There are few areas of economic policymaking in which the returns to good decisions are so high – and the punishment of bad decisions so cruel – as in the management of natural resource wealth

Preface
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What's special about taxing resources?

- Tax revenue a/the central benefit to host country
  - Especially hydrocarbons (70 percent of government receipts in Algeria, Yemen), but not only (minerals 9 percent in Chile)
- High sunk costs, long production periods
  - Create 'time consistency' problem
- Substantial rents
  - The ideal of a non-distorting tax base!
- International considerations loom large
  - Foreign tax rules matter
  - Tax competition

- Uncertainty
  - from technology, geology, price volatility...
  - and political risk
Two Oil Price Booms
Oil Prices: Spot and Projections

- Asymmetric information
  Few of these are unique to resources—they're just bigger. What is unique is:
  - Exhaustibility
    - Opportunity cost of extraction includes future extraction forgone
    - Affects impact of taxation
    - Views differ on how important this is in practice

What's in the book?
Topics

- Overview: Concepts and low income country issues
- Sectoral issues (oil, minerals, gas)
- Special topics (evaluation, RRT, state participation, auctions)
- Implementation (administration, international tax)
- Stability and credibility

Aims

- Taking stock: consolidate and take forward current knowledge in the field (topic fell out of fashion).
- Audience: intended for both academic and practitioner use; corporate, government and civil society.
- Best practice? No – concentrates on principles, criteria and methods to apply in different circumstances.
- Public finance and resource taxation: tries to join insights from two strands of literature, independently developed.
- Combine theory and practice: ranges from theoretical framework to details of tax administration.

Six themes
(1) Should resource taxes be progressive?

...in sense of government’s share being larger the higher are prices/profits/lifetime project return?

• Yes, if government better able to bear risk than investor
  ▫ But opposite likely true in many developing countries

• Political pressures may make progressive systems more robust and credible

(2) Multiple instruments may be needed

• Rent taxation is most efficient in principle

• Royalties, in contrast, distort extraction and exploration

• But royalties may still have an important role, to:
  ▫ Assure some revenue from day 1 of production
  ▫ Recognize that rents may be hard to observe perfectly
  ▫ Avoid over-extraction when contract period short (implicit depletion policy)

• Problems of regular corporate income tax

(3) The merits and problems of auctioning

• Auctions can (1) allocate clear rights (2) to the most efficient producer (if well-designed), all (3) in a transparent way

• Design matters—including bid variables

• Why so little used for minerals?

• How many bidders is enough?
(4) Evaluating Regimes— Detail matters

- FAD’s models can be used for detailed evaluation of fiscal terms changes:
  - Depreciation rules
  - Indirect taxes (import duties, VAT)
  - Royalty rates and basis
  - Government equity participation
  - Thin capitalization/Debt proportion
  - Ring fencing

(5) Administration— How tough can it be?

- Helps that commodity prices readily observable...
  ...but dealing with complex MNCs always hard
- Important to do the simple things right
- Royalties not as easy to administer as may seem...
  ...but rent taxes maybe not as hard

(6) Achieving credibility— is hard

- Developed over years in Norway
- Prospect of future discoveries may help
- Fiscal stability agreements?
  - Can be over-generous
  - Effectiveness unclear—renegotiation possible
- Some designs more credible than others
  - Progressivity?
What next?

Thank you!

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