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The impact of fiscal policies on the final investment decision of E&P companies

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Why compare O&G tax systems North Sea?

- Same regional area with grosso modo the same conditions in terms of weather, wind, flow, and depth conditions.
- All countries involved are comparable in terms of economic wealth, i.e. all developed countries

Denmark

- CIT of 25% and a special hydrocarbon tax of 52%: combined 64%
- No royalties or surface rentals are due
- No estimated decommissioning provision
- Uplift of 30% on qualifying expense
- Depreciation: declining balance method @15-25%. For drilling rigs usually depreciation @17%

The Netherlands

- CIT of 25% and a special hydrocarbon tax (SPS) of 50%: combined rate is approximately 47-50%
- Surface rentals and royalties may be due
- Decommissioning provision allowed
- Uplift of 10% on qualifying expense SPS
- Depreciation fixed assets based on UOP over life time of the field
- Marginal field incentive: additional 25% uplift

Norway

- CIT of 27% and a special hydrocarbon tax of 51%: combined 78%.
- Depreciation fixed assets over a 6 year period commencing as of the year of investment
- Additional allowances aggregating to 22%
- Tax value of expense incurred for exploration activities are refundable on a yearly basis.

United Kingdom

- CIT of 30% and a supplementary charge of 30%
- For old fields a Petroleum revenue tax of 50%
- 100% first-year allowance E&P CAPEX
- restricted tax relief decommissioning expenses for Supplementary Charge purposes to 20%
- Special field allowance, cluster area allowance, and brown field allowance are available

What do E&P countries want (objectives)?

- Large and fair share - Linked to oil price?
- Cash flow – Royalties versus profit tax
- Control over the operations
- Combined tax rate should not exceed maximum efficient rate of recovery
- Prudent companies

How do E&P countries achieve objectives?

- Participation by government (association / PSC)
- Tax incentives
- Flexibility re changing market conditions

E&P tax systems

- Royalty / Tax
- Association / Production Sharing Contract
- Risk Service

Economic flexibility

- Flexible E&P rates depending on cost level / oil prices

Tax incentives

- Marginal field incentives – at all cost?
- Decommissioning provision
- Full cost recovery / depreciation
- Decrease combined ETR
- Uplifts / allowances

Contact

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