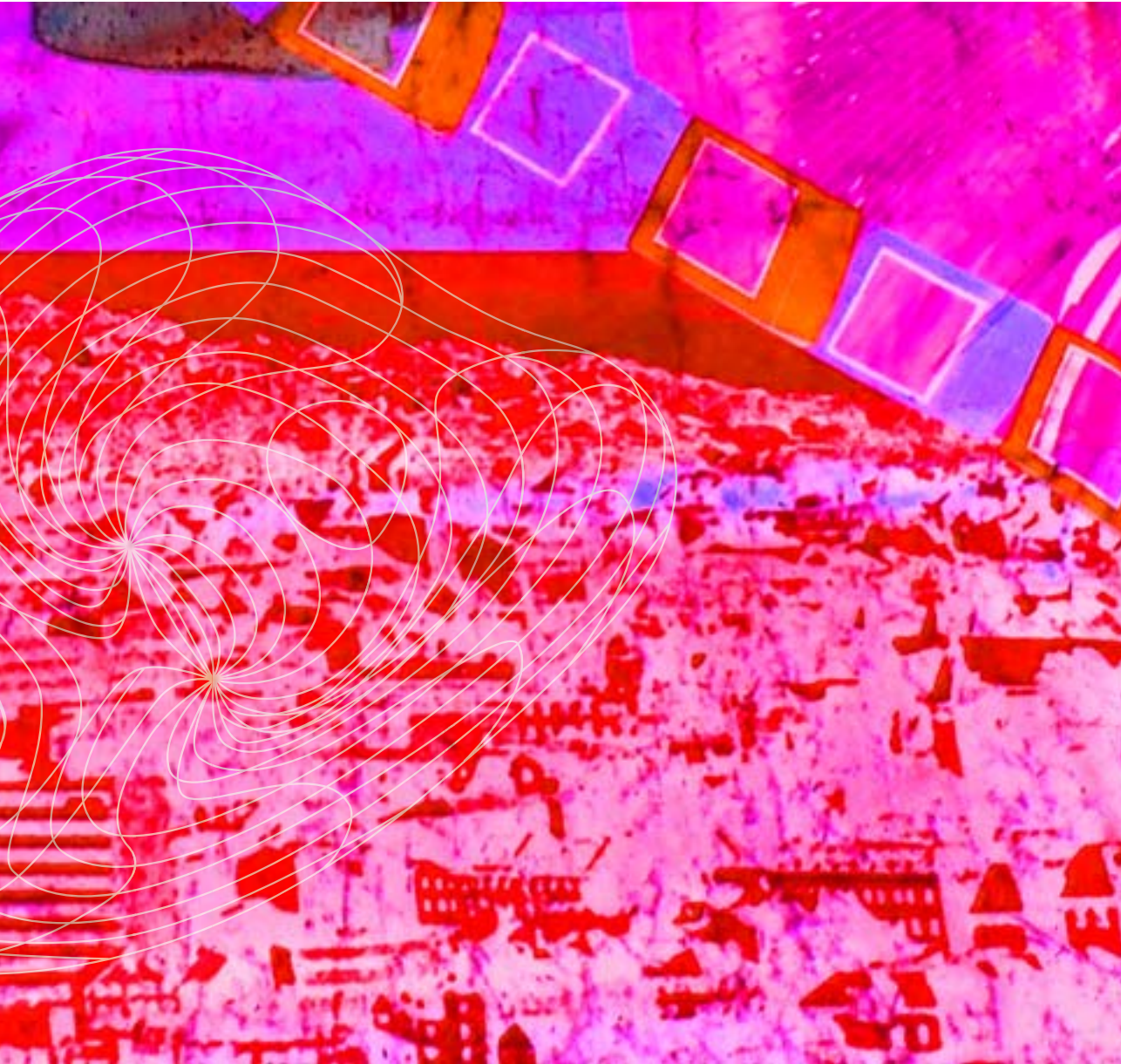
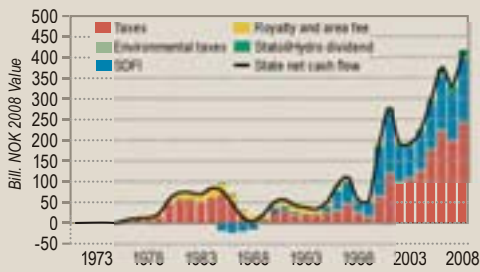


# 3

## Government petroleum revenues





**Figure 3.1** Net cash flow to the state from the petroleum activities  
(Source: State Accounts and SDFI Accounts)

Direct taxes:	239.6
Environmental taxes and area fee:	5.5
SDFI:	153.8*
Statoil dividend:	16.9**
<b>Total:</b>	<b>415.8</b>

\* SDFI annual accounts 2008 (except transfer to SPFF)  
\*\* Dividend for 2007 paid in 2008

**Figure 3.2** Net cash flow to the state from the petroleum activities 2008 (BNOK)  
(Source: State Accounts for 2008 and SDFI Accounts)

The government receives significant revenues from the petroleum activities. In 2008, 33.5 per cent of total state revenues came from this sector. Figure 3.1 shows that income from this sector has been consistently high in recent years, with 2006 yielding extraordinarily high income to the state. The 2009 national budget estimates the value of the remaining petroleum resources on the Norwegian continental shelf at NOK 5455 billion (2009-NOK).

The government receives a large share of the value created through:

- Taxation of oil and gas activities
- Charges/fees
- Direct ownership in fields on the Norwegian continental shelf (through the State's Direct Financial Interest, SDFI)
- Dividend from ownership in StatoilHydro

Norway has a special system designed to secure state revenues from the petroleum activities.

The main rationale for the system is the extraordinary returns associated with production of the resources. The fiscal system must be viewed in light of the common ownership of the resources on the Norwegian continental shelf, and the fact that the oil companies are allowed to exploit a valuable, limited resource.

### The petroleum tax system

Petroleum taxation is based on the Norwegian rules for ordinary corporation tax. Due to the extraordinary profitability associated with production of the Norwegian petroleum resources, a special tax is also levied on income from these activities. The ordinary tax rate is the same as for land activities, 28 per cent, while the special tax rate is 50 per cent. When calculating taxable income for both ordinary and special taxes, investments are subject to depreciation on a linear basis over six years from the date the investments were made.

Companies may deduct all relevant expenses, including exploration, research and development, financial, operating and removal expenses (see Figure 3.3). Consolidation between fields is permitted. In order to shield the normal return from the special tax, an extra deduction, called the uplift, is allowed in the calculation base for special tax. This amounts to 30 per cent of the investments (7.5 per cent per annum for four years from the year the investment was made).

Companies that are not in tax position may carry forward their losses and the uplift with interest. An 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 to be neutral, so that an investment project that is profitable for an investor before tax will also be profitable after tax. This allows us to harmonise the requirement for significant revenues to the society with the requirement for sufficient post-tax profitability for the companies.

### Other taxes

The most important other taxes linked to petroleum activities are the carbon dioxide tax, the NO<sub>x</sub> tax and the area fee.

The CO<sub>2</sub> tax was introduced in 1991 and is an instrument for reducing CO<sub>2</sub> emissions from the petroleum sector. CO<sub>2</sub> tax is levied at a rate per standard cubic metre (scm) of gas burned or directly released and per litre of petroleum burned. The rate for 2009 is NOK 0.46 per litre of petroleum or scm of gas.

Pursuant to the Gothenburg Protocol of 1999, Norway has an obligation to reduce annual emissions of nitrogen oxides (NO<sub>x</sub>). In order to fulfil this obligation, the NO<sub>x</sub> tax was introduced from 1 January 2007. For 2009, the tax is NOK 15.85 per kg of NO<sub>x</sub>.

#### Operating income (norm price)

- Operating expenses
- Linear depreciation for investments (6 years)
- Exploration expenses, R&D and decommissioning
- CO<sub>2</sub>-tax, NO<sub>x</sub>-tax and area fee
- Net financial costs

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= Corporation tax base (tax rate: 28 %)

- Uplift (7,5 % of investment for 4 years)

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= Special tax base (tax rate: 50 %)

**Figure 3.3** Calculation of petroleum tax

(Source: Ministry of Petroleum and Energy)

The area fee is intended to be an instrument that contributes to efficient exploration of awarded acreage so that potential resources are produced as quickly as possible within a prudent financial framework, as well as to extend the lifetime of existing fields.

### Norm prices

Most oil companies on the Norwegian continental shelf are parts of corporations with diversified global business portfolios. Produced petroleum 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 associated companies are equivalent to what two independent parties would have agreed upon jointly for each individual sale. In order to avoid this problem, Section 4 of the Petroleum Tax Act states that norm prices may be stipulated and used in the calculation of taxable income. The methods for stipulation and use of norm prices are described in regulations.

The norm price is set by the Petroleum Price Council (PPR), and should reflect the price paid for petroleum traded between independent parties. As a rule, the norm price is stipulated each month and for each field. The PPR meets each quarter to stipulate prices for the previous quarter. The prices are based on information from and meetings with the operating companies before the final norm price is stipulated. Decisions may be appealed to the Ministry of Petroleum and Energy within 30 days. When the PPR does not find it appropriate to stipulate a norm price, the actual achieved sales price will be used as the basis for taxation. This applies to certain crude oils and NGL. The actual sales price is used as a basis for 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 dividends from its ownership in StatoilHydro. SDFI is an arrangement in which the state owns interests in a number of oil and gas fields, pipelines and onshore facilities. The government take is decided when production licences are awarded and the size of the state interest 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. SDFI was established on 1 January 1985. Prior to this Statoil alone, at the time a fully state-owned company, was responsible for the state's 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 partially privatised on 18 June 2001, the administration of the SDFI portfolio was transferred to the state-owned trust company, Petoro. As of 1 January 2009 the state had direct financial interests in 121 production licences and 12 joint ventures for pipelines and onshore facilities.

The SDFI arrangement is neutral in the sense that no risk is transferred from the state to the companies. This system allows the state, when awarding acreage, to determine exactly how much of the value creation shall devolve on the state. For production licences with low expected profitability, the state can decide to take a small interest, or even refrain from taking an interest, while a larger share would be appropriate for more profitable fields.

### StatoilHydro dividend

As of 15 March 2009, the state owns 67 per cent of the shares in StatoilHydro. As an owner in StatoilHydro, the state receives dividends which form part of the state's revenues from the petroleum sector.