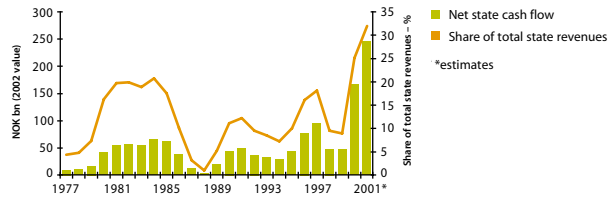


# 5

## State revenues

Tax and royalty system

SDFI



**Figure 5.1** Net state cash flow from petroleum operations 1977-2001.  
(Source: National accounts and state budget)

Securing high and stable government revenues from petroleum operations is an important objective of Norwegian policies for this sector. The most important instruments for generating such revenues, both immediately and in the long term, are the tax and royalty system and the state's direct financial interest (SDFI), as well as dividends from and the rise in the asset value of the state's holdings in Statoil and Norsk Hydro.

Figure 5.1 shows state revenues (taxes, royalty, net SDFI cash flow, sale of SDFI assets and Statoil dividend) from petroleum operations in 1977-2001. Net income of about NOK 14 bn from the sale of Statoil shares is not included in the state's net cash flow in figure 5.1.

### Tax and royalty system

Petroleum taxation builds on the Norwegian rules for ordinary corporation tax, which is charged at 28 per cent both on land and offshore. Owing to the extraordinary profitability (rent) of petroleum production, a special tax of 50 per cent is also levied on this industry.

When calculating taxable income for both ordinary and special tax, investment is subject to linear depreciation over six years from the date it was made. Companies can also deduct their net financial costs allocated between land and offshore operations on the basis of the taxable assets held on land and offshore respectively. An uplift of five per cent of investment is deductible from the income base for determining special tax over a six-year period from the date of the investment.

The most important duties levied on petroleum operations are royalty on oil production, the area fee and the carbon dioxide tax. Royalty is payable on production from fields approved for development before 1 January 1986, and constitutes eight to 16 per cent of gross production value. Royalty is being phased out, and four fields pay it today. It will be abolished for all fields on 1 January 2006.

All production licences must pay the area fee after the exploration period has expired. The annual fee for most licences increases from NOK 7 000 to a maximum of NOK 70 000 per square kilometre over the subsequent decade. If companies renounce the right of preemption in the production licence, they can apply for a 40 per cent reduction in the area fee. Special rules apply for the oldest licences, and for licences in the Barents Sea.

Carbon tax is levied at a rate per scm of gas burnt or directly released and per litre of oil burnt. The rate for 2002 is NOK 0.73.

### SDFI

The SDFI was established in 1985 by dividing Statoil's holding in most Norwegian offshore licences into an equity share for the company and a direct interest for the state. An SDFI interest is incorporated in most licences awarded after 1985. As a result, the state now has a direct interest in most petroleum fields and transport systems on the NCS. In connection with its partial privatisation, Statoil acquired 15 per cent of the SDFI's assets in 2001. A further 6.5 per cent was sold to other

**Table 5.1 Paid taxes and fees, NOK bn (2002 value).** (Source: National accounts and central government budget)

	Corporate tax	Special tax	Royalty	Area fee	Carbon dioxide tax	Total
1980	22.0	10.9	8.1	0.1	0.0	41.1
1981	27.3	16.0	10.5	0.1	0.0	53.9
1982	27.4	16.5	10.5	0.1	0.0	54.5
1983	24.2	15.1	13.1	0.1	0.0	52.4
1984	29.6	17.8	15.7	0.1	0.0	63.1
1985	33.6	20.0	17.9	0.3	0.0	71.9
1986	25.6	14.8	12.0	0.3	0.0	52.7
1987	10.2	4.6	10.7	0.3	0.0	25.9
1988	7.1	1.5	7.6	0.3	0.0	16.4
1989	6.4	2.0	9.6	0.3	0.0	18.4
1990	15.8	6.3	10.8	0.3	0.0	33.2
1991	18.3	8.2	10.9	0.7	1.0	39.2
1992	8.9	8.6	9.6	0.7	2.2	30.1
1993	7.4	10.9	9.0	0.6	2.6	30.5
1994	7.0	10.1	7.4	0.2	2.8	27.5
1995	8.7	11.9	6.5	0.6	2.8	30.5
1996	10.8	14.1	6.9	1.2	3.0	36.0
1997	16.6	20.9	6.7	0.7	3.2	48.2
1998	9.6	11.6	3.9	0.6	3.4	29.2
1999	5.8	6.4	3.3	0.6	3.4	19.5
2000	22.6	33.9	3.6	0.1	3.1	63.3
2001*	42.0	65.1	2.5	1.0	2.9	113.5

\*)Preliminary national planning budget figures.

companies on the NCS during 2002.

Under the SDFI arrangement, the state pays a share of all investment and operating costs in a project corresponding to its direct interest. It also

receives a corresponding proportion of production and other revenues on the same terms as other licensees. Petoro<sup>1</sup> manages the SDFI portfolio.

**Table 5.2 Key figures for the SDFI.** (Source: National accounts and state budget)

	Cash in NOK bn	Cash out NOK bn	Of which investments NOK bn	Net cash flow NOK bn	Net cash flow NOK bn (2002)
1985	0.0	17.4	16.7	(17.4)	(26.8)
1986	1.0	13.0	11.1	(12.0)	(17.7)
1987	4.0	14.7	11.7	(10.7)	(15.3)
1988	5.4	14.5	10.0	(9.1)	(12.5)
1989	15.6	14.8	8.8	0.8	1.0
1990	22.1	14.8	8.5	7.3	9.3
1991	28.4	22.5	12.3	5.9	7.2
1992	31.6	28.0	15.1	3.6	4.3
1993	37.2	37.1	23.9	0.2	0.2
1994	39.1	39.1	26.5	0.0	0.0
1995	42.9	33.7	21.2	9.3	10.2
1996	67.6	32.6	16.8	35.0	38.2
1997	77.2	36.7	20.3	40.4	43.3
1998	60.4	45.9	27.3	14.6	15.5
1999	75.1	49.3	30.3	25.8	26.9
2000	142.9	44.7	22.6	98.2	101.1
2001*	170.4	46.0	17.8	124.4	125.9

\*)Preliminary national planning budget figures.

Table 5.2 shows net cash flow and investment for the SDFI. A one-off settlement of NOK 9 082 mill in 1985 money between the SDFI and Statoil is included in investment and deducted from cash flow. Net revenue of roughly NOK 40 bn from the sale of SDFI assets to Statoil is included in net cash flow for the SDFI.

The SDFI now accounts for a large part of Norway's petroleum sector. Its investments corresponded to about 30 per cent of capital spending on the NCS in 2001.

<sup>1</sup> See chapter 3, State organisation of petroleum operations.