7 Government petroleum revenues

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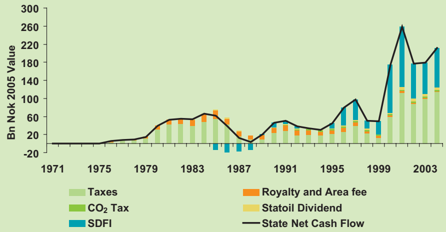

Figure 7.1 The net government cash flow from petroleum activities *(Source: National Accounts and National Budget)*

National Budget 2005 estimates:

	NOK Billion
Direct taxes	112,8
Royalty, CO_2-tax, Area fee	4,5
SDFI	85,9
Statoil dividend	5,2
Total	**208,3**

Figure 7.2 The net government cash flow from petroleum activities 2004 *(Source: National Accounts and National Budget)*

The government earns high revenues from the petroleum sector. In 2004, 28 percent of government revenue came from this sector. Figure 7.1 shows income from the sector over time. It has been high over the last years, and revenues in 2004 were especially high. The value of the remaining petroleum reserves on the Norwegian continental shelf (NCS) was estimated to NOK 3050 billion in the National Budget for 2005.

The government gets a high share of the value created through:
- Taxation of oil and gas activities
- Charges/fees
- Direct ownership of fields on the NCS (The State's Direct Financial Interest: SDFI)
- Dividends from ownership of Statoil

Why has Norway a special system for government take when it comes to petroleum revenues? The main rationale for the system is the extraordinary returns associated with production of the resources. The fiscal system must be understood in connection with common ownership of the resources on the NCS, and that the oil companies are allowed to exploit a valuable, limited resource.

The petroleum tax 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 of the production of the Norwegian petroleum resources, a special tax of 50 per cent is also levied on income from these activities. When calculating taxable income for both ordinary and special tax, investment is subject to depreciation on a linear basis over six years from the date it was made. Companies may also deduct all relevant expences, including exploration-, research and development-, net financial-, operating- and decommissioning expenses. Net income is consolidated between fields. In order to shield the normal return from the special tax, an extra deduction, the uplift, is allowed in the calculation base for special tax. This amounts to 30 percent of investment (7.5 percent per annum for four years from the year the investment is made).

Companies that are not in tax position may carry forward their losses and the uplift with interest. Application may also be made for refund of the fiscal value of exploration costs in the companies' tax returns.

The petroleum tax system has been designed for neutrality, so that an investment project that is profitable for an investor before tax, will also be profitable after tax. It is, therefore, possible to harmonise the requirement for significant income to the society with the requirement for sufficient post-tax profitability for the companies.

Taxes

Other important taxes linked to petroleum activities are the royalty, the area fee and the carbon dioxide tax.

The CO_2 tax was introduced in 1991 and is the most important instrument for reducing CO_2 emissions from petroleum activities. CO_2 tax is levied at a rate per standard cubic metre (scm) of gas burnt or directly released and per litre of oil burnt. The rate for 2005 is NOK 0.78 per litre of oil/scm of gas.

The area fee accrues on all production licences after the expiry of an initial period. It is intended to encourage return of acreage that companies do not wish to exploit. Special rules apply for the oldest licences and licences in the Barents Sea.

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Operating income (norm price)
– Operating expenses
– Linear depreciation for investments (6 years)
– Exploration expenses
– CO_2-tax and area fee
– Net financial costs (limited by the thin capitalisation rule: 20 % equity)
= Corporation tax base (tax rate: 28 %)
– Uplift (7,5% of investment for 4 years)
= Special tax base (tax rate: 50 %)

Figure 7.3 Calculation of petroleum tax
(Source: MPE)

Royalty is being phased out, and will not be paid after 2005. Currently, royalty is only paid by two fields, Gullfaks and Oseberg.

Norm prices

Most oil companies in the Norwegian sector are parts of corporations with a diversified global business portfolio. Petroleum recovered is therefore largely sold to associated companies.

It can often be a very difficult task for the petroleum tax authorities to assess whether prices agreed between two parties equate to what two independent parties would have agreed on jointly for each individual sale. In order to avoid this problem, Section 4 of the Petroleum Tax Act states that norm prices may be determined, to be used in the calculation of taxable income, instead of using the actual income from the sale. The method of determining and the use of norm prices is described in regulations.

The norm price is fixed by the Norm Price Board (NPB), and should be equivalent to the price paid for the petroleum had it been traded between independent parties. The norm price is determined each month and for each field. The NPB meets each quarter to determine prices for the previous quarter. The prices are based on sales reported by the field operating companies, and with the monthly average for Brent Blend as an important reference price. The companies are informed of the price in writing, and are invited to submit their views before the final norm price is determined. The decision may be appealed to the Ministry of Petroleum and Energy within 30 days of the price being determined. When the NPB does not find it appropriate to determine a norm price, the actual sales price will be used as the basis for taxation. This applies for certain crude oils, NGL and gas.

The State's Direct Financial Interest (SDFI)

The State's Direct Financial Interest (SDFI) is an important source of state revenues, in addition to taxes, fees and dividend from its ownership of Statoil and Hydro. The SDFI is an arrangement in which the state owns interests in a number of oil and gas fields, pipelines and onshore facilities. Each interest is decided when production licences are awarded and the size varies from field to field. As one of several owners, the state pays its share of investments and costs, and receives a corresponding share of the income from the production licence. The SDFI was established on 1 January 1985. Before that, only Statoil, at the time a fully state owned company, had been responsible for ownership holdings in production licences. In 1985, Statoil's participation was split into one direct financial share for the state (SDFI) and one for Statoil. When Statoil was listed and privatised on 18 June 2001, the administration of the SDFI portfolio was transferred to the state-created trust company, Petoro.

The arrangement with SDFI interests has a neutral effect, as no risk is transferred from the state to the companies. The SDFI arrangement means that the state, when awarding acreage, can decide exactly how much of the value created it shall receive. In the case of production licences where profitability is estimated as being low, the state can decide to take a small, or even no, share, while a larger share would be appropriate for more profitable fields.

Statoil dividend

As of 1 March 2005, the state owns a 70.9 percent stake in Statoil. As an owner of Statoil, the state receives dividends, which form part of the state revenue from the petroleum sector.

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