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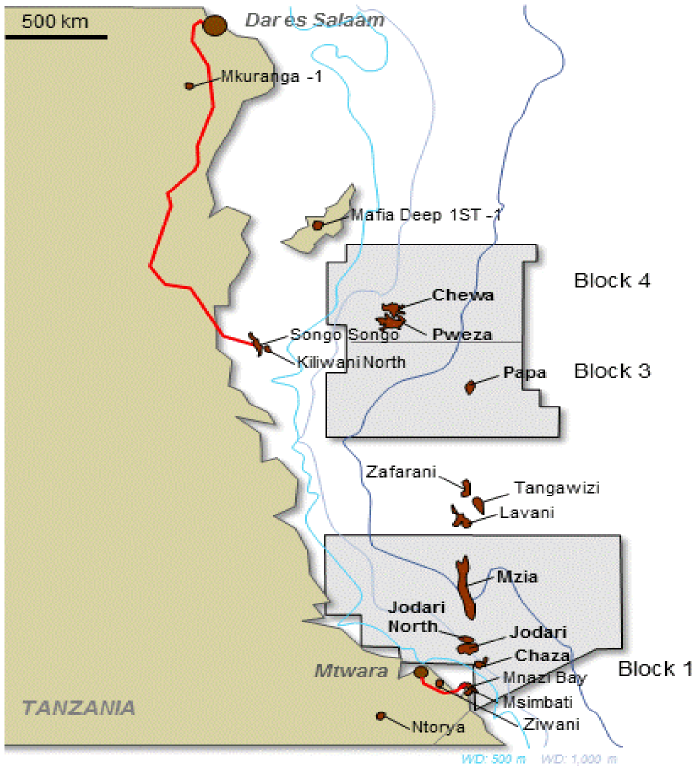
Tanzania case study:

The application of a fiscal regime for gas discoveries

Since 2010, several major offshore gas discoveries have been made in Tanzania. All deep water gas developments in Tanzania are governed by a Production Sharing Agreement (PSA), under which the government contracts a private contractor to carry out operations on its behalf, while ensuring that the government retains ownership of the reserves. The contractor is entitled to enough gas to cover the costs of its production (including the cost of capital). Profits are shared between the government and the contractor according to percentages set out in the contract.

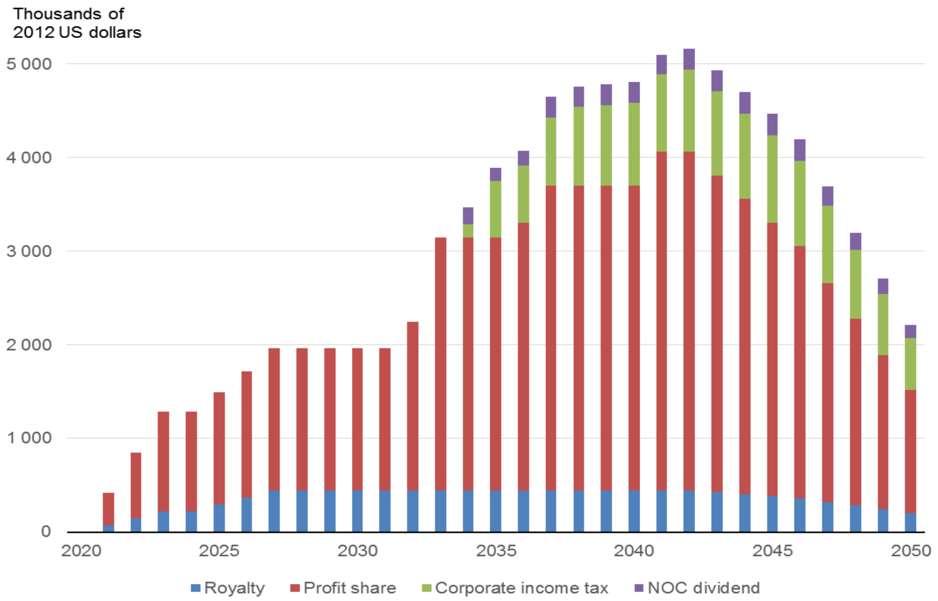
Figure 1: Tanzanian Gas Discoveries - 2015



The operations phase of the project will likely generate significant levels of revenue for government. The chart below shows that government revenues will increase rapidly once operations begin. Although the cost of the initial investment and operating costs are recovered once production starts, a ceiling on such 'cost recovery' ensures that the government receives some revenue as soon as production starts.

Under the PSA used for hydrocarbons in Tanzania, the government will receive several different types of revenues from LNG. Direct revenues include royalties, government profit share, corporate income tax and annual charges. Indirect revenues include personal income taxes (paid by employees) and corporate income taxes (paid by contractors). Once operations begin, direct revenues quickly rise to far outweigh indirect revenues. At the peak production, it is estimated that Tanzania will earn just over USD 5 billion per year directly from gas projects where profit share and corporate taxes account for the largest proportion, ≈USD 3.5 billion and ≈USD 1 billion respectively – see Figure 2.

Figure 2: Forecast direct revenue streams from Tanzania Gas and LNG



A controversy is raging with regard to the Tanzania fiscal regime due to the use of differentiated PSAs in which the agreements with individual companies allows for variable profit shares that differ from company to company and these are not transparently conducted as was exposed in the media and parliament in 2014.[1,2] Civil Society and transparency advocates have since called for all of the Tanzanian PSAs to be made public, similar to Mozambique.[3] The outcome of these challenges point to the need to not only design robust fiscal regimes but to subsequently ensure they are transparently applied in an accountable governance framework.

Questions for discussion:

Based on the information provided in the case study above, consider the following:

1. Should the fiscal regime be enshrined in law or captured in the terms of 'confidential contracts' between the government and the oil companies?
2. What are the roles of different types of taxation? What is more efficient and why?

[1] Zitto Kabwe, MP and Chairman PAC, Dar es Salaam, September 2014, 'Oil and Gas: Fiscal Challenges of Tanzania's Production Sharing Agreements (PSAs) - www.thecitizen.co.tz/blob/view/-/2433654/data/818224/-/1228y3mz/-/ZITTO-PSA-OIL.pdf

[2] Kizito Makoye, November 2014. Tanzania: Top Tanzania Officials Arrested in Row Over Oil, Gas Contracts – available at http://allafrica.com/stories/201411040876.html

[3] Ousmane Bachir Deme, 2014. Monitoring Extractive Sector Contracts in Mozambique – available at: http://www.open-contracting.org/2014/03/18/monitoring_extractive_sector_contracts_in_mozambique/