Internal Revenue Service

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Department of the Treasury
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Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
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Date:
September 20, 2005

Company:

Corp:

Country:

a:

b:

c:

d:

e:

f:

Agreement 1:

Agreement 2:

Agreement 3:

Dear :

This letter responds to a letter from your authorized representative dated January 10, 2005, as well as additional correspondence, submitted on behalf of Company and Corp, requesting a ruling on the qualifying income exception to the publicly traded partnership rules of § 7704 of the Internal Revenue Code.

FACTS

Company was organized as a limited partnership under the laws of Country. It is a publicly traded partnership with the meaning of § 7704(b).

Corp was incorporated under the laws of Country. It is engaged, directly and through its subsidiaries, in the business of transporting liquefied natural gas (LNG) and crude oil by ship.

Corp will convey to Company a fleet of a LNG and crude oil carrying vessels. Company will, through its operation of this fleet, engage in the international LNG and crude oil transportation business.

Upon its formation and its acquisition of the fleet from Corp, Company will indirectly become party to certain charter obligations (the charters) of subsidiaries of Corp under which Company will transport LNG and crude oil for the owners of this LNG and crude oil. Company will have two basic types of charters: those relating to LNG vessels and those relating to crude oil vessels. The charters have terms ranging from b to c years and typically are entered into before a vessel is constructed pursuant to specifications set forth in the charter. Under each of the charters, Company will be fully responsible for operating the vessel. Representative charters include Agreements 1, 2, and 3.

Under the charters, Company (or an affiliate acting as Company's agent) will provide the master and crew, who will be employees of Company or the affiliate. The master and crew are responsible for operating the vessel and transporting the cargo. For this purpose, affiliates of Company will employ d sets of crew per vessel. Each crew will consist of one master and approximately e crew members per LNG vessel and one master and approximately f crew members per crude oil vessel. While the charterer determines the ports from which the cargo will be taken as well as the cargo's destination, Company and its employees determine the routes to be taken and all other operational matters. Company is responsible for periodic maintenance of the vessels.

Pursuant to the charters, Company generally warrants a certain level of vessel performance, as measured by several criteria. Agreements 2 and 3 contain additional performance warranties due to technical considerations related to transporting LNG.

Under Agreements 1, 2, and 3, the charterer may require certain modifications to the vessel and may, in certain circumstances, share in profits from the sale of the vessel before the end of the charter's term. Under Agreements 2 and 3, the charterer may purchase the relevant vessel at a scheduled price. Under Agreement 2, the charterer pays a daily rate, subject to partial reduction if Company is temporarily unable to make the vessel available to transport cargo. Under Agreement 3, if Company breaches certain material obligations, the charterer may convert the charter to a bareboat charter (under which the charterer operates and controls the vessel). If the operation of any vessel causes damage or loss to a third party, Company bears sole responsibility.

Company requests a ruling that its income derived from the transportation of LNG and crude oil pursuant to the Charters is qualifying income under § 7704(d)(1).

LAW AND REGULATIONS

Section 7704(a) provides generally that a publicly traded partnership shall be treated as a corporation.

According to § 7704(b), the term "publicly traded partnership" means any partnership if (1) interests in the partnership are traded on an established securities market, or (2) interests in the partnership are readily tradable on a secondary market (or its substantial equivalent).

Section 7704(c)(1) exempts from treatment as a corporation any publicly traded partnership for any tax year if the partnership meets the gross income requirements of § 7704(c)(2) for that year and each preceding tax year beginning after December 31, 1987, during which the partnership (or any predecessor) was in existence. Section 7704(c)(2) provides that a partnership meets the gross income requirements of § 7704 for any tax year if 90% or more of the partnership's gross income for that year consists of qualifying income.

Section 7704(d)(1)(E) defines "qualifying income" to include income and gains derived from the exploration, development, mining or production, processing, refining, transportation, or marketing of any mineral or natural resource.

CONCLUSION

Based solely on the facts and representations submitted, we conclude that the income Company derives from transporting LNG and crude oil pursuant to the Charters is qualifying income within the meaning of § 7704(d)(1)(E).

Except for the specific ruling above, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code. Specifically, we express or imply no opinion as to whether Company is taxable as a partnership for federal tax purposes.

Under a power of attorney on file with this office, we are sending a copy of this letter to your authorized representative.

This ruling is directed only to the taxpayer who requested it. According to § 6110(k)(3), this ruling may not be used or cited as precedent.

Sincerely,

/s/

JAMES A. QUINN
Senior Counsel, Branch 3
Office of Associate Chief Counsel
(Passthroughs and Special Industries)

enclosures: copy for § 6110 purposes

cc: