



**TANZANIA 3RD OFFSHORE LICENCE
ROUND – 2004/2005**

**TANZANIA UPSTREAM PETROLEUM
LEGAL AND FISCAL TERMS**

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MINISTRY OF ENERGY AND MINERALS

Presentation scope

Legal Framework

- Historical background
- Key legislation
- The Petroleum Act

Fiscal Terms

- Objectives
- Framework
- Details of fiscal terms

Summary and Conclusions

LEGAL FRAMEWOK

Evolution

- **1958: Mining (Mineral Oil) Ordinance**
- **1969: Establishment of Tanzania Petroleum Development Corporation (TPDC)**
- **1980: Mining Ordinance replaced by Petroleum (Exp and Prod) Act**
- **1980: 1st Model PSA released**

Key Legislation

- ❑ **Petroleum (Exploration and Production) Act 1980; www.tpdc-tz.com**
- ❑ **Income Tax Act 2004; www.tra.go.tz**
- ❑ **The Model Production Sharing Agreement (MPSA) between the Government, the TPDC and the Oil Company 2004; www.tpdc-tz.com**

The Petroleum Act

- **Vests title to petroleum in the State. The Territorial Sea and Exclusive Economic Zone Act, 1989 extends the Act's jurisdiction into the EEZ**
- **Authorizes the Minister**
 - **to enter into agreements**
 - **to grant licenses**
 - **to make regulations**
- **Does not prescribe to any particular form of contract although PSC is preferred in practice**
- **The Minister may authorize TPDC to negotiate contracts**

Petroleum Act

- **Framework for application, award, modification, cancellation and relinquishment of licences**
- **Defines all parties rights and obligations**
- **Defines administrative powers and terms under which exploration and development will be carried out.**

Petroleum Act

- **Section 14 of the Act permits the Minister to enter into agreements setting out terms and conditions to carry exploration and production activities**

Petroleum Act

- Licensee to conduct operations in accordance to **good oilfield practices, avoid damage to reservoir, observe safety, health and welfare of persons**
- **Must provide information on operations regularly**
- **Provide training and employment of nationals**

Licence Duration

- **A 4-year initial exploration period renewable once for 4 years and once for another 3 years.**
- **Relinquishment of 50% of the licence area with each renewal of an exploration licence.**
- **A 2-year appraisal period extendable on Minister's discretion.**
- **A 25-year development period renewable up to a maximum of 20 years. In total, therefore, activities may continue for 58 years.**

Fiscal Terms – Tanzania

Broad Objectives

- Mechanism whereby companies can recover their costs
- Risk/Reward balance: companies earn income commensurate to risk taken
- Maximise economic rent to the State as the owner of the resource

Fiscal Terms – Tanzania Framework

- **Acreage Licensed to TPDC**
- **TPDC Contracts with Oil Company under **Production sharing Agreement (PSA)****
- **TPDC and Oil Company pay dues to Government**

Fiscal Terms – Tanzania Production Sharing Agreement

- **Oil Company bears exploration and exploitation costs on behalf of TPDC**
- **Oil Company cost recovers exploration and exploitation costs when production starts**
- **TPDC may elect to participate as part of “Contractor” in development phase. TPDC then also cost recover their share of costs**

Fiscal Terms – Tanzania Production Sharing Agreement

- **Profit Oil is split between TPDC and Oil Company**
- **TPDC as a licence holder pays Royalty to the Government**
- **Income Tax to be paid by all contractor parties and TPDC according to the Income Tax Act 2004**

Fiscal Terms – Tanzania

Licence Rentals

Licence rentals per sq km/yr:

- **Initial Period:** **US.\$4**
- **First Extension:** **US.\$8**
- **Second Extension:** **US.\$16**

Fiscal Terms – Tanzania

Cost Recovery

- **Onshore and Shallow Water**

50% of total production

- **Deepwater**

70% of total production

- **Cost Recovery Sequence:**

- **Operating Costs first**
- **Exploration Costs second**
- **Capital Costs third**

Fiscal Terms – Tanzania

Profit Sharing

- **Two Options**
 - **Based on Incremental Production Tranches**
 - **Based on R-Factor**

Fiscal Terms – Tanzania

Profit Sharing: Without TPDC Participation

Onshore and Shallow Water

Increments of Daily Total Production Rates in Contract Area		TPDC Profit Oil Share (%)	Company Profit Oil Share (%)
From (boe/d)	To (boe/d)		
0	12,500	50%	50%
12,501	25,000	55%	45%
25,001	50,000	60%	40%
50,001	100,000	65%	35%
100,000 +		70%	30%

Fiscal Terms – Tanzania

Profit Sharing: Without TPDC Participation

Deepwater

Increments of Daily Total Production Rates in Contract Area		TPDC Profit Oil Share (%)	Company Profit Oil Share (%)
From (boe/d)	To (boe/d)		
0	49,999	50%	50%
50,000	99,999	55%	45%
100,000	149,999	60%	40%
150,000	199,999	65%	35%
200,000 +		70%	30%

Fiscal Terms – Tanzania

TPDC Participation & Joint Operations

- **TPDC may elect to participate in development from chosen date**
- **No participation in exploration phase**
- **Participation Level (“Specified Proportions”) set by rate dependant sliding scale**
- **Once a level is attained it does not decrease**
- **TPDC Cost Recover their share of development costs**

Fiscal Terms – Tanzania

TPDC Participation & Joint Operations

Onshore and Shallow Water

Daily Total Production Rates in Contract Area		Maximum Specified Proportion
From (boe/d)	To (boe/d)	
0	12,500	5%
12,501	25,000	7.5%
25,001	50,000	10.00%
50,001	75,000	12.50%
75,001	100,000	15.00%
100,001	125,000	17.50%
125,000 +		20.00%

Fiscal Terms – Tanzania

TPDC Participation & Joint Operations

Deepwater

Daily Total Production Rates in Contract Area		Maximum Specified Proportion
From (boe/d)	To (boe/d)	
0	49,999	0.00%
50,000	74,999	5.00%
75,000	99,999	10.00%
100,000	124,999	12.50%
125,000	149,999	15.00%
150,000	199,999	17.50%
200,000 +		20.00%

Fiscal Terms – Tanzania

R-Factor Option

- **Government flexibility in adjusting terms**
- **Profit Splits: R-Factor Method**
- **R-Factor = Cum Company Revenue / Cum Company Costs**
- **Low TPDC Participation, Carried Interest**
- **Allocation of profits more responsive to profitability of operation**
- **Allows the development of both large and small fields**
- **Provides the closest link between the Contractor reward and investment**

Fiscal Terms – Tanzania

R-Factor Profit Splits

R-Factor	TPDC Profit Oil Share (%)	Company Profit Oil Share (%)
$R > \text{or} = 0.00$	X1%	$(100-X1)\%$
$R > \text{or} = 1.00$	X2%	$(100-X2)\%$
$R > \text{or} = 1.25$	X3%	$(100-X3)\%$
$R > \text{or} = 1.50$	X4%	$(100-X4)\%$
$R > \text{or} = 2.00$	X5%	$(100-X5)\%$
$R > \text{or} = 2.50$	X6%	$(100-X6)\%$

Fiscal Terms – Tanzania

Royalty

- **Royalty paid by TPDC from TPDC share of Profit Oil**
- **Crude Oil Royalty Rate = 12.5% of all Crude Oil for onshore and shallow water, 5% for deep water**
- **Royalty does not enter Company net cash flow**

Fiscal Terms – Tanzania

Income Tax

- **Income Tax to be paid by all contractor parties and TPDC according to the Income Tax Act 2004**
- **Currently Income Tax (CIT): 30% of Taxable Income**

Fiscal Terms – Tanzania Abandonment Fund

- **PSA addresses Abandonment Costs**
- **Agreement between GRT, TPDC and Company for establishing Abandonment Fund to be in place within 2 years of production start-up**
- **Fund contributions start after 2 years of production**
- **Actual Abandonment undertaken by TPDC or Company**

Fiscal Terms – Tanzania

Training Fee

- **The Contractor Pays a negotiable annual training fee during the exploration period**

Other Legislations

- **Other relevant legal instruments to investors are:**

Tanzania is a member of:

- **MIGA** (Multilateral Investment Guarantee Agency)
- **ICSID** (International Centre for Settlement of Investment Disputes)
- **The National Investment (Promotion and Protection) Act, 1997**

Summary and Conclusions

The Government of Tanzania has reviewed and streamlined the upstream fiscal terms

- Each pays its own taxes**
- Additional projects Tax have been abolished**
- Option for Profit oil sharing based on R-factor or Production tranches.**

Summary and Conclusions

- **The Government has demonstrated its resolve to bring about orderly development of the petroleum industry in Tanzania**
- **As demonstrated, Tanzania has in place legal and financial structures where investors will feel comfortable to provide technology and finance required to develop our oil and gas resources**

Summary and Conclusions

- **Tanzania's petroleum legal and financial structure is well established and time tested: 21 PSAs have been executed since 1981**
- **Contract terms have been adjusted and improved to meet changing conditions: contractual dynamism**

Summary and Conclusions

- **Tanzania is flexible in accommodating contributions from private sector in promoting financial and legal structures since we realize that we have mutual interest in those structures working in an appealing and advantageous ways for both of us**

Summary and Conclusions

- **The Government wants to assure investors of its resolve to respect agreements**
- **Tanzanian fiscal regime creates a framework where fair and equitable return can be earned on a private investment with a fair government take**

Summary and Conclusions

- **Tanzania wishes to assure investors that their investments are legally protected**
- **We have created an enabling environment for investment**

THANK YOU