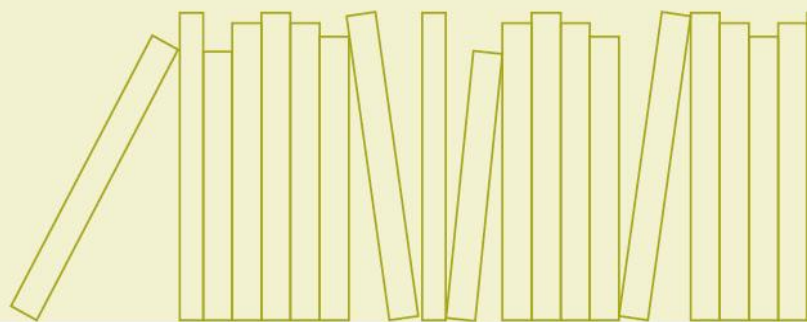


Economic Commission for Latin America and the Caribbean

# ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN



## **Report of the expert group meeting on exploring the elements of an optimal hydrocarbon fiscal regime: the case of Guyana, Suriname and Trinidad and Tobago**



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Economic Commission for Latin America and the Caribbean  
Subregional Headquarters for the Caribbean

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Expert group meeting on exploring the elements  
of an optimal hydrocarbon fiscal regime:  
the case of Guyana, Suriname and  
Trinidad and Tobago

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**REPORT OF THE EXPERT GROUP MEETING  
ON EXPLORING THE ELEMENTS OF AN OPTIMAL  
HYDROCARBON FISCAL REGIME: THE CASE OF GUYANA,  
SURINAME AND TRINIDAD AND TOBAGO**

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## **A. ATTENDANCE AND ORGANIZATION OF WORK**

### **1. Place and date of the meeting**

1. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean convened an expert group meeting to discuss the findings of the study “Exploring the elements of an optimal hydrocarbon fiscal regime: the case of Guyana, Suriname and Trinidad and Tobago”. The meeting was held virtually on Friday 2 December 2022.

### **2. Attendance**

2. Representatives from the following institutions participated in the expert group meeting: the University of the West Indies, St. Augustine Campus; the Bank of Guyana; and the University of Guyana. An Energy Economist was also in attendance.

3. The meeting was chaired by the Deputy Director of ECLAC subregional headquarters for the Caribbean.

### **3. Agenda**

1. Welcome remarks and introduction
2. Overview and presentation of the study
3. Plenary discussion on presentation and study
4. Closure of the meeting

## **B. SUMMARY OF PROCEEDINGS**

### **1. Opening of the meeting**

4. The Deputy Director of ECLAC subregional headquarters for the Caribbean opened the meeting by welcoming the guests. He went on to highlight the importance of the paper and expressed the hope that the study was preliminary to a more extensive research agenda in the area being discussed.

### **2. Overview and presentation of the study**

5. The Deputy Director started the presentation by providing an overview of the oil and gas sectors of Guyana, Suriname and Trinidad and Tobago. He suggested that the recent findings of hydrocarbon reserves in Guyana and Suriname had implications for regional growth in building a manufacturing sector in a region that has been struggling with high debt and debt service costs for a long time.

6. The objectives of the study were to review and explore the theoretical framework for the awarding of acreage, assess the process for the awarding of blocks in specific countries within Latin America and the Caribbean. It was also to provide policy recommendations to allow Guyana, Suriname and Trinidad and Tobago to earn their fair share of hydrocarbon rents, whilst attracting investment.

7. The presentation then explored the allocation of exploration and production (E&P) rights worldwide and pointed out that most governments still rely heavily on foreign investors to extract their

natural resources, such as ExxonMobil. There are generally three ways by which these governments allocate rights to companies. One was under an open-door system, another under administrative licensing and the third through an auction system. An auction system is the most commonly used, as it allows governments to get the best deal from the highest bidder.

8. Attention was also given to the issue of contracts given by governments for E&P rights. Among these were production sharing contracts (PSC) where an investor is granted the right to engage in E&P activities within a specific block or blocks for a specific period. In this case, the investor bears the risk and associated costs but are compensated with a share of the hydrocarbon produced. There are also service agreements contracts, whereby the government hires a company to perform E&P activities within a specific block for a specific period. Such companies are paid a fee for their services and concessions where the investor is granted the sole right to conduct E&P activities over a specified area or block. Among these options, PSC are the best type of contract to use, since the investor bears all the cost and the government can determine their revenue take based on their tax rate of the profit oil.

9. It was noted that the tax rate applied through a production sharing contracts can be used to classify the PSC into three categories: (i) a regressive PSC, where the government's take or share of the hydrocarbon rents declines as the economic rents from the hydrocarbon projects increase; (ii) a proportional PSC, where the government's take remains constant and is independent of increases in the economic rent and (iii) a progressive PSC, where both the government's and the PSC holder's take from the hydrocarbon projects increase as the economic rents increase.

10. The various kinds of taxes and fiscal regimes used by Brazil, Guyana, Mexico, Suriname and Trinidad and Tobago were also examined. For example, Trinidad and Tobago's fiscal regime ensures that the tax structure is progressive. In examining the effective tax rates of the other countries' fiscal regimes, it was noted that Guyana's fiscal regime is proportional, as their effective tax rates from 2020 to September 2022, is only 12.5 per cent; representing an opportunity cost to the government. When examining the three other countries under study, the study determined that their fiscal regimes ensured that their tax structure was progressive.

11. The examination of the fiscal regimes for these select countries laid the foundation for a discussion on the policy recommendations with consideration given to how best governments can design their production sharing contracts to ensure a progressive fiscal regime. A reservation price or bonus payment, a royalty tax, a windfall tax as well as a cost recovery limit, a depreciation allowance and addressing transfer pricing when paying taxes were some of the suggestions outlined.

12. In terms of providing incentives for investors, and allowances for sunk costs, it was reiterated that careful attention should be given to designing a tax on hydrocarbon rents. This was because at the exploration stage, high sunk costs are incurred by investors coupled with high risk as there is the potential to get dry hold. It is therefore reasonable for a government to grant a multinational company an incentive. However, governments should be cautious not to give out too many incentives as it can erode the government's share of economic rents.

13. In order to facilitate foreign investor participation, an open acreage auction program can be implemented, as these systems are fair, transparent, and encourage competition among the bidders. The criteria for an open acreage licensing policy includes data access, nomination of blocks, a formula for awarding blocks, technical capacity strengthening, and sharing of revenue costs recoveries.

14. The presentation ended by reiterating that this study was the beginning of a body of work that ECLAC intends to build on and that the floor was open for discussion.

### 3. Discussion

15. The consensus among participants was that the paper is quite useful and tackles a complex problem facing the energy producing economies of the region. It was, however, recommended that greater focus be given to a broader range of hydrocarbon exporters for study. The meeting was assured that this was the first of a series of studies that the Economic Development Unit intends to undertake.

16. It was also highlighted that the royalty tax in Guyana is now 2 per cent rather than the 1 per cent used in the papers. It was agreed that this new information would be incorporated into the paper and figures will be adjusted to reflect this.

17. The meeting suggested a variation in production sharing contracts (PSC), and also mentioned that in each country, the PSC are influenced by the national circumstances, the political economy and that they can also vary widely across countries. Participants acknowledged that this was true, and that Trinidad and Tobago is at a different stage of its life cycle than Guyana. Since Trinidad and Tobago's industry is mature, they must drill deeper, in even deeper water blocks to find oil, and there is still a risk of drilling a dry hole. In contrast, Guyana is at the infant stage in its oil industry, and it is making significant progress in exploration activities. Because of this experience, Trinidad and Tobago's fiscal regime has more elements in their fiscal regime to extract tax from multinationals. In contrast, Guyana's fiscal regime is viewed as deficient as it lacks the windfall tax needed to capture profits as oil prices fluctuate. This deficiency allows multinationals or foreign investors to earn more profit than Guyana. They ended this point in the discussion by highlighting that one of the recommendations of the study was for Guyana to include a windfall tax in their fiscal regime.

18. The meeting also suggested that there is scope to conduct various scenario analyses of oil prices to demonstrate how the government tax revenue will change under the various scenarios. However, it was noted that the study did in fact consider different scenarios for oil prices for all the countries considered. The oil prices for 2020, 2021 and 2022 were all considered in the paper, as well as how the government's take would change under different price levels. This was used to determine which fiscal regimes were progressive or proportional.

19. The group noted that there is scope to strengthen the scenario analysis by implementing a Monte Carlo simulation to provide a simulated probability of each oil price occurring as well as the probability of the government earning particular revenues. This could be explored in a future study.

### 4. Closing remarks

20. The Deputy Director of ECLAC subregional headquarters for the Caribbean, ended the meeting by summarizing the discussion and highlighting the overarching recommendations. Before concluding the meeting, he thanked participants for their interventions and encouraged sharing of written comments via email. He assured them that their concerns and advice would be incorporated into this study and future studies, and that they will be invited to future expert group meetings when the follow-up studies are done and presented.



Annex I**LIST OF PARTICIPANTS**

Maxim Ali, Senior Economist, Research Department, Bank of Guyana,  
email: mali@bankofguyana.org.gy

Don Charles, Energy Economist, Trinidad and Tobago, email: don.a.charles@gov.tt

Martin Franklin, Senior Part-Time Lecturer, Department of Economics,  
University of the West Indies, St. Augustine Campus, Trinidad and Tobago,  
email: martin.franklin1201@gmail.com

Rawle Lucas, Professor, University of Guyana, email: antony1481@gmail.com

Erica Singh, Economist I, Research Department, Bank of Guyana,  
email: esingh@bankofguyana.org.gy

**ECLAC subregional headquarters for the Caribbean**

Dillon Alleyne, Deputy Director, email: dillon.alleyne@eclac.org

Michael Hendrickson, Economic Affairs Officer, Economic Development Unit,  
email: michael.hendrickson@eclac.org

Machel Pantin, Associate Economic Affairs Officer, Economic Development Unit,  
email: machel.pantin@eclac.org

Ella Gaspard, Programme Management Assistant, Economic Development Unit,  
email: ella.gaspard@eclac.org

Antonio Rajkumar, individual contractor, Economic Development Unit,  
email: antonio.rajkumar@eclac.org



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