for Oil and 20% for Gas.
Royalty Waivers	—	—	—	—	—
Suspension Volumes	—	—	—	—	—
Depreciation	—	Linear depreciation for production installations and pipelines at an annual rate of 16.66%.	—	—	—
CO2 Tax	—	Fee of US$0.12 per Sm3 gas or liter of oil. Amount is deductible from corporation or special tax base.		—	—
Operating Expenses	Contractors may recover operating and capital costs according to the standards in the production sharing agreement.[15] Some operating expenses may	—	—	—	—

	Nigeria	Norway[1]	Russia[2]	Saudi Arabia	Venezuela
Operating Expenses (cont.)	be deducted for tax purposes.[16]				
Exploration Costs	Drilling costs may be deducted for tax purposes.[17]	May be charged as an expense and deducted immediately. Not eligible for uplift.	—	—	—
R&D	—	Deductible on corporate and special tax base.	—	—	—
Uplift	—	7.5% annually over four years (at a total of 30%).	—	—	—
Area Fee	—	Yes, please see endnote.[18]	—	—	This fee is equal to 3.33%.
Net Financial Costs	—	To deduct all net financial costs the company must have an equity-to-asset ratio of at least 20%.	—	—	—
Losses Carried Forward	—	Losses may be carried forward without time limit. Losses incurred in 2002 and after are carried forward with interest.		—	—
Dividends Oil Co.	—	—	—	—	This fee is equal to 67.7%.
Value Added Tax	—	—		—	Taxes levied at 16%.
Capital Allowance	For gas production, capital allowance at the rate of 20% per annum in the first 4 years, 19% in the 5th year, and the remaining 1% in the books. For LNG, capital allowance is 33% per annum on a sight-straight-line basis in the	—	—	—	—

	Nigeria	Norway[1]	Russia[2]	Saudi Arabia	Venezuela
Capital Allowance (cont.)	first three years with 1% remaining in the books.[19]				
Crude Oil Excise Tax	—	—	—	—	—

[1] The Norwegian petroleum tax system regulates taxes on petroleum activities on the Norwegian continental shelf. Both the corporate tax and the special tax are based on the net profits from petroleum activities. Petroleum taxation is regulated in the Act of 13 June 1975 No. 35 relating to the taxation of Subsea Petroleum Deposits, et cetera. (The Petroleum Taxation Act). The information included in this chart is from "The Norwegian Petroleum Tax System," Norwegian Petroleum Directorate, updated March 1, 2006 (http://www.npd.no/English/Emner/Ressursforvaltning/Promotering/whynorway_tax_system.htm).

[2] Please see attached report for Russia (Appendix B). The report discusses monies collected under the Use of Natural Resources Tax, which encompasses each payment category listed in the immediate chart.

[3] Petroleum Profits Tax Act, 1958, as amended through 1999, 13 LAWS OF THE FEDERATION OF NIGERIA Cap. P13 (2004).

[4] Embassy of the Federal Republic of Nigeria, Investment Incentives in Nigeria, http://www.nigeriaembassyusa.org/invest_incent.shtml (last visited Apr. 14, 2006).

[5] Law on Partial Amendment to the Hydrocarbon Law of May 16th, 2006 in *Gaceta Oficial*, May 24th, 2006.

[6] Personal Income Tax Act, 1993, 13 LAWS OF THE FEDERATION OF NIGERIA Cap. P8 (2004).

[7] Embassy of Nigeria, *supra* note 4.

[8] *Odelstingsproposisjon [ot.prp.] Nr. 1 2006-2007 Skatte- og avgiftsopplegget 2007 – lovendringer (proposition to the Storting) (Norway).*

[9] Taxes and Levies (Approved list for collection) Decree No 21 of 1998, Laws of the Federation of Nigeria, http://www.nigeria-law.org/Taxes and Levies(Approved list for collection) Decree No 21 of 1998.htm (last visited Apr. 14, 2006).

[10] Embassy of Nigeria, *supra* note 4

[11] *Id.*

[12] HUMAN RIGHTS AND OIL WORKSHOP, BERKELEY CENTERS FOR AFRICAN STUDIES AND SOUTHEAST ASIA STUDIES, NIGERIA FACTSHEET: HUMAN RIGHTS AND OIL WORKSHOP, Jan. 31, 2003, http://www.ias.berkeley.edu/africa/events/OilHR/Nigeria%20Factsheet.pdf.

[13] TAVERNE, PETROLEUM, INDUSTRY AND GOVERNMENT: AN INTRODUCTION TO PETROLEUM REGULATION, ECONOMICS, AND GOVERNMENT POLICIES 269 (1999).

[14] Embassy of Nigeria, *supra* note 4.

[15] TAVERNE, *supra* note 13.

---

[16] Petroleum Profits Tax Act, 1958, as amended through 1999, 13 LAWS OF THE FEDERATION OF NIGERIA art. 10 (2004).

[17] *Id.*

[18] After the expiration of the initial production license a license fee of 1,000 USD per km2 must be paid the first year. After the first year it increases by 1,000 USD per year until it reaches 11,000 USD per km2 per year. Area fee deductible in corporation and special tax base.

[19] Embassy of Nigeria, *supra* note 10.

Appendix A
2007-03531

LAW LIBRARY OF CONGRESS

BRAZIL

TAXATION OF OIL AND NATURAL GAS RESOURCES

Executive Summary

Pursuant to the Brazilian Petroleum Law (Law No. 9,478 of August 6, 1997), the royalty rates for the production of oil and natural gas range from five percent to ten percent, either onshore or offshore. A corporate income tax of twenty-five percent and several other fees and charges also are imposed.

I. Introduction

In Brazil, petroleum, natural gas, and other fluid hydrocarbons belong to the federal government,[1] which retains a monopoly on the exploration and production of petroleum[2] through its state company, Petrobrás.

Law No. 2,004 created Petrobrás in October 3, 1953, with the objective of executing, on behalf of the federal government, the activities of the oil sector in Brazil.[3] In 1997, Law No. 9,478 of August 6, 1997 opened the activities of the Brazilian oil industry to private initiatives and created the autonomous National Petroleum Agency (*Agência Nacional de Petróleo, Gás Natural e Biocombustíveis - ANP*) – a federal autarchy subordinate to the Ministry of Mines and Energy, to be responsible for the regulation, making of contracts, and inspection of the petroleum industry's economic activities.[4]

Pursuant to Law No. 9,478, royalties must be paid monthly, in local currency, calculated from the start-up date for the commercial production of each field and in an amount corresponding to ten percent of the petroleum or natural gas production.[5] After assessing the geological risks, production expectations, and other pertinent factors, ANP may define, on the relevant bidding announcements, the reduction of this rate to at least five percent of the production.[6] The rates of either ten or five percent are applied equally to the production of oil and natural gas, both onshore and offshore.

---

[1] Lei No. 9,478 de 6 de Agosto de 1997, art. 3, Diaro Oficial da União, 7 de Agosto de 1997.

[2] Constituição Federal [Constitution] art. 177 (Braz.).

[3] Petrobrás, http://www2.petrobras.com.br/portal/ingles/frame.asp?pagina=/ri/ing/ConhecaPetrobras/Historia/Historia.asp (last visited Jan. 10, 2007).

[4] Agência Nacional de Petróleo, http://www.anp.gov.br/conheca/quem.asp (last visited Jan. 10, 2007).

[5] Lei No. 9,478 de 6 de Agosto de 1997, art. 47, Diaro Oficial da União, 7 de Agosto de 1997.

[6] *Id.* § 2.

II. Calculation of Rates Levied Against Oil and Gas Industry

According to the current legislation, Petrobrás also must pay charges and taxes on its profits, fees, and charges specific to the oil and gas industry and charges on operations. Below is a detailed explanation of these additional charges.

A. Charges and taxes on profits

a) Social Contribution Charge on Profits................................ 9%
According to Law No. 7,689 of December 15, 1988

b) Corporate Income Tax.. 25%
According to Law 8,981 of January 20, 1995

B. Fees and Charges Specific to the Oil & Gas Industry

- According to Law No. 9,478 of August 6, 1997, art. 45 et seq, the exploration, development, and production of oil and natural gas through concession contracts is subject to the payment of the following:

1. Royalties

- Payment due from concessionaires for the exploration and production of oil and natural gas.
- Calculus: Production volume X reference price (to be published by the regulator, ANP), in relation to each field.
- Percentage Rate: Variable according to the area from 5% to 10% (per producing field), and established in each concession contract.
- Period: Monthly. Revenues must be paid to the Secretariat of the National Treasury (STN). Payment due the last business day of the month immediately following the month during which production activities began.
- Distribution form: Distributed to the beneficiaries by the STN, based on values due to each one according to the following scale:

Installment up to 5%	**Onshore**	**Offshore**
Producing State	70%	30%
Producing Municipality	20%	30%
Municipality with Oil Facilities	10%	10%
Ministry of Navy	---	20%
Special Funds	---	10%

Installment from 5% to 10%	**Onshore**	**Offshore**
Producing State	52.5%	22.5%
Producing Municipality	15.0%	22.5%
Municipality with Oil Facilities	7.5%	7.5%
Ministry of Science & Technology	25.0%	25.0%
Ministry of Navy	---	15.0%
Special Funds	---	7.5%

2. Special Participation

- Extraordinary financial payment due on oil and natural gas exploration and production in case of high volume or high profit margins.
- Calculus: Net revenue from quarterly production from each field after the legally permitted deductions.
- Percentage Rate: Progressive scale of rates ranging from 10% to 40%.
- Period: Quarterly. Payable as from the quarter during which respective production begins. Revenues must be paid to the STN by the last working day of the month immediately following the end of the preceding civil quarter.
- Distribution Form: Distributed by the STN, based on values due to each beneficiary as follows:
    - 40% - Mines and Energy Ministry, for financing geological and geophysical studies and services for oil and natural gas prospecting according to the requirements of the ANP;
    - 10% - Ministry for the Environment, Water Resources and the Legal Amazon Area, for the development of studies and projects related to the preservation of the environment and the recovery of damage to the environment caused by the activities of the oil and gas industry;
    - 40% - The state where onshore production takes place or the state adjacent to the continental platform where offshore production activities are carried on;
    - 10% - The municipality where onshore production takes place or the municipality adjacent to the continental platform where offshore production activities are carried on.

3. Signature Bonus

- The amount of the winning bid for a given oil and natural gas concession. It may not be less than the minimum price stipulated in the auction notice.
- Calculus: The amount of the winning bid for a given oil and natural gas concession.
- Period: Paid in full directly to the ANP, simultaneous with the signature of the concession contract. Funds raised from this source cover ANP's operating requirements as established in its expenditure budget.

4. Area Occupation or Retention Fee

- The auction notice and concession contract provide for the payment for the occupation or retention of the area of the block as from the date of the signature of the concession contract.
- Calculus: Unitary values, in Reais (R$), per km² or fraction of the concession area, taking into consideration the number of days the contract has been in force.
- Period: Annual. It is paid directly to ANP, on January 15 of the upcoming year.
- Distribution: Revenues raised from the retention fee are allocated to ANP for funding its statutory functions.

5. Contribution Charge for the Intervention in the Economic Domain *(Contribuição de Intervenção no Domínio Econômico – CIDE)*

- According to Law 10,336 of December 19, 2001, modified by Decree No. 4,565 of January 01, 2003.
- Payable as from January 1, 2002.
- CIDE tax applies to refineries, petrochemical complexes, importers (either private individuals or corporate entities), and manufacturers of specific oil-based secondary products.
- CIDE payments on sales may be deducted from COFINS and PIS/PASEP charges, observing the proper deduction scale.[7]

Importation or Sale	CIDE Rate	Metric Unit	Limit of Deduction of CIDE Against COFINS	Limit of Deduction of CIDE Against PIS/PASEP
Gasoline and derivatives (*)	R$541.10	Per m³	R$214.60	R$46.50
Diesel and derivatives (*)	R$218.00	Per m³	R$121.60	R$26.40
Aviation fuel	R$65.30	Per m³	R$53.70	R$11.60
Other kerosene	R$53.80	Per m³	R$37.50	R$16.30
Fuel Oil (High Sulphur)	R$29.70	Per ton	R$19.20	R$10.50
Fuel Oil (Low Sulphur)	R$40.90	Per ton	R$26.40	R$14.50
Liquefied Petroleum Gas including natural gas and naphtha derivatives	R$167.60	Per ton	R$137.80	R$29.80
Ethyl Alcohol Fuel	R$29.25	Per m³	R$24.00	R$5.25

(*) Refers to liquid hydrocarbon derivatives from oil and liquid hydrocarbon derivatives from natural gas used in mechanical mixtures for the production of gasoline or diesel fuel according to ANP's regulations.

C. Charges on Operations

1. **Social Contributions** - PASEP/COFINS – variable rates

- Since July 1, 2002.
- According to Law No. 9,990 of July 21, 2000.

Sales	PASEP	COFINS
Automotive Gas[8]	2.70%	12.45%
Liquefied Natural Gas	2.56%	11.84%
Oil Diesel	2.23%	10.29%

[7] According to Petrobras's Web site at http://www2.petrobras.com.br/portal/frame.asp?pagina=/ri/port/ConhecaPetrobras/AspectosTributarios/AspectosTributarios.asp (last visited Jan. 10, 2007).

[8] Except for Aviation Gasoline.

Alcohol for Carbureting Uses[9]	1.46%	6.74%
Aviation Fuel[10]	1.25%	5.80%

2. Tax on the Circulation of Goods and Services *(Imposto Sobre Circulação de Mercadorias e Serviços – ICMS)*

- State tax with variable rates.
- Federal Constitution, article 155.

Prepared by Eduardo Soares
Foreign Law Specialist
January 2007

[9] Except when added to Gasoline.

[10] From December 10, 2002, including Law No. 10,560 of November 13, 2002.

Appendix B
2007-03531

LAW LIBRARY OF CONGRESS

RUSSIAN FEDERATION

TAXATION OF OIL AND NATURAL GAS RESOURCES

Executive Summary

Since 2002, the aggregated Use of Natural Resources Tax has been levied on oil and gas companies. The tax rate is annually defined by the Russian legislature, and is adjusted monthly by the Ministry of Finance, depending on world oil prices and the value of national currency in regard to the U.S. dollar. More than 80 percent of the tax revenue is allocated to the federal budget. Companies involved in geological research and development of oil and gas fields are eligible for tax rate discounts. In case of production sharing agreements, the taxation is determined by the agreement during its entire valid period.

I. Basics of Oil and Gas Taxation

Payment of tax and other fees for the usage of natural resources is defined in the Tax Code of the Russian Federation, which entered into force on January 1, 2002.[1] The Tax Code eliminated the previously existing cumbersome system of numerous payments and fees levied on companies conducting the exploration of oil and gas. The Tax Code introduced an aggregated Use of Natural Resources Tax, which includes, among other payments, royalties.

Tax payers of the Use of Natural Resources Tax are individuals and organizations recognized as users of natural resources and registered in the administrative territory where the exploration field is located. If oil or gas is extracted on the continental shelf, in the economic zone of the Russian Federation, or outside Russia according to a lease agreement or international treaty, the tax payer shall be registered where he is located. The tax base is defined as the value of the extracted minerals. Separate tax rates are defined by the Ministry of Finance for each kind of mineral extracted. Tax rates for oil and gas exploration are defined by a federal law in a monetary amount. Oil tax rates depend on oil market prices. The Use of Natural Resources Tax is divided between federal, state, and local budgets according to the following percentages: 81.6% - federal, 5% - state, 13.4% - local. Taxes extracted from the fields located on the continental shelf or in the economic zones of the Russian Federation are allocated to the federal budget entirely. The Use of Natural Resources Tax shall be paid for each kind of extracted mineral separately, no later than the twenty-fifth day of the month following extraction.

Oil companies which conduct exploration, discovery, and development of oil fields are eligible to a tax discount equal to 70 percent of the standard tax rate. Such companies are exempt from paying the Natural Resources Restoration Fee. The exemption shall be included in the licensing agreement.

[1] Sobranie Zakonodatelstva Rosiiskoi Fedratsii [official gazette, SZ RF] 2000, No. 32, Item 3340.

II. Computation of the Use of Natural Resources Tax for Oil and Natural Gas Extraction

Unlike other mineral resources, taxation of which is based, according to article 342 of the Tax Code, on a proportional tax rate specific to a particular type of extracted mineral, a special tax rate was introduced for oil and gas, excluding gas condensate, which is taxed in the flat amount of 17.5 percent of the value of the extracted mineral. Federal Law No. 126 of August 8, 2001[2] specified the system for defining the tax rate. The system is based on the adjusted tax rate periodically determined by the Russian legislature. Presently, the basic tax rate for oil is Rubles 419 (approximately US$16) per one metric ton, and for natural gas the tax rate is Rubles 147 (approximately US$6) per 1,000 cubic meters.

In regard to oil, the basic tax rate is adjusted (multiplied) by Factor K, which reflects the dynamics of world oil prices. This factor is calculated according to a formula, which takes into account the average price for the Urals oil in U.S. dollars for a barrel during the tax period, which is one month, and the average value of the U.S. dollar in regard to the Russian Ruble during the same tax period. The Factor K and the adjusted tax rate are determined by the Federal Tax Service on a monthly basis. In November 2006 (the last calculation available), according to the Federal Tax Service Letter No. 6-21/1230 of December 19, 2006, Factor K was equal to 4.7107, and the adjusted tax rate was Rubles 1973,7833 (approximately US$75) per one metric ton of oil. In December 2006, the Ministry of Finance of the Russian Federation submitted to the State Duma (legislature) a proposal under which the tax rate for natural gas shall, like the oil tax, be determined in conjunction with world gas prices.

III. Specifics of Taxation Under Production Sharing Agreements

In the course of production sharing agreement implementation, either the investor or operator is considered to be a taxpayer. The tax base is defined separately for each agreement and for each kind of mineral. Except for oil and gas condensate, a 50 percent tax rate discount may apply. Tax rates cannot be changed during the entire period of the agreement's validity. According to the agreement, federal taxes shall be substituted by production sharing. The investor may be exempt from paying state and local taxes as well. The relevant decision shall be made by the state legislative authority or by a body of local self-government. The Tax Code provides for the reimbursement of paid taxes in such cases. Other one-time and regular fees, such as the fee for geological information on subsoil, bid registration fee, license fee, and others, are paid additionally.

Prepared by Peter Roudik
Senior Foreign Law Specialist
January 2007

---

[2] SZ RF 2001, No. 33, Item 3429.