



# The Norwegian Petroleum Tax and Government Take, 1965 - 2002

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## General Principles for the Norwegian Petroleum Taxation



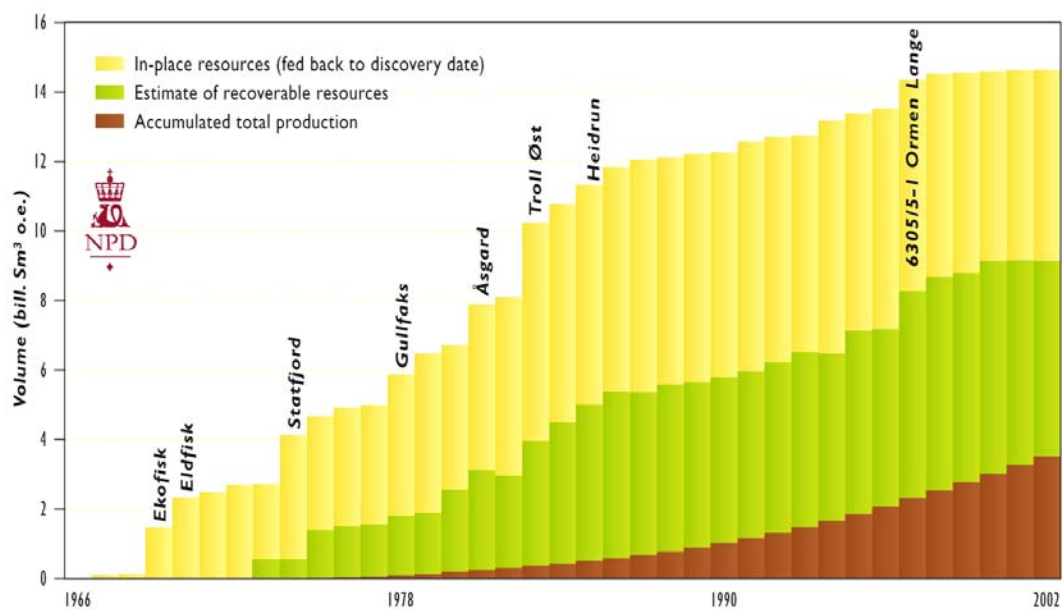
- ◆ The petroleum resources belong to the Norwegian State
- ◆ The revenue to the State should be maximised
- ◆ The "Super Profit"/Resource Rent should be subject to special taxation
- ◆ The taxation should (in principle) be neutral such that investment incentives are maintained
- ◆ Increasing mobility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

## Government take elements

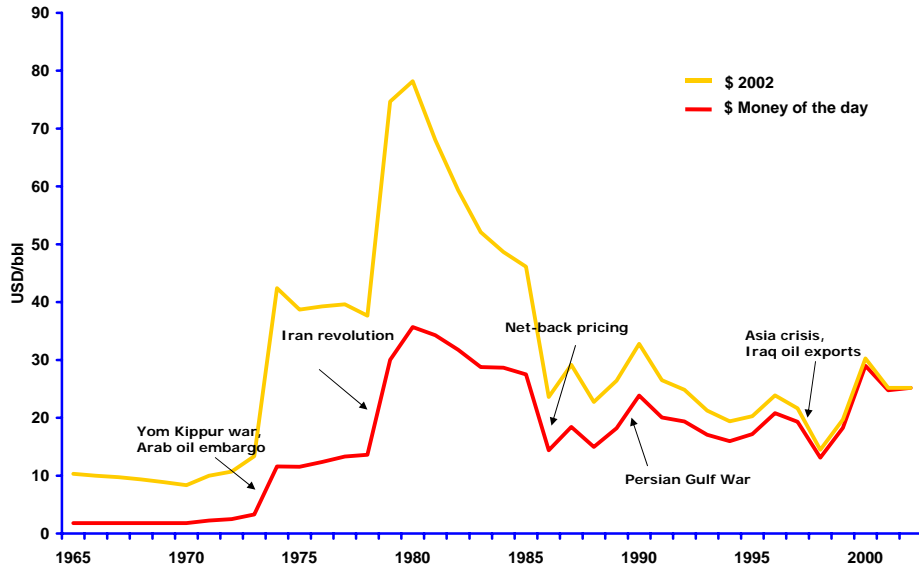


- ◆ Direct state participation in licenses
- ◆ Income tax
- ◆ Dividend from State holding in Statoil and other companies
- ◆ Royalty and fees

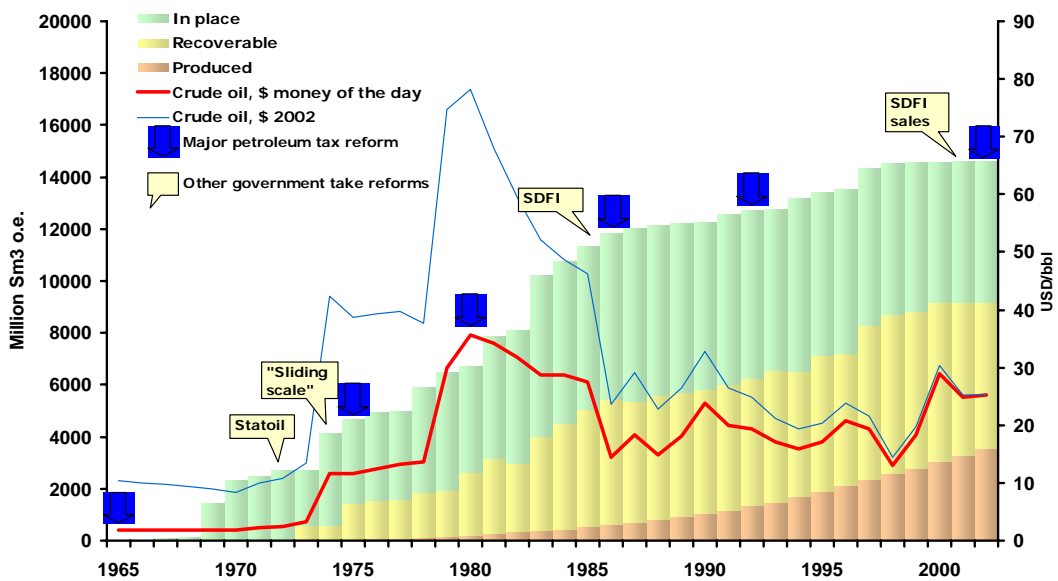
## The Norwegian petroleum resource base



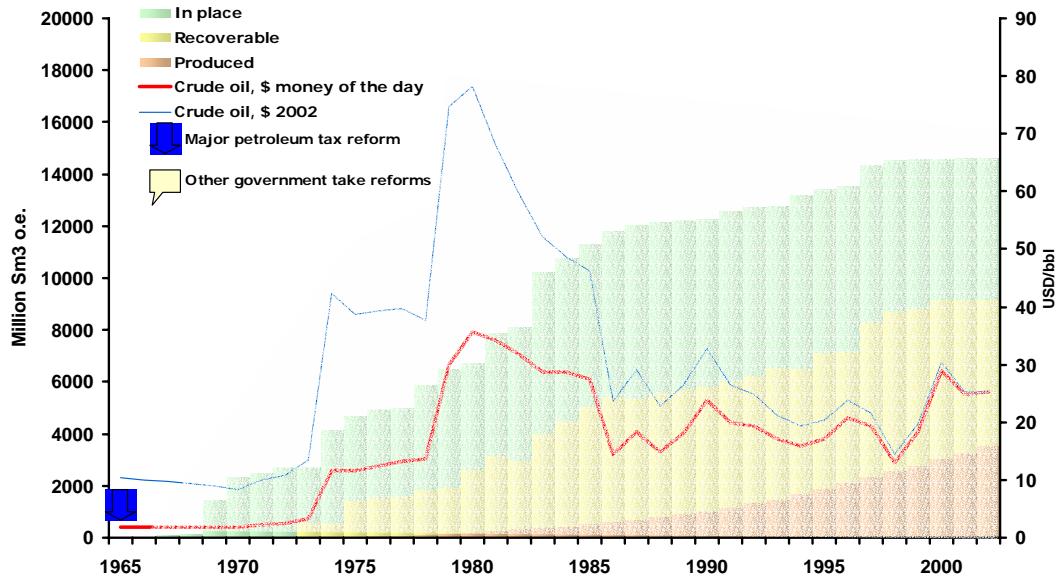
# Oil price



# Oil price, resources and tax reforms



# 1965



## First petroleum tax act, 1965



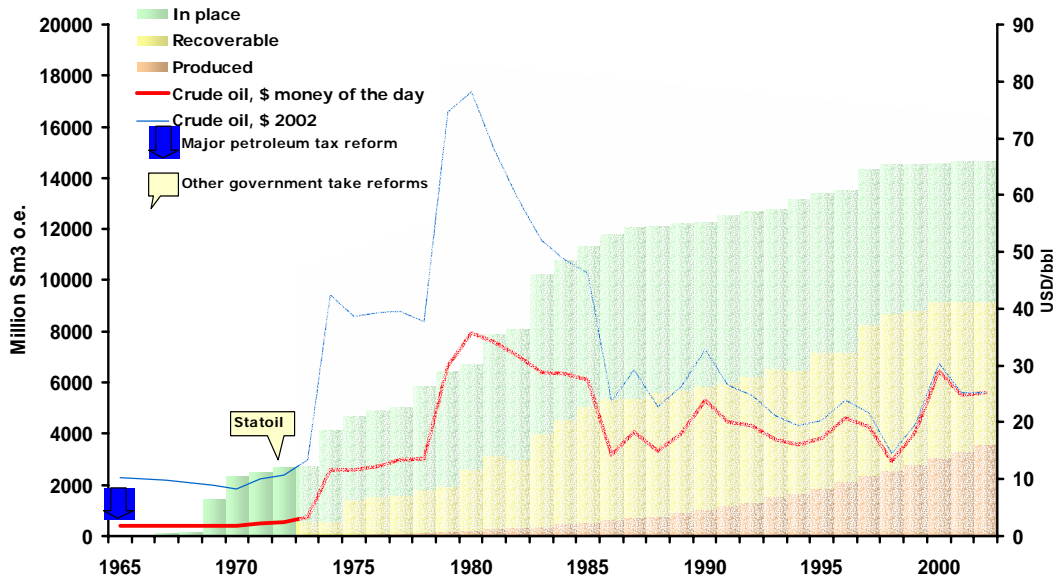
### Background:

- ◆ 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



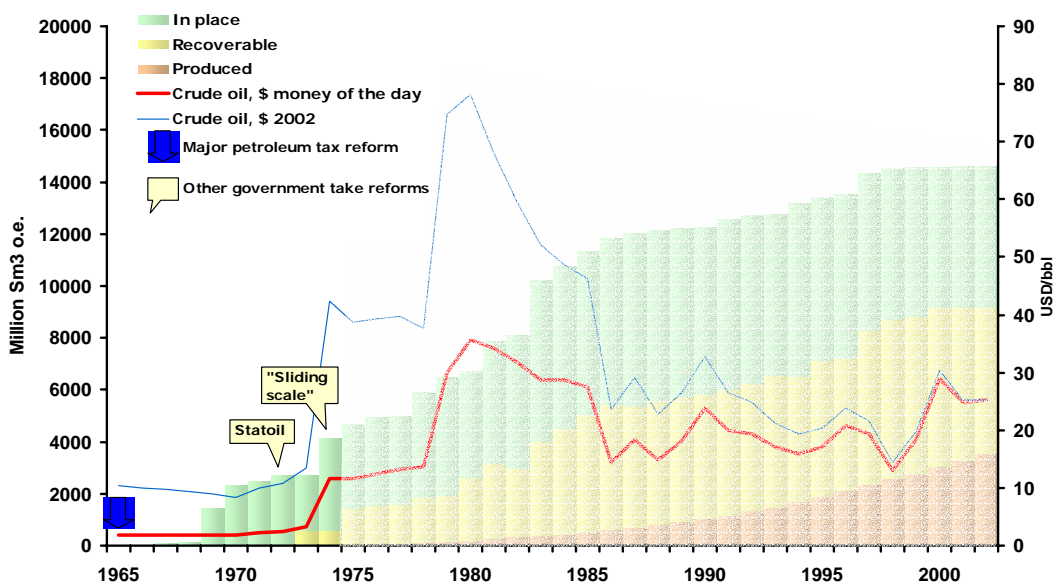
### Background:

- ◆ 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



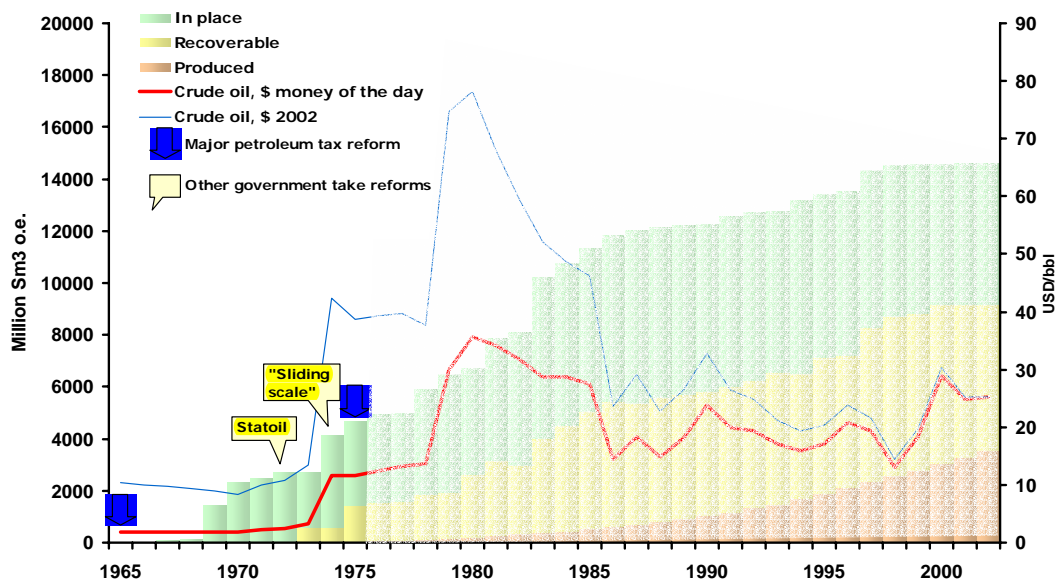
### Background:

- ◆ 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



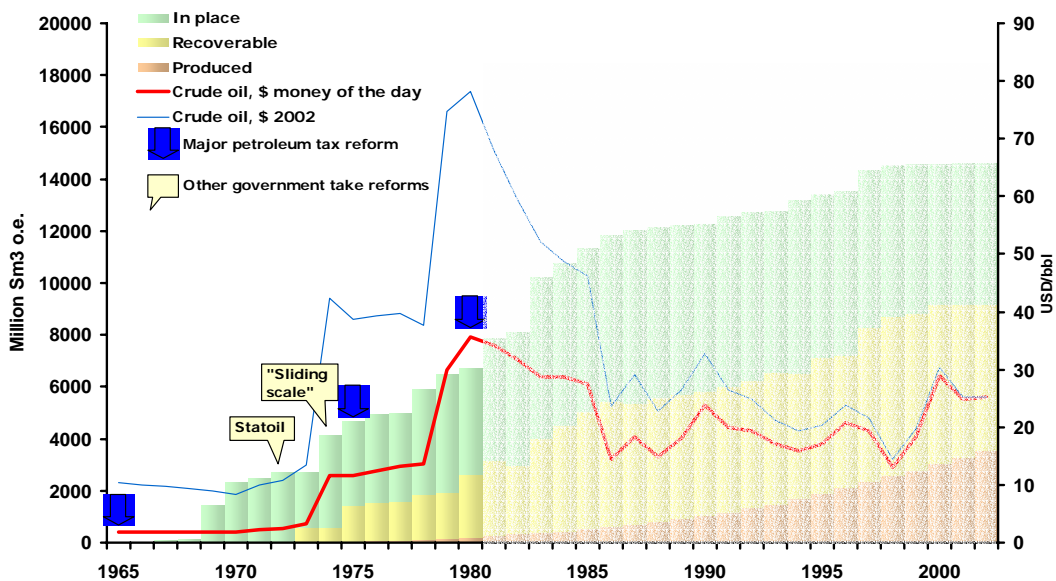
## Background:

- ◆ 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



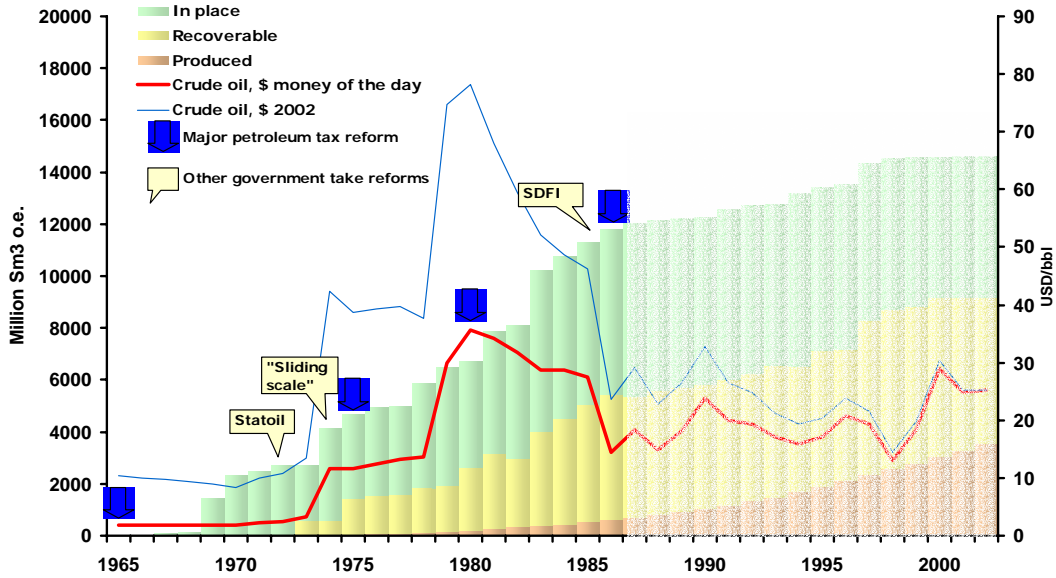
### Background:

- ◆ 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 CO<sub>2</sub> emissions

### Main changes:

- ◆ Special tax increased to 50%
- ◆ Investment uplift re-introduced: 5% over 6 years
- ◆ Revenue allowance removed
- ◆ CO<sub>2</sub> 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

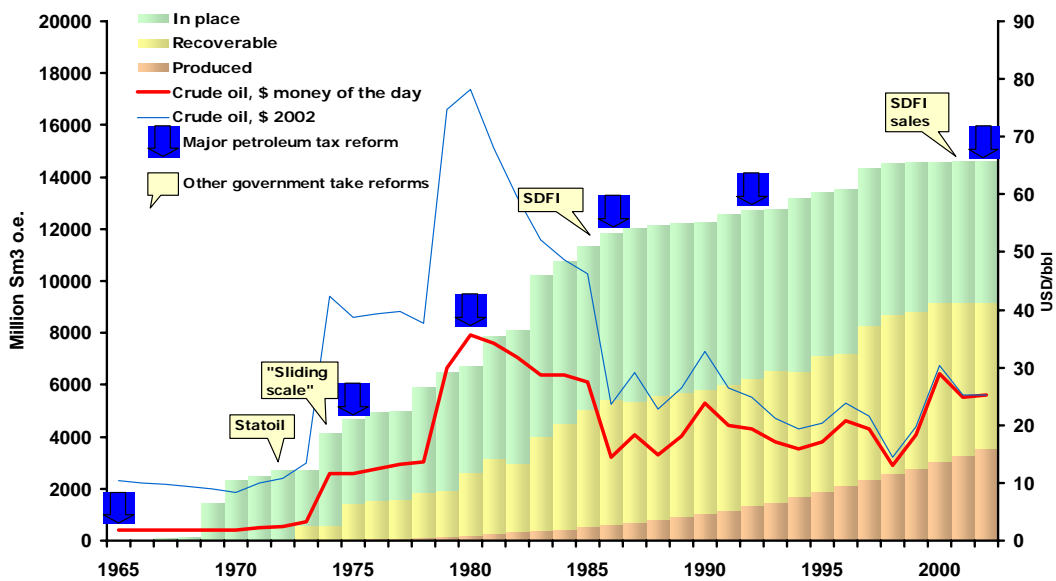
## Main changes:

- ◆ 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 / km<sup>2</sup> / 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 <sub>2</sub> – tax, area fee and royalty	- 145	
Net financing cost	All expensed	- 75	
<b>= Corporate tax base</b>	<b>Tax rate 28%</b>	<b>430</b>	<b>120</b>
Investment Uplift	5% of investment	- 90	
Onshore financing items		- 10	
Onshore income		- 100	
<b>= Special tax base</b>	<b>Tax rate 50%</b>	<b>230</b>	<b>115</b>
<b>= Total tax</b>			<b>235</b>

## 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
<b>Tax Rates</b>					
• Corporate Tax	50.8%	50.8%	50.8%	28%	28%
• Special Tax	25%	35%	30%	50%	50%
• Dividend Tax	10%	15%	15%	-	-
<b>Deductions</b>					
• 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%	-	-
<b>Other</b>					
• 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 <sub>2</sub> Emission Fee	-	-	-	0.70 NOK per m <sup>3</sup> /litre	0.73 NOK per m <sup>3</sup> /litre