



Confidential

Transfer pricing regarding Oil and Gas

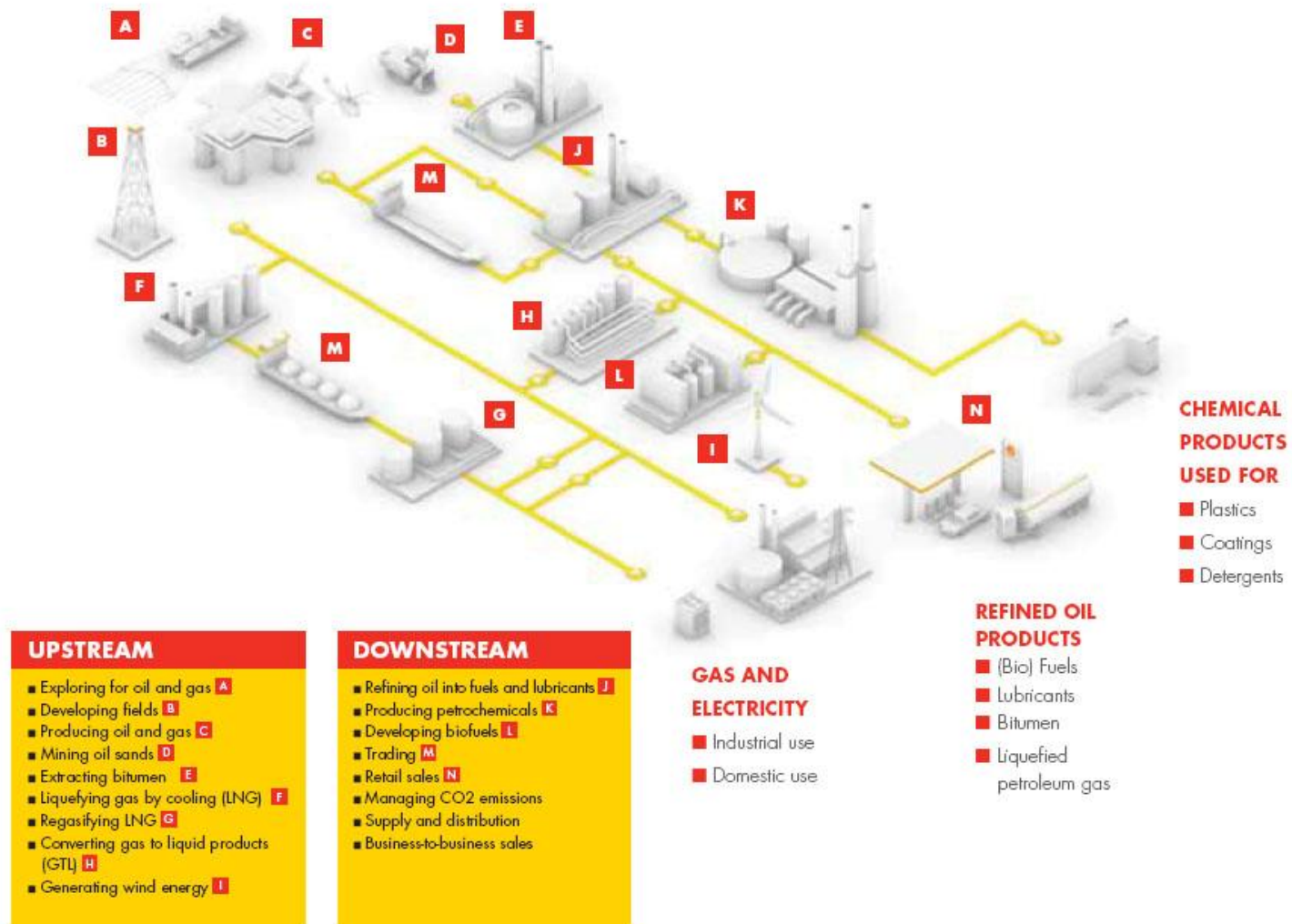
Expert Group Meeting on
Extractive Industries
Taxation – UN
Headquarters
28 May 2013



Alan McLean

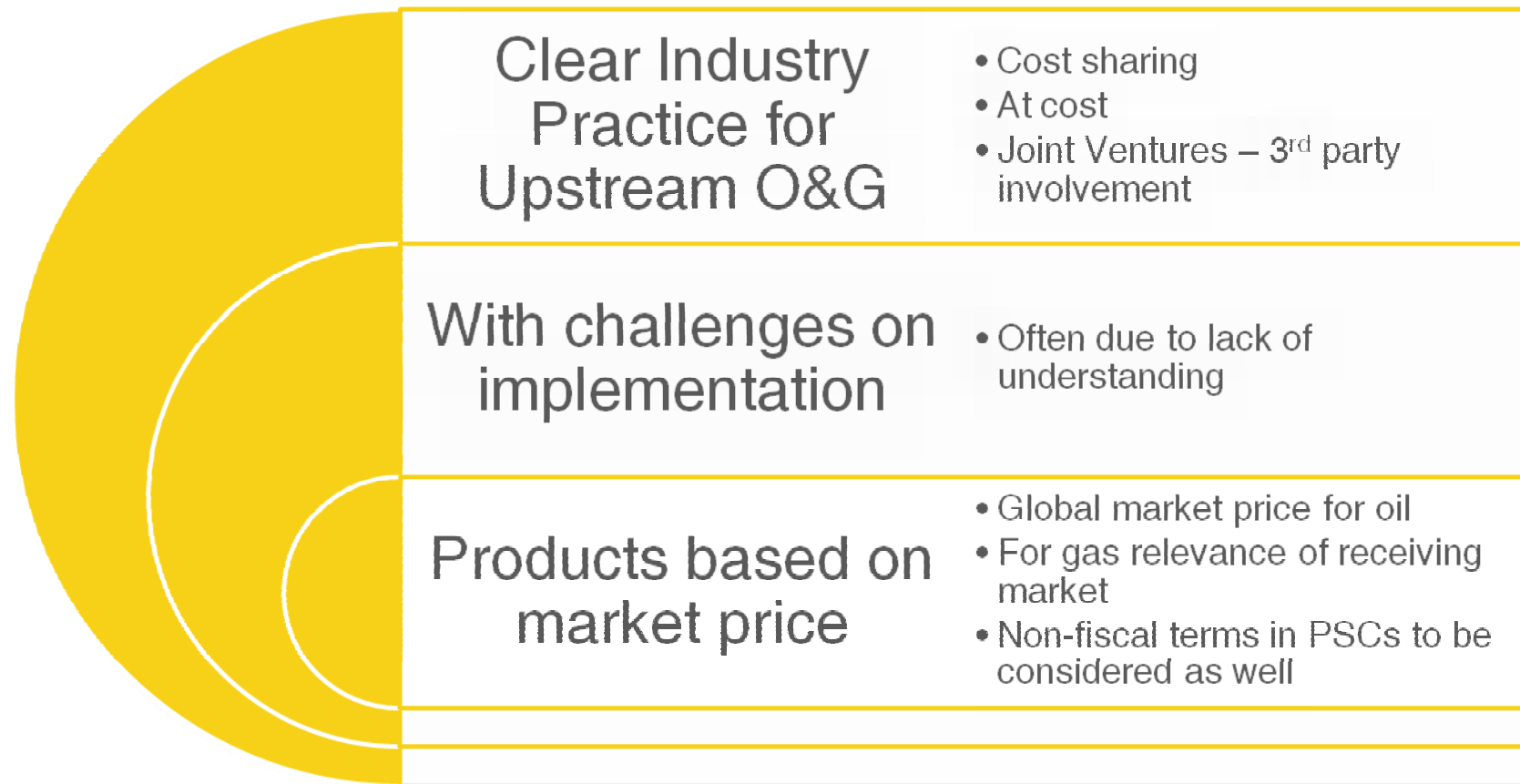
Executive Vice President Taxation and Corporate Structure, Royal Dutch Shell Plc

For context - Schematic overview of our business



Transfer pricing in the extractive Oil & Gas Industry

- In principle no separate Transfer Pricing rules required for Oil&Gas industry



On industry practice of cost sharing

■ Characteristics of the oil and gas industry & cost sharing:

- The investment in an oil and gas business is larger than in most other industries
- The risk in the upstream and downstream business is high compared to other industries

■ Therefore:

- The scale of investments required and the risks inherent in the upstream and downstream oil and gas business mean that it is commercially beneficial for the participants to enter into a cost sharing arrangement, due to economies of scale, specialization and cross-sharing of risk, knowledge and expertise
- Improvement of technology, thus bearing high risk R&D cost is a key factor to discover and ensure ability to exploit frontier reservoirs
- Cost sharing is common practice in oil and gas industry
- Robust from a Tax and Transfer Pricing perspective: in line with OECD guidelines – UN TP Manual

Challenges on implementation

■ In theory clear:

- No withholding tax issues or compliance
- No arguments over market value of services
- Fast cost recovery

■ The challenges in practice:

- Value for money challenges
- Joint venture partner issues
- Requiring knowledge of Transfer Pricing rules
- Multiple guidelines – OECD, UN, potentially Worldbank?
- Buy-in, buy-out arguments
- Change management: winners and losers
- Insatiable demand for documentation
- Issues are easier to manage if there is a good relationship between the taxpayer and the fiscal authority

Transfer Pricing in O&G – Key take aways

- Oil and Gas Transfer Pricing in principle requires no separate Transfer Pricing legislation
- Whether local rules or tax treaty arrangements, Tax Authorities need to be clear on competencies and requirements are needed to comply as Tax Collector and for Tax payers

