Offshore decommissioning issues: Deductibility and transferability

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Abstract

Dealing with the decommissioning of petroleum installations is a relatively new challenge to most producer countries. It is natural to expect that industry’s experience in building platforms is much greater than the one of dismantling them. Even if manifold and varied efforts are underway towards establishing international “best practices” standards in this sector, countries still enjoy rather extensive discretionary power as they practice a particular national style in the regulation of decommissioning activities in their state’s jurisdiction. The present paper offers a broad panorama of this discussion, concentrating mainly on two controversial aspects. The first one analyses the ex-ante deductibility of decommissioning costs as they constitute an ex-post expense. The second discussion refers to the assignment of decommissioning responsibility in the case of transfer of exploration and production rights to new lessees during the project’s life. Finally the paper applies concepts commonly used in project financing as well as structures generally used in organising pension funds to develop insights into these discussions.

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