



The Norwegian Petroleum Tax and Government Take, 1965 - 2002

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General Principles for the Norwegian Petroleum Taxation



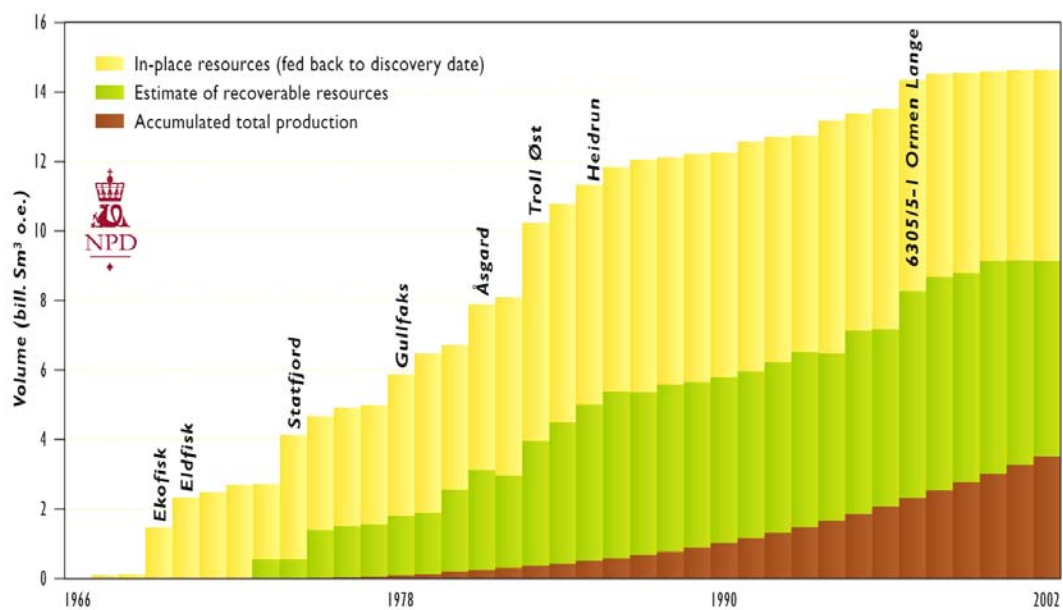
- ◆ The petroleum resources belong to the Norwegian State
- ◆ The revenue to the State should be maximised
- ◆ The "Super Profit"/Resource Rent should be subject to special taxation
- ◆ The taxation should (in principle) be neutral such that investment incentives are maintained
- ◆ Increasing mobility of capital implies that larger share of the tax burden should be carried by the immobile tax bases

Government take elements

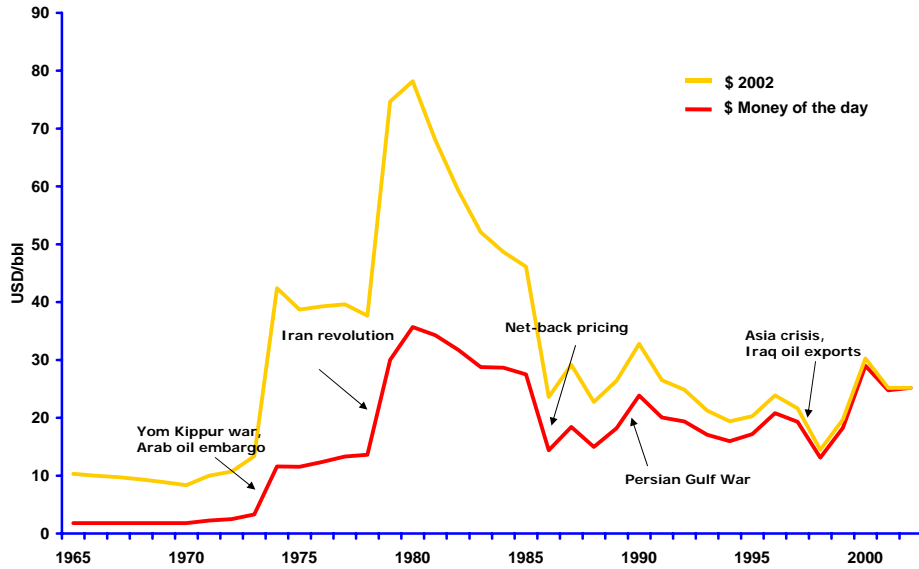


- ◆ Direct state participation in licenses
- ◆ Income tax
- ◆ Dividend from State holding in Statoil and other companies
- ◆ Royalty and fees

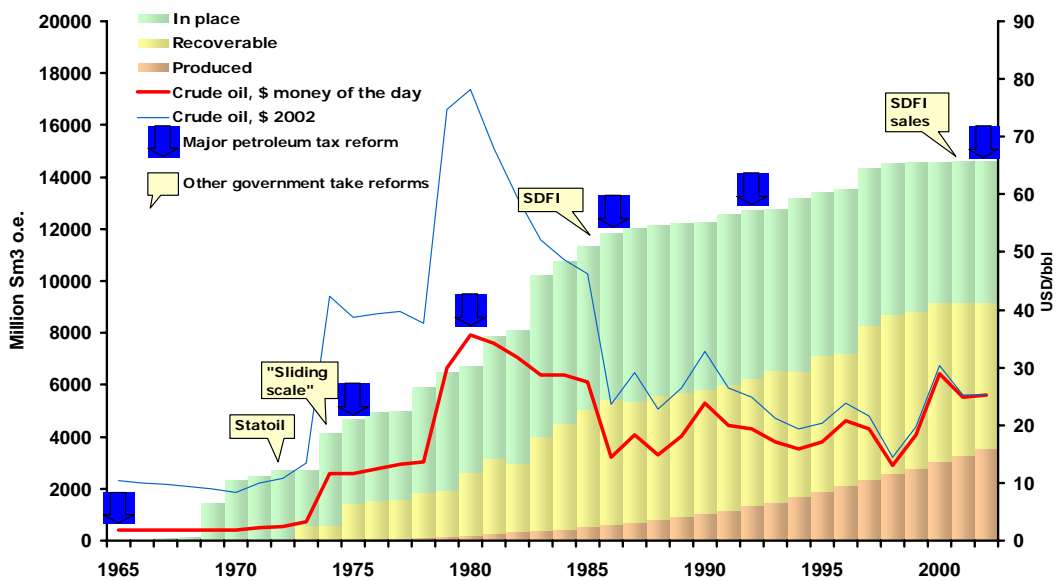
The Norwegian petroleum resource base



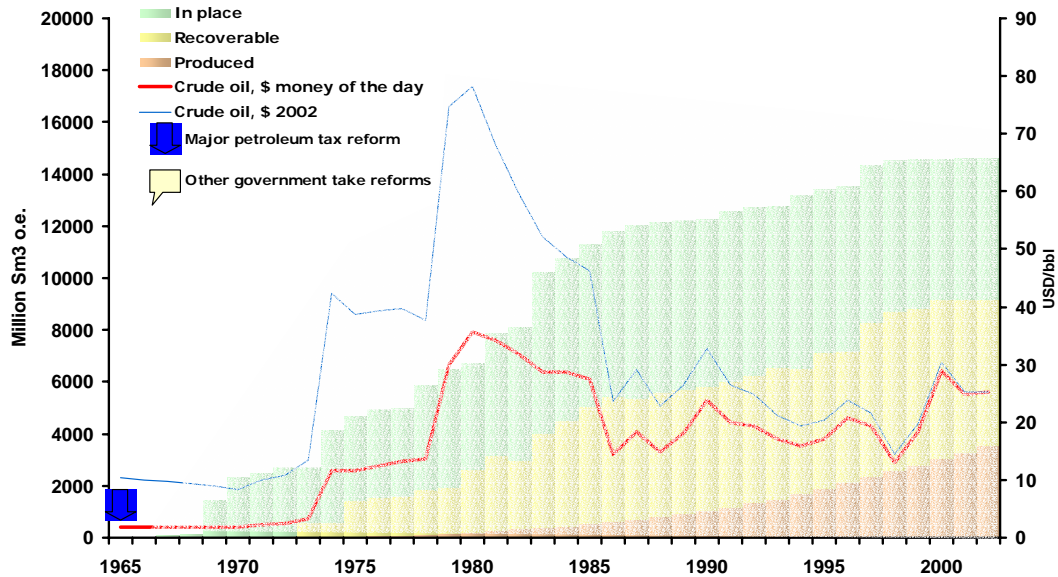
Oil price



Oil price, resources and tax reforms



1965



First petroleum tax act, 1965



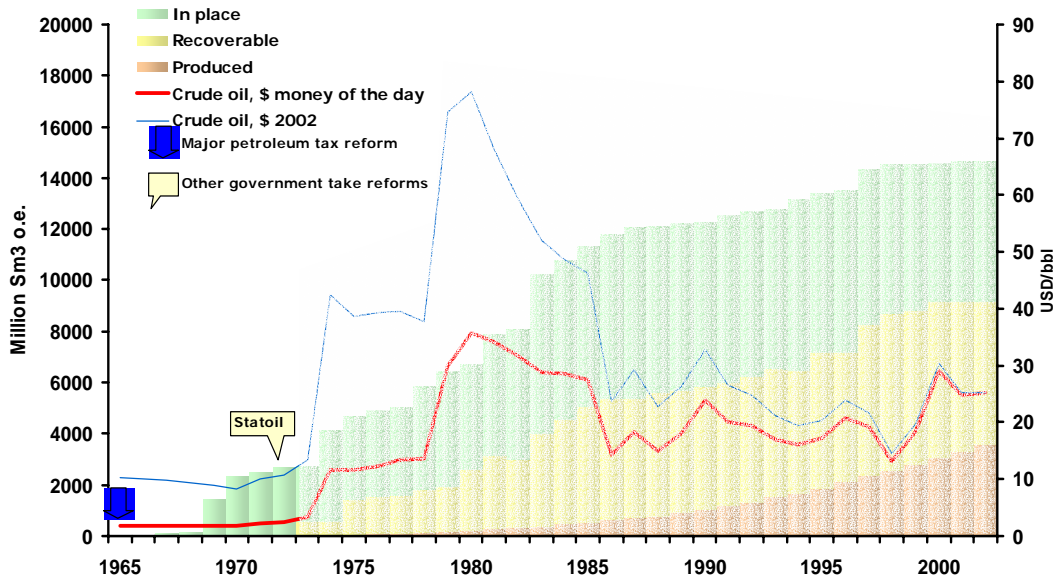
Background:

- ◆ First licences awarded in 1965
- ◆ Profitability of Norwegian oil or gas very uncertain
- ◆ Need for incentives for exploration activity

Main gov. take elements:

- ◆ 10% royalty on production
- ◆ 9% income tax relief on corporate tax for offshore activities

1972



Statoil, 1972



Bakground:

- ◆ A State oil company, *Statoil*, was established 1972
- ◆ Statoil was 100% State owned
- ◆ Statoil was given 50% share in all new licenses

Effect:

- ◆ Other companies' opportunity for size of shares in Norwegian licences was reduced by 50%

Carry of Statoil's exploration costs, 1972



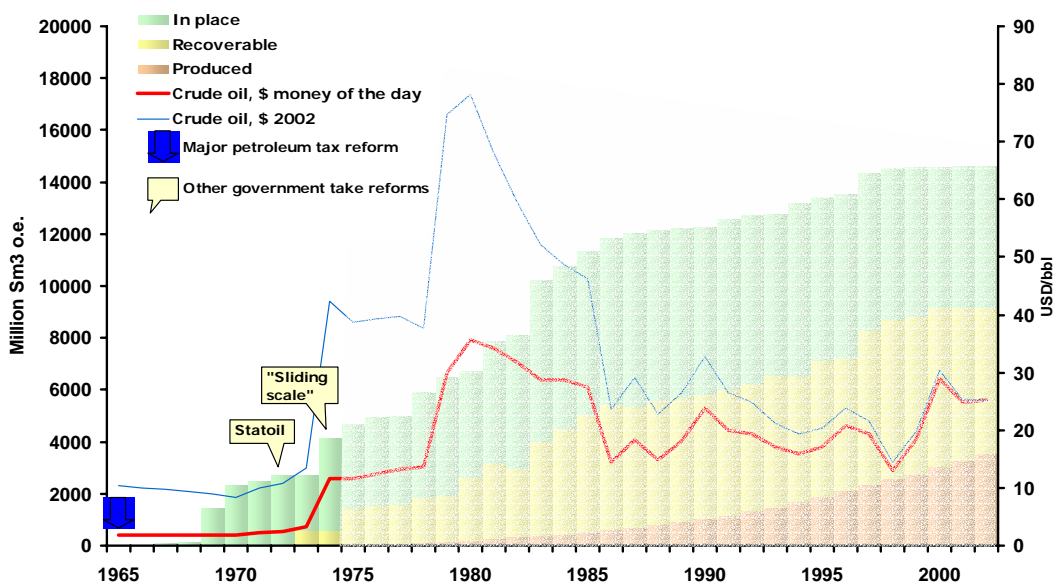
Background:

- ◆ To enable Statoil's large activity and participation, and to assist in the establishment of the company, the other licensees should pay Statoil's share of the exploration costs

Fiscal element:

- ◆ Companies had to pay two times their own licence exploration costs

1974



The "sliding scale", 1974



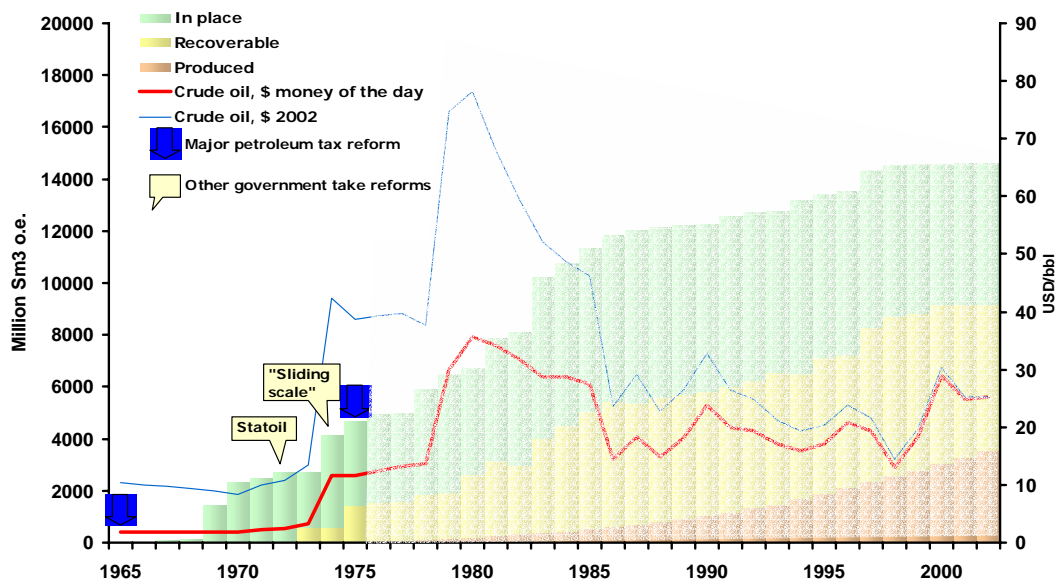
Background:

- ◆ Large fields discovered in United Kingdom, large prospects identified in Norway
- ◆ The State wanted to secure a large part of the potential upside value

Effect:

- ◆ The State introduced the right to increase its share of the licence when development plans were approved
 - ◆ Increase of Statoil's share
 - ◆ Post 1985: also SDFI share
- ◆ The other partners' share reduced accordingly

1975



Petroleum Tax Act, 1975



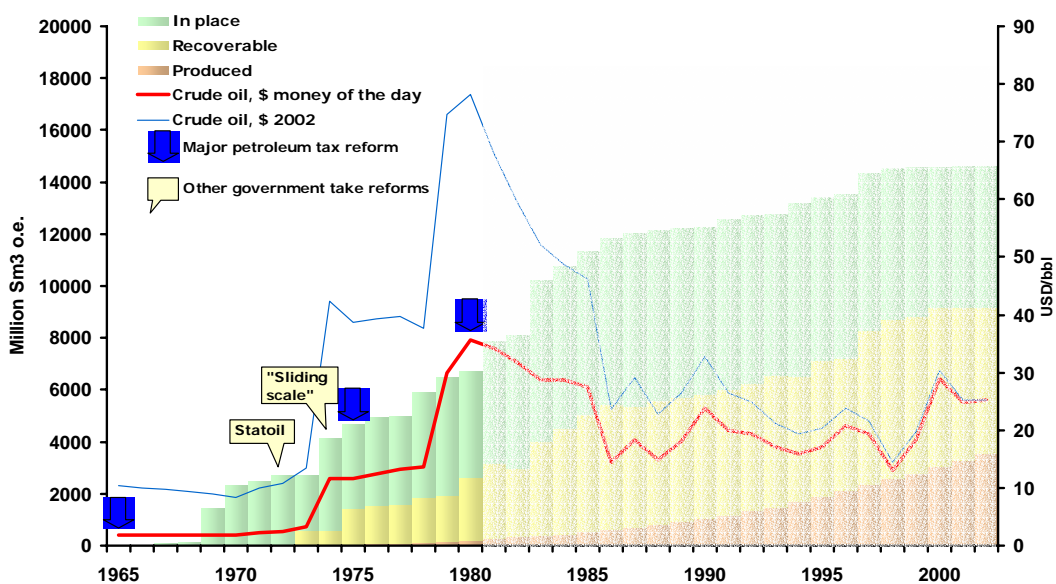
Background:

- ◆ Large oil discoveries had been made
- ◆ Start-up of regular oil production
- ◆ Increase in oil price
- ◆ No need for fiscal incentives for activities
- ◆ The State must secure a high share of the profit

Main changes:

- ◆ 25% special tax in addition to normal corporate tax
- ◆ 6 years linear depreciation from production start-up
- ◆ 10% investment uplift (depreciation for special tax) over 15 years
- ◆ 1972: Royalty 8-16% for oil, 12.5% for gas

1980



Changes to the Petroleum Tax Act, 1980



Background:

- ◆ Significant increase in oil prices during last part of 70's

Main changes:

- ◆ Special tax increased to 35%
- ◆ Investment uplift reduced to 6.7%

The Norwegian State's Direct Financial Interest ("SDFI"), 1985



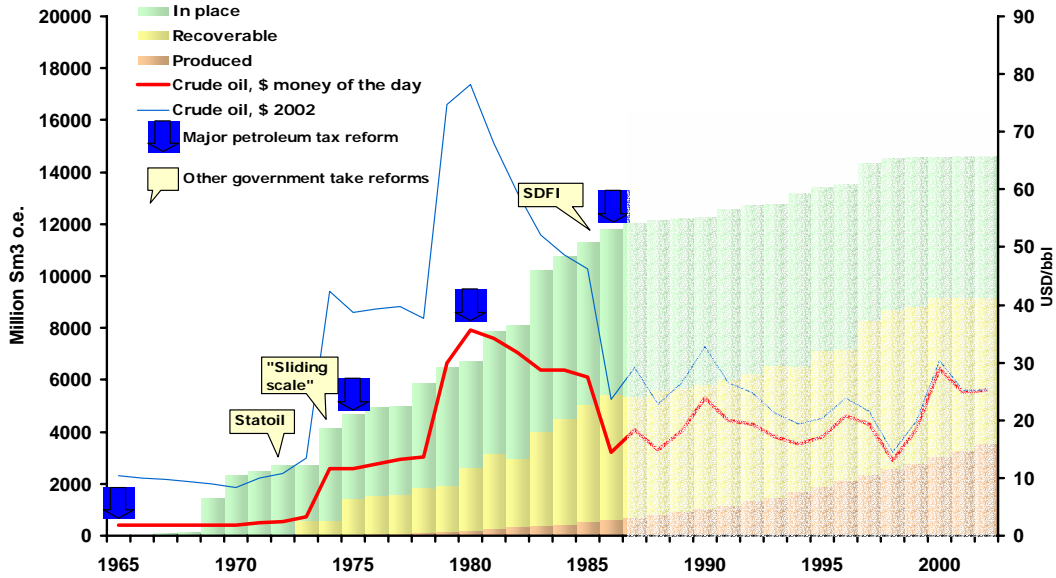
Background:

- ◆ SDFI introduced in 1985
 - ◆ Statoil's licence shares split into two parts:
 1. Statoil's own economic share
 2. The Norwegian State's direct economic share
- ◆ The Norwegian State pays its share of investments and operational costs in the licences
- ◆ The Norwegian State gets its direct share of production and other income

A fiscal element?

- ◆ Not a fiscal element, as such
 - ◆ The State has legal rights and obligations and receives compensation like any other licensee
- ◆ May be compared to a cash flow tax
 - ◆ Neutral relative to business incentives
- ◆ A high SDFI share in licences with high upside value
 - ◆ May be compared to progressive taxation

1986



Revision of Petroleum Tax Act, 1986



Background:

- ◆ Dramatic drop in oil price
- ◆ Oil companies cut exploration budgets world wide
- ◆ Major oil companies question the profitability in Norway and consider to pull out of the country

Main changes:

- ◆ Special tax reduced to 30%
- ◆ Investment uplift removed for new investments
- ◆ Revenue allowance introduced for new fields
 - ◆ 15% of sales value of petroleum deductible from special tax
- ◆ Royalty abolished for new fields
- ◆ Exploration carry abolished for new licences

Petroleum tax reform, 1992



Background:

- ◆ General tax reform: Corporate tax reduced from 50.8% to 28%
- ◆ Political issue regarding environment and CO₂ emissions

Main changes:

- ◆ Special tax increased to 50%
- ◆ Investment uplift re-introduced: 5% over 6 years
- ◆ Revenue allowance removed
- ◆ CO₂ emission tax introduced
- ◆ Royalty abolished for pre '86 gas fields
- ◆ Exploration carry abolished for all licences
- ◆ Sliding scale abolished

Sale of SDFI shares, 2001



Background:

- ◆ *Statoil* listed on stock exchange, *Petoro* takes over management of SDFI
- ◆ Limited sale of SDFI shares in licences
- ◆ Period of low exploration success
- ◆ Companies reluctant to invest in upstream activities

Effect:

- ◆ Larger shares to oil companies
- ◆ Norway more attractive for upstream investments

Petroleum tax reform, 2002



Background:

- ◆ Consensus that a general revision of the tax legislation is necessary
- ◆ A major revision proposed, but only minor parts enacted

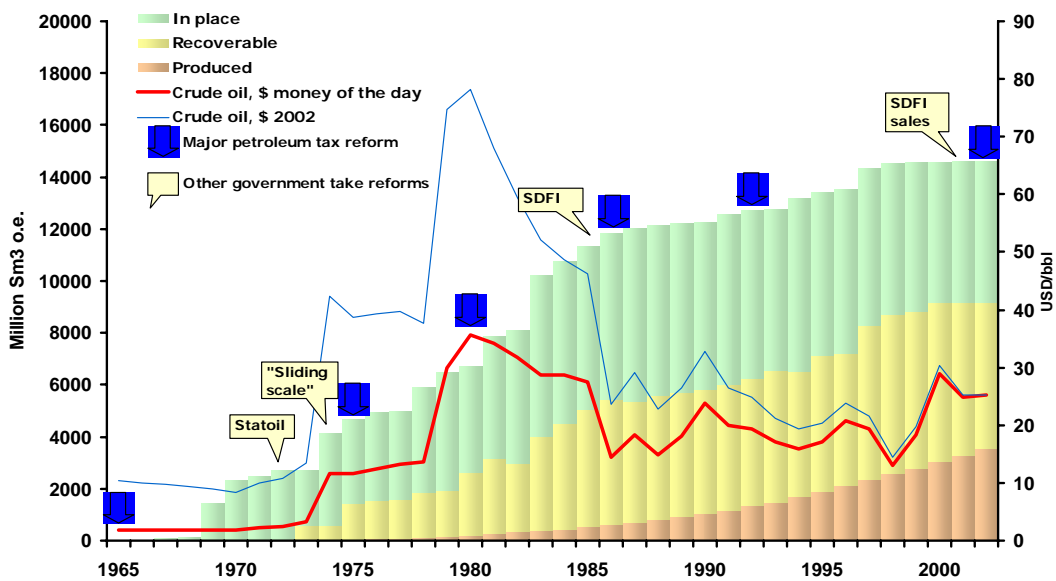
Main changes:

- ◆ Royalty only for pre '86 oil fields (two fields)

2003:

- ◆ High-level industry and authority committee formed to review the competitiveness of the Norwegian shelf, including new tax proposal

Oil price, resources and tax reforms



Area fee



Purpose

- ◆ Incentive for efficient exploitation of the resources
- ◆ Rent to the State for the exclusive right to the area

Changes in area fee (simplified)

Year	Exploration period	Development and production period	
		First 10 years	After 10 year
1965	500	500 → 5 000	5 000*
1972	750	1 800 → 15 000	30 000
1985	4 000	7 500 → 61 000	121 500
1997	0	7 000 → 70 000	70 000
		Option: 40% reduction**	

Norwegian kroner / km² / year
7.5 NOK ≈ 1 USD

* Adjusted every 10 year, currently NOK 33 000

** Upon abandonment of pre-emption rights

Example



Elements	Comments	Million NOK	Tax, Million NOK
Gross income		1000	
Exploration cost	All expensed	- 50	
Development cost (1 800 million NOK)	6 yr linear depreciation	- 300	
Operating cost	All expensed, incl. CO ₂ – tax, area fee and royalty	- 145	
Net financing cost	All expensed	- 75	
= Corporate tax base	Tax rate 28%	430	120
Investment Uplift	5% of investment	- 90	
Onshore financing items		- 10	
Onshore income		- 100	
= Special tax base	Tax rate 50%	230	115
= Total tax			235

Summary of Norwegian Government Take System



Development:

- ◆ Start
 - ◆ Tax incentives
- ◆ Growth
 - ◆ Special tax
 - ◆ State participation
- ◆ Maturity
 - ◆ Incentives for further exploration and development
 - ◆ Continuous discussions of tax level
 - ◆ State participation reduced

Current tax characteristics:

- ◆ High marginal income tax rate
 - ◆ currently 78%
- ◆ Generous tax deductions
 - ◆ Immediate expense of exploration cost
 - ◆ 6 year linear depreciation
 - ◆ 30% uplift allowance for special tax
 - ◆ Tax deduction for financial costs

Main government take elements



Petroleum Tax Reforms	1975	1980	1986	1992	2002
Tax Rates					
• Corporate Tax	50.8%	50.8%	50.8%	28%	28%
• Special Tax	25%	35%	30%	50%	50%
• Dividend Tax	10%	15%	15%	-	-
Deductions					
• Depreciation	6yrs/ prod.start	6yrs/ prod.start	6yrs/as spent	6yrs/as spent	6yrs/as spent
• Dividend	Yes	Yes	Yes	-	-
• Uplift	10%/15yrs/ prod.start	6.7%/15yrs/ prod.start	Abolished for new fields	5%/6yrs/as spent (post '86 fields)	5%/6yrs/as spent (post '86 fields)
• Revenue Allowance	-	-	15%	-	-
Other					
• Royalty	8-16%	8-16%	Abolished for new fields	Abolished for pre '86 gas fields	Only for pre '86 oil fields
• Carry of Exploration Costs	Yes	Yes	Abolished for new fields	Abolished for all licenses	-
• Sliding Scale	Yes	Yes	Yes	Abolished for all licenses	-
• CO ₂ Emission Fee	-	-	-	0.70 NOK per m ³ /litre	0.73 NOK per m ³ /litre