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# Global Tax Alert

News from Americas Tax Center

## Dominican Republic's Ministry of Energy and Mines releases bidding documents for first round of bidding for hydrocarbon exploration and production activities

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On 10 July 2019, the Dominican Republic's Ministry of Energy and Mines (MEM) published the bidding guidelines, model contracts and maps for the first round of bidding for production sharing contracts (PSCs) for 10 onshore blocks and four offshore blocks (including shallow and deep-water blocks) of property for hydrocarbon exploration and production activities. This first round is part of the Government's plan to increase investment and diversify its economy.

The following is a map of the areas that are being offered:



Source: Ministry of Energy and Mines

## Tax regime

During the first bidding round's inaugural event, the MEM presented the tax regime for the PSC contracts to be awarded. The following provisions will apply under the regime:

- ▶ The Government will receive a percentage of the revenue, which will be adjusted based on the price and oil or gas production, depending on the type of block (offshore or onshore).
- ▶ Companies will make rental payments to the Government based on the surface area covered by a PSC during exploration and production periods.
- ▶ Companies granted a PSC will be subject to a corporate income tax rate of 27%, a cost recovery limit equivalent to 95% of the gross income per period, unlimited carryforwards for unused deductions and a ring fencing provision (i.e., a provision that prevents companies from reducing taxable profits from oil and gas extraction by losses from other activities or excessive interest payments).
- ▶ A state will receive at least 40% of cumulative undiscounted profits (reduced by the revenue share).
- ▶ Companies may import machinery and equipment used for the contract activities to the Dominican Republic under a temporary regime.
- ▶ During the exploration phase, certain payments to nonresidents will not be subject to withholding tax; during the production phase, a 10% withholding tax rate will apply to payments to nonresidents.
- ▶ The contractual terms and tax terms will remain stable during the contract duration.

## PSC terms

In accordance with the contractual terms, PSCs will be divided into three phases - exploration, appraisal and production.

The exploration phase for onshore contracts will apply for up to eight years; meanwhile, the exploration phase for offshore contracts will apply for up to 10 years. Similarly, both will be divided into three periods with a possible one-year extension per period (total three-year extension), subject to MEM's prior approval.

The appraisal phase for onshore contracts will apply for up to two years. For offshore contracts, the appraisal phase will apply for up to three years. Companies may request a two-year extension for both appraisal phases, subject to MEM's approval. Furthermore, the appraisal phase for "non-associated gas fields" may apply for up to 10 years, with a possible two-year extension, subject to MEM's approval as well.

The production phase may apply for up to 25 years, with a possible extension up to the field's economic life for both onshore and offshore contracts.

## Contract awarding

In accordance with the bidding guidelines, the bidding factor for selecting the winning bidder for each block will only consider the value of the additional exploration activities on top of the minimum work commitment (that will be measured in work units) offered for the first exploration period. Furthermore, MEM has determined that the value of one work unit is equivalent to US\$5,000. In this regard, companies must make an offer for a minimum of 400 work units for onshore blocks, which is equivalent to US\$2 million. For offshore blocks, companies must make an offer for a minimum of 800 work units, which is equivalent to US\$4 million.

The MEM has determined that the work units to be performed during the exploration phase will be divided into exploration periods. During those periods, companies will conduct exploration activities that are the equivalent of the number of work units for which they are committed as follows:

- ▶ 1st Period: Minimum work unit commitment + additional activities offered in bid round
- ▶ 2nd Period: Twice the minimum work unit committed during the 1st period
- ▶ 3rd Period: Minimum drilling of one exploratory well

The PSCs contain a chart of activities that provides the number of work units for each exploratory activity carried out.

## First round bidding timeline

In accordance with the bidding guidelines, companies interested in participating in this bidding round must submit the documents to qualify for the bidding round on or before 8 November 2019. The MEM will then announce the companies that qualified. After that announcement, the qualified companies may present their offers on or before 27 November 2019. The MEM will announce the winning bidders after that date, and the winning bidders will have up to eight weeks after the announcement to sign the PSC. Finally, after a contract is signed, the Dominican Republic's Congress must approve the contract, which is estimated to take nine weeks.

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