RESERVES TAX SHOULD BE JUDGED ON EFFECTIVENESS

Does the gas reserves tax (or threat thereof) solve project challenges?

If not, success depends on two core issues: how viable is AK LNG, and how will partners react?

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	No option to levy gas reserves tax	Option to levy gas reserves tax
AK LNG is uneconomic	Not going to happen	Not going to happen
AK LNG is economic	Project will happen	Project might still happen if threat deployed well and does not antagonize partner and raise perceived risk
AK LNG is marginal	Project might happen	Unclear if gas reserves threat will push the project towards success or failure

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SPONSOR DECISION

GO AHEAD: 0 TO +2

WAIT: 0

Starting point: Close call that hinges on portfolio choices and risk appetite

NOTE: VALUES ARE PURELY INDICATIVE (ABSENT A PRECISE BILL TO EVALUATE AT THE TIME OF WRITING)

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~~WAIT: 0~~

WAIT: -2?

Add threat of gas reserves tax. In theory, by raising the cost of wait, ‘go ahead’ is relatively more attractive. But in practice, the threat adds more variables to the mix

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SPONSOR DECISION

- GO AHEAD: -1 TO +1
- ~~WAIT: 0~~
- WAIT: -2?

But threat of tax also changes perceived risk of project as sponsor worries about changes in fiscal policy; go ahead expected value falls

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SPONSOR DECISION

GO AHEAD: -1 TO +1

~~WAIT: 0~~

WAIT: -2?

CHALLENGE: -2 TO +1

But the sponsor can also object to the reserves tax and choose to challenge the tax in political fora or legally; it can also choose to just pay the penalty (depending on the level)

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SPONSOR DECISION

- GO AHEAD: -1 TO +1
- ~~WAIT: 0~~
- WAIT: -2?
- CHALLENGE: -2 TO +1
- LEAVE: -1 TO 0

If the tax is very high or if the assessed risk becomes unacceptable, the sponsor could also choose to leave the lease (abandon / sell)

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SPONSOR DECISION

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- ~~WAIT: 0~~
- WAIT: -2?
- CHALLENGE: -2 TO +1
- LEAVE: -1 TO 0

. Is it more likely that the sponsor will choose 'go ahead' under threat versus challenge or abandon?
. If the sponsor abandons, what next? Who will buy into a heavily taxed lease? How will SOA monetize?
. How widely will the tax apply?

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