



Abu Dhabi (United Arab Emirates)

Royalty/Tax

Fiscal Terms Guide

Prepared by Palantir

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Fiscal Terms

The United Arab Emirates is a confederation of seven states with central control through a Federal Government but significant autonomy for each Emirate. Oil and gas taxation is decided by each of the Emirates separately although they all operate similar royalty/tax systems.

In Abu Dhabi there is a national oil company, Abu Dhabi National Oil Company (ADNOC). Concessions are signed with ADNOC for oil projects but it retains complete ownership of all gas. ADNOC is a large organisation with around 140 billion barrels of reserves. It is involved with all areas of the industry through a string of subsidiaries. In addition, it holds a majority shareholding in a number of operating companies. The most important of these are listed below.

ADCO (Abu Dhabi Company for Onshore Oil Operations) – ADNOC 60%, BP 9.5%, Shell 9.5%, Exxon 9.5%, Total 9.5%, Partex 2%

ADMA OPCO (Abu Dhabi Marine Areas Operating Company) – ADNOC 60%, BP 14.66%, Total 13.33%, JODCO 12%

NDC (National Drilling Company) – Exploration and production including offshore and onshore drilling

ZADCO (Zakum Development Company) – ADNOC 60%, Exxon 28%, JODCO 12%

It is important to note that these entities do not operate under the standard concessionary terms and have a special regime which is not documented here. This guide covers the standard concessionary terms.

Type	Concessionary (Royalty/Tax)
Royalty	Usually flat rate in range from 12.5% to 20%
Bonuses	Signature, production and discovery bonuses
Revenue Taxes	None
Local Taxes	None
Fees	None
Special Taxes	None
Corporate Tax	Typically 55% although higher rates may apply
State Participation	Up to 60% through ADNOC

Interest & Participation

The state entity ADNOC participates at 60% in some of the major upstream consortia (ADCO, ADMA and ZADCO). It also retains the right to back-in to any project at up to 60%, although it tends not to.

Duration

Contracts usually have duration of 35 years. The exploration phase is eight years.

Bonuses & Fees

Signature bonuses tend to be payable and are in a fairly standard range of 1 to 4 million USD.

Production bonuses are paid at production start and when production reaches specified thresholds. Typically these are 100,000 bbl/d and 200,000 bbl/d with additional higher tiers possible.

A discovery bonus is also payable on declaring a commercial discovery. Typically this will be 2 million USD.

Example bonuses are shown in the table below:

Type	Trigger	Amount
Signature	Effective Date	2 million USD
Discovery	Commercial Discovery	2 million USD
Production	100,000 bbl/day	5 million USD
Production	200,000 bbl/day	10 million USD

Royalty

Royalty rates vary by contract but are usually flat rates in the range from 12.5% to 20%. Some concessions have tiered royalty based on production rate with an example shown in the table below.

Oil rate (bbl/d)	Royalty rate (%)
< 100,000	12.5%
< 200,000	16%
> 200,000	20%

Royalty is not necessarily paid on the oil sales price and is instead based on a reference price. The price achieved in reality is a percentage of the reference price. For this reason it is necessary to gross-up the price for royalty calculations as shown below (assuming that the sales price is 95% of the reference price).

$$\text{Royalty Revenue} = \text{Sales Revenue} / 95\%$$

Corporate Tax

Corporate tax is usually payable at a rate of 55% although some concessions have a tiered rate linked to production. As with royalty, the taxable revenue is not the oil sales price and is instead based on a reference price. The price achieved in reality is a percentage of the reference price. For this reason it is necessary to gross-up the revenue for tax calculations as shown below (assuming that the sales price is 95% of the reference price).

$$\text{Taxable Revenue} = \text{Sales Revenue} / 95\%$$

The following table shows an example of how tax rates vary when linked to production.

Oil rate (bbl/d)	Tax rate (%)
< 100,000	55%
< 200,000	65%
> 200,000	85%

Permissible deductions for the calculation of corporate tax include:

- Royalty
- Operating costs
- Exploration capital (expensed at production start)
- Development capital depreciation (straight line in range from 5 to 10 years)
- Abandonment costs (see the following section)

Losses can be carried forward up to a maximum of seven years.

Abandonment Relief

Abandonment may be deducted for corporate tax and there is an abandonment provision that is calculated as the deduction (rather than the abandonment expenditure). Typically this is done on a unit-of-production (UOP) basis.

Care must be taken with point-forward projects as some of the provisions may have been claimed in prior years. It is necessary to specify the opening balance for amounts already claimed.