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FINDINGS

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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OPTIMAL PETROLEUM FISCAL REGIME IN JOINT DEVELOPMENT ZONES: A COMPARATIVE ANALYSIS OF NIGERIA-SAO TOME AND PRINCIPE JDZ AND MALAYSIA-THAILAND JDA

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ABSTRACT
This study investigates and compares the petroleum fiscal regime of two joint development zones (JDZs). The study adopted descriptive comparative analysis method to determine the optimal fiscal system among the Nigeria-Sao Tome and Principe JDZ and Malaysia-Thailand JDA. This involves the use of cross-national comparative analysis to identify differences in the fiscal regimes of the two JDZs. The results of variation on the variables studied suggest that Nigeria-Sao Tome JDZ fiscal regime is more optimal, and hence offers a favourable condition for oil and gas projects, with less effect on Net Present Value (NPV) than Malaysia-Thailand JDA. The results provide some important findings that could assist policy formulation aimed at encouraging the viability of oil and gas projects, and attractiveness of optimal petroleum fiscal regime to both oil companies as well as joint authorities.

KEYWORDS
Joint Development Authority, Joint Development Zone, Production Sharing Contract.

1. BACKGROUND

The maritime boundary delimitation has for long become a major issue in the international relations for economic reasons (Dobronravin, 2009). The non-renewable resources located in the seabed of continental shelf has promotes territorial disputes among neighbouring states, and also give way to the new grate games. The introduction of the United Nation Convention on the Law of Sea (UNCLOS) in 1982, which was put into force in 1994, provides a means of international co-operations and diplomacy for seabed delimitations. This has provided international regulation for understanding and delimitating of petroleum resources claims between countries sharing borders. Accordingly, the UNCLOS has given rise to growing bilateral agreements amongst neighbouring oil-rich countries around the world. To this extent, about 24 bilateral agreements have been signed among different countries around the world (Tonnesson, 1999). These agreements are technically referred to as joint development of maritime resources (Ong, 1999 and Miyoshi, 1999). The states that reach joint development agreement set up what is commonly referred to as Joint Development Zone (JDZ) for the exploration and exploitation of hydrocarbon resources in the shared zone (Biang, 2010). Moreover, a designated joint authority is formed to execute the contracts on behalf of the benefitting states (Kuyen, 2006 and Tiny, 2005). Some of these joint developments includes; Japan-Republic of Korea Agreement for JDZ 1974, Malaysia-Thailand Memorandum of Understanding for the Joint Development Area (JDA) 1979 and Nigeria-Sao Tome and Principe Treaty Agreement for the JDZ 2001.

The joint development zones like any other oil producing states usually adopt the petroleum fiscal regime to be used in administering the petroleum exploration, development and production in the zone. Hence, the fiscal systems employed by JDZs range from concession to contractual with the aim of achieving equitable share of production by parties to the contracts (Kaiser and Publisher, 2004). However, due to the conflicting objectives of the parties to the joint development contracts, the choice of a petroleum fiscal system adopted by the JDZs may not be optimal after all (Bindemann, 1999). In this regard, different oil-rich countries adopt different fiscal systems for their operations depending largely on the peculiarities of the country. Further, many oil-rich countries have over the years altered some of their fiscal terms so as to be in tune with unfolding industry and economic realities. Hence, there may be no perfect fiscal regime suitable for all petroleum producing countries all the time (Davis, 2003). As a result, countries often time compare their fiscal regimes with those of their peers in order to upgrade or change to other systems as the case may be. It is in the lights of this, that this research attempt to compare the fiscal regimes of the Nigeria-Sao Tome and Principe Joint Development Zone (NSPJDZ) and Malaysia-Thailand Joint Development Area (MTJDA). Having compared the two, this study aims to address:

"*Which of the fiscal regime of Nigeria-Sao Tome and Principe JDZ and Malaysia-Thailand JDA is more optimal*"?

In order to address the aim of the study, the research collected data from relevant secondary sources such as books, journals, organisational reports, research papers, newspapers and most importantly treaty of the two joint development zones (see Section 5). The next sections discuss on joint development zones involved in this study.

2. NIGERIA-SAO TOME AND PRINCIPE JOINT DEVELOPMENT ZONE

In 2001, Nigeria considered a joint development agreement with São Tomé and Príncipe on their acclaimed overlapping maritime boundary. Hence, the Nigeria-São Tomé and Príncipe Joint Development Zone was established. The two heads of states signed the Treaty in respect of the zone, on 21st February 2001; which was later ratified by the two states' National Assemblies. The Treaty was intended to be a guide for the governance of petroleum and other resources in all areas of the economic zone. The total area of the zone is estimated at about 35,000 Sq km. The most significant clause in the treaty stipulates that costs and benefits, arising during the course of operational activities in the zone, are to be shared between Nigeria and São Tomé and Príncipe 60/40 percent respectively (JDA, 2010). So far, literature showed that the NSTP-JDZ is one of the most successful zone around the globe compared to its contemporaries (Biang, 2010). A number of achievements were recorded right from the establishment of the zone, these include: signing and ratification of the Treaty by the respective legislatures of the two countries within a short period of time; inauguration of the joint development authority in January; 2002, and the successful bids of 2003 and 2005 which generated a signature bonus of about US$123 and US$200 respectively among others (Vines, 2010 and Berman, 2005). Indeed, these could be classed as achievements considering the length of time the Malaysia-Thailand agreement took to be actualised. Again, despite all their economic and political differences, the two states managed their disputes and eventually agreed to explore the resources for the mutual benefit of their people.

3. MALAYSIA-THAILAND JOINT DEVELOPMENT AREA

The Malaysia-Thailand Joint Development Area (MTJDA) has approximately 7,300 kilometres square of the continental shelf claimed by two the countries, which is located in the Gulf of Thailand (MTJA, 2010). The JDA is reportedly holds 9.5 trillion cubic feats (EIA, 2009). The two countries signed the Memorandum of Understanding (MoU) in 1979, and agreed to jointly explore and develop the natural resources in the area for the period of 50 years (Thao, 1999). However, the

countries agreed to share the resources on equal basis (50:50). In 1990 the joint states review their joint development issues and introduced MTJA Act which includes legal provision for oil and gas activities in the area. In 1991 Malaysia-Thailand Joint Authority (JMTA) was created by the joint states, to assume right and responsibilities on behalf of the two governments. However, The MTJDA approved the fiscal regime in a form of PSC to administer the petroleum exploration, development and production in the area (MTJA, 2010). Besides the successful creation of JDZ, the Joint Authority will then engage into petroleum contracts with oil companies. Hence, the petroleum and tax regulations are employed in order to address the rules and principles applicable to oil and gas operation in the zone. Petroleum regime include; leasing, licensing and contracting; rent and royalty; accounting procedure, environmental protection and the right and obligation. The tax regulation also set the procedures and rules regarding the payment, calculation and charges of taxes (Tiny, 2005).

The Malaysia and Thailand have different fiscal system operation in the countries. Malaysia adopted PSC regime as opposed to Thailand concessionary system. Thus, the formation of MTJDA encountered delay in negotiations of fiscal arrangement due to structural differences in petroleum contracts used in the joint development area (Yerwa, 2003). However, with the approval of both states, MTJA Act 1990 empowered MTJA to award contracts for the oil and gas exploration and exploitation in a form of PSC (MTJA, 2010). The provision of the MTJA Act 1990 include; petroleum development regime, financial arrangement and the custom and taxation arrangement in the JDA (Ong, 1999). The 1979 MoU agreed to employ bonus system used in Thailand concessionary system to the MTJDA, where the signature bonus (also called Informative Bonus) is paid per Block upon signing of contract to the MTJA. However the contract pays production bonus (also called Annual Bonus). Though this bonus system was abundant from the Thailand fiscal system, but the MTJA adopted it for the purpose of JDA. The oil companies pay a fixed rate royalty at gross production to MTJA, deduct cost recovery and share the profit oil with MTJA. The contractor enjoys tax holiday for some years of their first operation and later charged tax in subsequent years. Furthermore, MTJA employ other fiscal term that support their petroleum operation, this includes export duty. All the payment made by the oil companies and the profit oil gain from the JDA to the MTJA are thereby shared by Malaysia and Thailand in equal proportion.

4. PETROLEUM FISCAL REGIME

The petroleum fiscal regime is essentially deal with upstream petroleum exploration, development and production (Mommer, 1990). The components of fiscal regimes are usually found dispersed in different policies, laws and contracts, which balance the interest of both host country and the oil companies. Fiscal regime has been developed to address the rights and obligation of host country and the private investors. This involved the conditions under which government grant FOCs right to explore, develop and produce oil and gas in accordance with legal, regulatory and fiscal frameworks. However, the purpose of fiscal regime is to secure the owner of natural resources the proper ground rate, and the investors' proper profit.

The petroleum fiscal regime has become the most important tool used by governments in maintaining its abundant oil and gas resources (Kjemperud, 2004). It is noted that the issues under fiscal system and also the petroleum arrangements such as legislations, tax and contractual issues varies between countries. Certainly, numerous vintages and negotiation of terms are involved in the any petroleum contracts (Van Meurs, 2008). Countries with vast non-renewable resources try to attain the highest possible benefits by adopting the different fiscal devises for oil and gas operation in their countries. Furthermore, varieties of these petroleum arrangements include Concessions or Tax/Royalty, contractual and lately Rate of Return (ROR) (Blake, 1996; Gallun, 2005; Kaiser and Publisher, 2004). The contractual fiscal system is further divided into PSC and Risk Service Contract (RSC), while the RSC is further subdivided into Risk and Pure service contracts. Figure 1 below shows these classifications. Despite the differences in the level of control exercise by host government, compensation arrangement and the ownership right, both systems can be used to accomplish the same purpose (Blake and Robert, 2006).

FIGURE 1: UPSTREAM PETROLEUM FISCAL SYSTEMS
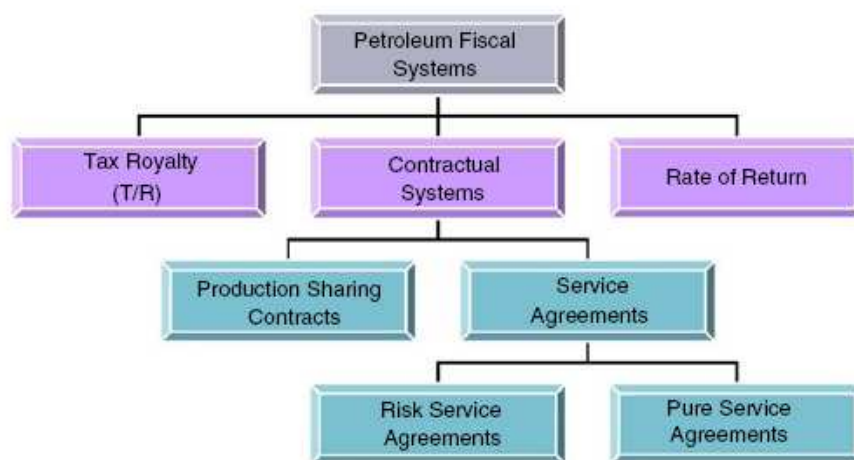
Source: Blake and Robert, 2006.

For the reason that this research considers only two JDZs who adopted PSC model of contract, the study gives more emphasis on PSC, its frameworks and fiscal instruments.

4.1 PRODUCTION SHARING CONTRACT

The Production Sharing Contract/Agreement (PSA) permits FOCs to operate under agreed terms, and all decisions regarding petroleum activities are made together with host country (Johnson, 2003). Bonnerfoy et al. (2006) notes that the host government decide to retain ownership of mineral right as well as the decision making and managerial right over oil and gas exploration and production activities. Because the oil and gas mineral right is vested in the state, also all production facilities are usually owned by the state (Lawal, 2009).

Johnson (2003 p.356) defined PSC as "a contractual agreement between a contractor and host government whereby contractor bear all exploration cost and risk and development and production cost in return for a stipulated share of the production from this effort". Under the Joint development arrangement, PSC is used subject to bilateral negotiations and treaty agreement between the joint states (Bulama, 2007). In addition, the joint authority who assigned to operate activities in the JDZ engages into petroleum contracts with contractor (Oil Company). Oil and gas resources produced from the zone are shared between the concerned states as clearly defined in the contract agreement. However, the agreements in the petroleum contracts are subject to changes based on renegotiations to reflect changes in economic and political conditions (Al-Attar and Alomair, 2005).

Bindemann (1999) reports numerous provisions in PSCs spelling the duties of government and the contractor such as state participation in the operation, pricing, work program issues, payment policies etc. However, this study is concerned with PSCs provisions on royalty, cost recovery, profit oil and income tax:

a) **Royalty**; the petroleum regulation requires operator to pay royalty to the mineral interest owner for oil and gas production in the area. Royalty is a specified percentage of oil and gas produced from the field (Gallun et al. 2005).

b) **Cost Recovery**; operator recover some portion of its costs at a pre-specified percentage of oil and gas production, which is referred to as *Cost Oil* (Johnson, 2003).

c) **Profit Oil Split**; the profit oil which is net oil production/revenue after royalty and cost oil have been deducted is divided between the host government and FOC (Akinwumi, 2008).

d) **Taxes**: it is pure economic rent on profit gain from the oil and gas operation. The tax oil rate is applicable to each PSC which will be charged from the profit oil for the duration of the contract according to the tax regulations (Tiny, 2005).

e) **Ring Fencing**: it is a situation where host government will not allow oil companies to consolidate the operation of the specific license with another.

Generally, host countries give more emphasis to profit oil, as is the net revue after all necessary deductions. To this effect, Bindemann (1999) earlier explained the mode sharing profit oil and he posited that the sharing can be fixed or sliding scale basis. He notes the two common ways through which sliding scale are made based on the R-Factor or daily production. Table 1 and 2 present examples of two sliding scales used in Indonesia and Azerbaijan.

TABLE 1: PROFIT OIL SLIDING SCALE IN INDONESIA

Average Daily Production (barrel)	National Oil Companies (%)	FOCs (%)
0 – 50,000	61.5385	38.4615
50,000 – 150,000	71.1538	28.8462
> 150,000	80.7692	19.2308

Source: Bindemann, 1999.

TABLE 2: PROFIT OIL SLIDING SCALE IN AZERBAIJAN

R-Factor	NOC (%)	FOC (%)
R < 1.50	50	50
1.50 < R < 2.00	60	40
2.00 < R < 2.25	62.5	37.5
2.25 < R < 2.50	65	35
2.50 < R < 2.75	70	30
2.75 < R < 3.00	75	25
3.00 < R < 3.25	80	20
3.25 < R < 3.50	85	15
R > 3.50	90	10

Source: Bindemann, 1999.

From Table 1 and 2, the various level of profit oil goes to the FOCs vary depending on the way it calculated. The Indonesian system permit FOC share to receive 61.5385 percent if it produce 50,000 barrel of oil. However, the system used in Azerbaijan determines the R-Factor, which is the ratio of the accumulative revenue to total expenses. These methods according to Binbemann (1999) provide flexibility to contracts. It is also noted that the government take will increase when the profitability increases. Bindemann (1999) highlighted that the profit oil calculation using R-Factor sliding scale presents high Internal Rate of Return (IRR) than volume-based system.

Zhang (1997) studies the effect of tax regime in gas project. In this view, the tax imposed on petroleum production may distort the exploration and development of oil and gas fields. He notes specifically that deduction of contractor's revenue through economic rent significantly exhausts the capital expenditure of oil production available to recoup. The tax rate provides profit oil to the state which carefully avoids the obstructing free flow of investments (Mornrner, 1999). In his study, Bindemann (1999) found that a tax incentive such as tax holidays offers for some years of the contract may attract further investments, and also allow FOCs to deplete their reserves as quickly as possible in the tax-free time. Okobi (2008) compares analysis the fiscal regime of Venezuela and Alberta Canada. Her findings indicates that Alberta have a downward trend as against the high tax rate charges in Venezuela. It is further notes that the cost recovery in Venezuela is slower and therefore riskier, and also discourages investments and reinvestments.

5. RESEARCH APPROACH

This research employs the cross-national comparative methodology in order to fit the objective of the study, to determine the differences of the fiscal regime used in NSTPJDZ and MTJDA. The variables used in this research are selected from a number of fiscal instruments used in the PSCs. These variables are mainly Royalty; Cost Recovery, Profit Oil, Petroleum Tax, and others (any additional variable established in the fiscal regime by the Joint Authority is referred to as others).

a.   First the analysis looks at the differences of the "**Royalty**" charges in percentages, and provides their implications in the contract. The analysis noted the royalty that have significantly affects the oil and gas operations in the joint development.

b.   The analysis compares the "**Cost Recovery**" Ceilings. Cost recovery allows oil companies to recoup their investment cost from oil and gas produced in the zone. The analysis provides the fiscal regime that has impact on the remaining oil and gas available to split between the contracting parties. And also determines the possibility for the investors to recover their cost quickly from the project.

c.   The examination shows the difference in "**Profit Oil Split**" between the Joint Authorities and the oil companies also in percentages. The result shows the fiscal system that presents a favourable operating environment. This includes minimal impact on contractor take in a low oil price situation.

d.   The "**Petroleum Tax**" of the two systems was compared. The result offers the neutral tax regime that presents a low level of risk in the operating zone. The neutral tax has less effect on investors' behaviour, and therefore encourages investments.

e.   New variables introduced by joint development are collectively called "**Others**" in this research. The analysis examines the new variables that are essential to the regimes, and critically the research look at their importance in the system.

In general, through this comparative analysis, the study attempts to understand the differences of the aforementioned variables in NSTPJDZ and MTJDA, and determine the more optimal in respect of oil and gas operations.

6. DATA ANALYSIS

This section presents the analyses of data particularly the critical examination of fiscal regimes adopted in Nigeria-Sao Tome and Principe JDZ and the Malaysia-Thailand JDA. The analyses mainly compare the fiscal regime of NSTPJDZ and MTJDA based on the following variables: royalty, cost recovery, profit oil, petroleum tax and others.

6.1 ROYALTY

The royalty rate is imposed in the contract by the Joint Authority and the contractor pays a certain percentage of oil and gas produced from the zone. Table 3 below shows the royalty rate charged in the two joint development zones.

TABLE 3: ROYALTY RATES

	Nigeria-STP JDZ	Malaysia-Thailand JDA
Royalty	Maximum of 5 percent	10 percent

Source: NSTPJDA (2010); MTJA (2010)

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From the table above, MTJDA has 10 percent fixed royalty rate payable by contractor at gross rate of production for remittance to the joint states. The NSTPJDZ imposed royalty using sliding scale method based on daily production, with a maximum of 5 percent royalty oil. However, the royalty is excluded in gas production in the zone. The formula for royalty charges in NSTPJDZ is presented in table 4.

TABLE 4: ROYALTY SLIDING SCALE IN NSTPJDZ

Average Production Rate (mbopd)	Royalty Rate
< 20	0%
20 – 70	5% * (1 – [(70 – P) / (70 - 20)])
> 70	5%
Where P = Actual Production (mbopd) Mbopd = Thousand Barrels of Oil Per Day	

Source; (Gomes, 2003)

Table 4 showed that, contractor pays 0 percent royalty if produced <20 mbopd. And for every oil production 20-70 mbopd, contractor pays a considerable royalty rate which is below 5 percent. However, if oil produced exceeds 70 mbopd, the royalty charge is 5 percent.

From the information presented above of the two royalty systems, the MTJDA 10 percent royalty makes it insensitive to oil production and eventually regressive compared with NSTPJDZ. This is because the MTJA take would be higher during slow production. On the other hand, the royalty rate of NSTPJDZ permits JDA take to increase through sliding scale.

6.2. COST RECOVERY

Cost recovery allows contractor to recover all cost associated with oil and gas exploration, development and production in JDZ, and the unrecovered costs in any period is carried forward to a later period. Both NSTPJDA and MTJA provide cost recovery ceiling that permit contractor to capture from the oil and gas produced, see Table 5 below.

TABLE 5: COST RECOVERY RATES

	Nigeria – STP JDZ	Malaysia – Thailand JDA
Cost Recovery	76 – 80 percent	Not more than 50 percent

Source: NSTPJDA (2010); MTJA (2010)

The NSTP JDZ allow contractor to pull through costs from the zone with maximum of 80 percent cost recovery in a given period. While MTJDA contract terms permit contractor to recover up to 50 percent of the cost associated to the operations.

When comparing the cost recovery of the two systems, it is noted that NSTPJDZ has higher cost recovery ceiling with 30 percent difference. This shows that investors in NSTPJDZ would recover investment cost as quickly as possible; besides the cost-oil allowance demonstrates the degree of flexibility linked to rate of return. However, the MTJDA recovery cost would result to the lower net cash flow, and therefore, the oil and gas project will take a long time for investors to recover costs as well as to attain positive Net Present Value (NPV), thereby, increasing risk to investors (Bindemann, 1999).

In NSTPJDZ, the petroleum contracts are all ring fenced. This implies that all costs associated with oil fields must be recovered from the revenue generated from the fields in JDZ. The ring fencing condition was not stated in the MTJDA's fiscal regime.

6.3. PROFIT OIL SPLIT

The profit oil is presented to Joint Authority as the share of oil and gas produced form the zone. The profit oil is the remaining oil and gas after deducting royalty and cost recovery. In NSTPJDZ the tax regulation noted that petroleum tax is paid before the profit oil split to the contracting parties. Distribution pattern presented below:

TABLE 6: PROFIT OIL SPLIT RATE

	Nigeria – STP JDZ	Malaysia – Thailand JDA
Profit Oil	R Factor (Sliding Scale)	50:50

Source: NSTPJDA (2010); MTJA (2010)

The profit oil in MTJDA is shared between MTJA and contractor in the ratio 50 percent each. On one hand, the profit oil is allocated to each party using sliding scale method pursuant to accounting procedure in the NSTPJDZ. Table 7 below shows the sharing method.

TABLE 7: SLIDING SCALE OF PROFIT OIL IN NSTPJDZ

R Factor	Contractor Share	JDA Share
R < 1.2	P = 80%	100% - P
1.2 < R < 2.5	P = 25% + {(2.5-R)/(2.5-1.2)*(80%-25%)}	100% - P
R > 2.5	P = 25%	100% - P
Where: R= Cumulative Cost Recovery + (Cumulative Contractor Profit Share) P= Contractor's share of profit in %.		

Source; (Gomes, 2003)

The contractor and NSTPJDA takes are determined based on the R-Factor. The R-Factor is the ratio of the percentage from the petroleum sales to the cumulative expenditure (World Bank, 2007). Thus, *R* is the cumulative revenue form cost recovery and profit share earned by the contractor divided by the cumulative expenses in the given period. Initially, if *R* is less than 1.2, contractor share *P* would be 80 percent as well as 20 percent (100% - *P*) to NSTPJDA. Also if *R* falls between 1.2 and 2.5, the contractor profit oil share would be calculated using the formula given in table 4.5. However, when *R* is greater than 2.5, contractor receives less profit oil of 25 percent, while NSTPJDA rises to 75 percent.

The sliding scale usually present flexibility to the contract and increases Joint Authority take as the project profitability increases (Bindemann, 1999). The profit oil split used in NSTPJDZ allow contractor take to increase or decrease at various levels. The profit oil sharing system in NSTPJDZ is more favourably evaluated than MTJDA; this is because the sliding scale adopted reacts to economic environment and also minimize the impact of financial decision.

6.4. PETROLEUM TAX

The oil and gas produced from the JDZ is tax deductible. The negotiation in the contract provide the agreed term of the tax regulation. The tax rate is applicable to each contract to pay by contractor from profit oil. In the case of NSTPJDZ, tax is paid from petroleum revenue after deducting royalty and cost recovery before profit oil sharing. See Table 8 below.

TABLE 8: PETROLEUM TAX RATES

	Nigeria – STP JDZ	Malaysia – Thailand JDA
Petroleum Profit Tax (PPT)	50 percent flat rate	➢ First 8 years 0% ➢ Next 7 years 10% ➢ Subsequent years 20%

Source: NSTPJDA (2010); MTJA (2010)

The NSTPJDZ tax regulation provides a fixed tax rate of 50 percent applicable to each and for the duration of the contract, payable to NSTPJDA. However, the tax regime allows parties to consult each other for the amendment of the contract necessary to re-establish commercial benefit under the contract. The MTJDA tax system provide tax holiday for the first eight years of operation, and later, contractor begins to pay 10 percent petroleum income tax for the seven years ahead. 20 percent is also imposed as tax for the upcoming years until the end of the contract.

The MTJDA tax presents a downward trend, with a maximum of 20 percent. From the analysis, NSTPJDZ has 30 percent petroleum tax higher than MTJDA. The high fixed tax rate imposed in NSTPJDZ indicates that the investor's rate of recovery is slower and riskier, and will eventually discourage investment and reinvestment. However, the MTJDA tax regime shows the element of neutrality in oil and gas operation, and therefore has lower effect on investor's behaviour. This will encourage existing and future investors to reinvest and invest respectively (CEE, 1999). Moreover, the tax incentive given in MTJDA for certain period makes contractor deplete their reserves as quickly as possible (Bindemann, 1999).

6.5. OTHER VARIABLES

Other variables referred to as additional instruments introduce by the joint authority into its fiscal regime in order to effectively enhance its fiscal system. It is noted that MTJDA established two additional fiscal elements; these are research cess, export duty and the Custom and Taxation. The research cess is a levy paid by contractor to MTJA under the term of contract. This payment is used to support any development and research in the field of science and technology related to oil and gas exploration and production in MTJDA (Abdul AbdulRazak, 2004). The export duty is paid for consolidated oil and gas sold outside Malaysia and Thailand.

However, materials, equipment and goods imported for petroleum operation in MTJDA are accorded duty-exempted, while income derived from petroleum activities in the area are also tax deductable by both Thailand and Malaysia under their respective legislation (MTJA, 2010). The joint agreement and MTJA Act 1990 established the Fund referred to as MTJA Fund. The Fund involves the contributions from joint states and investments made from the Fund. However, the NSTPJDZ imposed free duty for both import and export for any petroleum equipment related to the zone. Results presented in Table 9 below.

TABLE 9: OTHER VARIABLES

	Nigeria – STP JDZ	Malaysia – Thailand JDA
Export Duty	Free	10% of Profit Oil
Research Cess	-	0.5% of Cost recovery and Profit Oil
Custom	Free	Free-Duty
Malaysia and Thailand Taxation	-	50% of Income from MTJDA
MTJA Fund	-	Sovereignty Fund

Source: MTJA (2010); Treaty (2001)

Table 9 above showed that the MTJDA imposes 10 percent of profit oil as export duty for oil and produced in the area and sold outside joint states, which is paid to the MTJA. On the other hand, both systems allow free-import to their zones which increases additional value to the fiscal regime. Further, 0.5 percent is chargeable by MTJA as research cess but according to the contract terms, the research cess fee is paid into the MTJA Fund. The governments of Malaysia and Thailand receive 50 percent of income available from MTJDA.

The research cess make MTJDA looks more advantageous than NSTPJDZ with regards to technological research, development and application in the area. Also, the export duties increase the MTJA take, while the free-duty offers remarkable commercial value for the oil and gas sales for the MTJDA. The provision MTJA Fund allow Joint Authority to borrow money from the fund in order to carry out its operation or discharging any of its duties, and also offer financial support in to companies, persons or bodies to advance debentures, shares and loan.

6   CONCLUSIONS

From the analysis so far, the substantial differences of fiscal regime between the MTJDA and NSTPJDZ are noted. The fiscal system design in each zone is formed for the purpose of managing effective petroleum operation. However, the fiscal system tested in the above analysis indicates that some variables in one fiscal regime are better than other variables and vice versa.

The Joint Authority found royalty payment attractive because it guarantees minimum revenue, but it has significant consequences on profitability and NPV of the oil and gas projects. This will be more sensitive particularly in oil fields that have low commercial quantity. The sliding scale system of royalty in NSTPJDZ is a clear example that can help joint developments in minimizing the impact of royalty on oil and gas projects. And this would bring about relative rate to balance the effect of royalty in fiscal regime.

Furthermore, high cost recovery ceiling smooth the contractor's operation and help them to recover cost as early as possible for the investment they have made. The NSTPJDZ cost recovery limit presents fabulous cap, as the uncertainty with regards to the development and production is the major concern to contractor. The oil companies usually want has maximum cost-oil allowance (Bindemann, 1999). This would allow them to minimize risk with regards to capital and operational costs. Consequently, high cost recovery has significant impact on the volume of oil and gas available to split, especially the joint authority's profit oil.

The contracting parties' focus and concern on the profit oil will be more on the petroleum revenue, substantial changes in oil price and the adequate flexibility employ to accommodate this change. The NSTPJDZ profit oil sharing achieved this objective through sliding scale. The sliding scale formula used in profit oil split is assumed to respond to the impact of low oil price on profitability of the operation. However, the sliding scale used in NSTPJDZ allows its JDA take to increase as the profitability of the project in the zone increases.

The analysis views the neutrality of petroleum income tax pay in MTJA regime, where contractor fear of adverse and unfavourable tax is thereby minimised. Before signing a contract on petroleum operation in the area, Oil Company will expect considerable reward over the contract. Thus, they have committed themselves to bear cost and oil split risks with joint authority, nevertheless tax incentives is one of such rewards that attracts their attention. Conversely, joint developments with high tax such as NSTPJDZ may narrowly view their tax regime and the impact it might have on future investment and the likelihood of decreasing joint authority revenue in the long-run.

Another important issue is the four additional variables noted in MTJDA; the research cess, export duty and taxation. Virtually the joint developments may find these variables as important, in order to hold up the fiscal regime. The MTJA Fund applied by MTJA to support the authority, necessary to grant equity capital for the programmes in the area, will provide petroleum developments and commercial application in the MTJDA.

In sum, findings of this study indicated that the NSTPJDZ present a favourable sliding scale in profit oil split as vary with the equal sharing method used in MTJDA. This make contractor and joint authority take increases and decreases depending on the situation and hence more optimal. However, the tax system in MTJDA is more helpful to contractor because of the tax holiday and incentive offers indicates the optimality in their system. The NSTPJDA imposes fixed tax rate and no tax incentives offers. The result noted four included variables in MTJDA's fiscal system; research cess and sovereignty fund. The analysis shows their significance in the oil and gas operation in joint development. Further, the finding, indicated that the tax system used in MTJDA is more neutral than NSTPJDZ tax regime, because of the tax incentives it offers to oil companies. The implication here is that risks in oil and gas operations in their petroleum area are thereby minimized. Hence high tax in NSTPJDZ may significantly discourage investor simply because the cost recovery will be more risky and slower. However the MTJDA also offers some certain variables that are helpful in nature. Finally, the analysis recognized the significance of the three variable used in NSTPJDZ; royalty, cost recovery and profit sharing. The other two variables; petroleum tax, are more significance in MTJDA. The study implies that, out of five variable tested, the significance of three variables adopted in NSPJDZ represent 60 percent, were the remaining two other variables that are significance in MTJDA signifies 40 percent. Therefore the findings of this research suggest that the NSTPJDZ fiscal regime is more optimal than MTJDA. Because it offers favourable condition for oil and gas operation, and also has less effect to profitability and net present value of the projects.

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