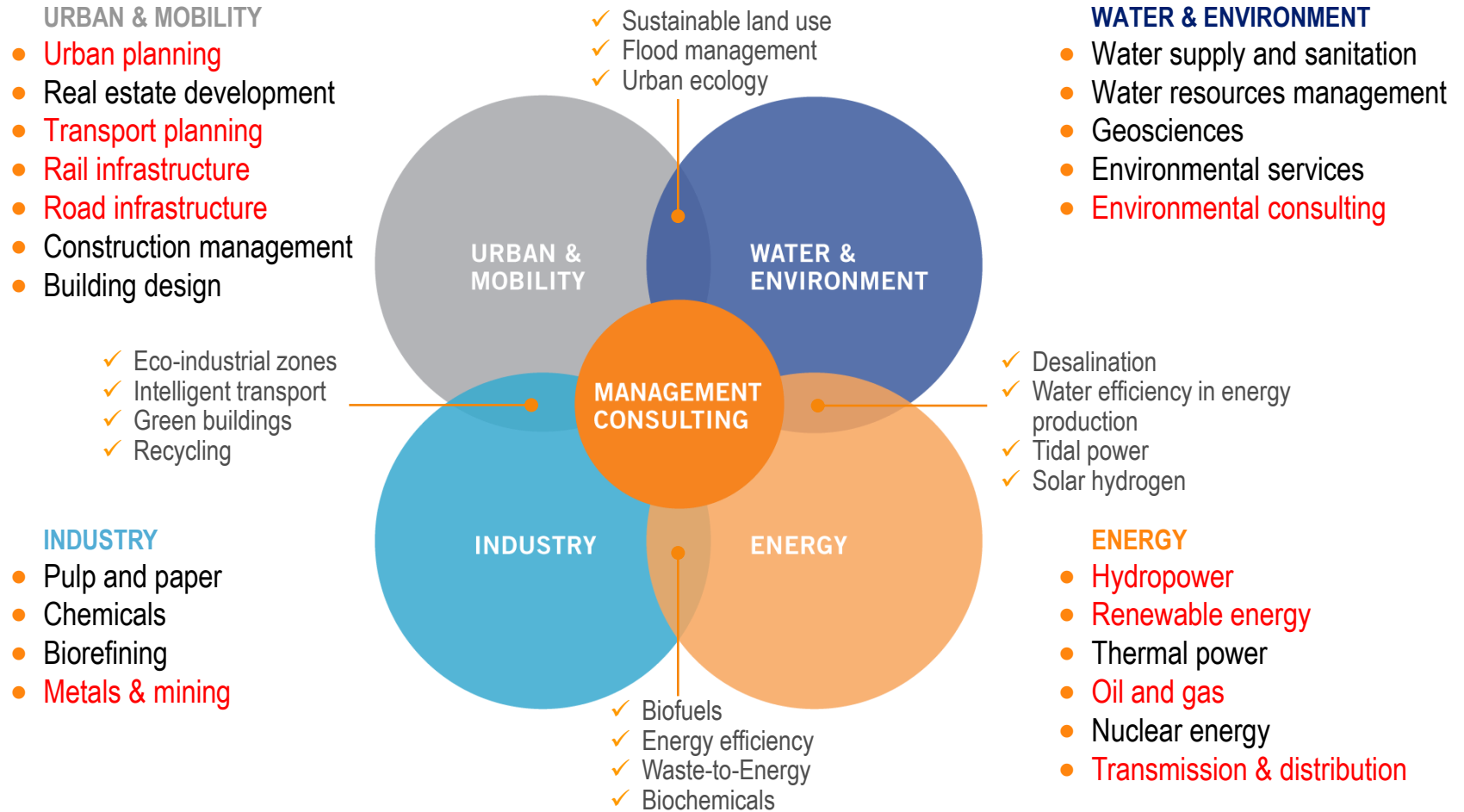




THE COMPANY – PÖYRY MANAGEMENT CONSULTING



THE TEAM – BROAD PETROLEUM AND ECONOMICS EXPERIENCE

- Frian Aarsnes
 - Principal
 - 15+ yrs experience from extractive industries
 - 10 yrs as
 - head of tax in an oil company
 - 4 years as head of OLF tax committee
- Petter Lindgren
 - Analyst
 - Master of philosophy in Economics
 - 4 yrs experience from
 - the Group of Public Economics in Statistical Bureau
 - 2 yrs in the Petroleum group in Pöyry

THE CUSTOMER

- The Global Subsidy Initiative
- has a goal:
 - “The GSI’s goal is to encourage individual governments to undertake unilateral reforms on subsidy policy”
- but they are honest and open about it
- Pöyry is therefore confident that readers of the report understand the setting within which the report has been produced

THE APPROACH

- Pöyry is a company that has projects for both governments, organizations and companies
- We conduct independent research and analyses
- Our approach has been to identify potential subsidies under the WTO definition and its break-down by the GSI
- We have refrained from determining any of the potential subsidies as "good" or "bad", as that would entail a much larger study of the effects of the total petroleum industry on the Norwegian economy.

THE DEFINITION

- The subsidy definition is based on the WTO's Agreement on Subsidies and Countervailing Measures, to which 153 countries have agreed. Under Article 1: Definition of a Subsidy, the Agreement determines that four types of potential subsidies exist, where:
 1. Government provides direct transfer of funds or potential direct transfer of funds or liabilities.
 2. Revenue is foregone or not collected.
 3. Government provides goods or services or purchases goods (at other than market prices).
 4. Government provides income or price support.
- The Agreement also requires that a subsidy be specific to an enterprise, industry, or group of enterprises or industries.

THE LIST

- Started with a long-list of 30+ different mechanisms initiated by IISD/GSI and others
- Short-listing brought this list down to 17 mechanisms that were tested against the WTO definition
- Only 9 of these 17 can be positively identified as potential subsidies, the others are clearly not
- Some are dubious, some are more straight-forward as we shall see later

**TABLE 1.1: SUBSIDIES IDENTIFIED AND ESTIMATED FOR UPSTREAM OIL AND GAS ACTIVITIES
IN NORWAY**

Section	Expenditure/policy	Is it a subsidy?	Size of subsidy (million NOK)
	Transfer of funds or liabilities		
4.1.1	Government spending on SDFI and Petoro	No	
4.1.2	Public infrastructure	No	
4.1.3	Research and development programs	Yes	216
4.1.4	Emergency preparedness	Yes	N/A
4.1.5	Insurance subsidies	No	
	Provision of goods and services at below-market prices		
4.2.1	Seismic investigations by the Norwegian Petroleum Directorate	Yes	257
4.2.2	Gassco infrastructure and facilities services	Yes	24
4.2.3	Guarantee Institute for Export Credit and government credit guarantees	No	
4.2.4	Eksportfinans and favourable long-term financing	No	
	Government revenue foregone		
4.3.1	Government coverage of 78 per cent of expenditures	No	
4.3.2	Loss carried forward with interest rate	Yes	N/A
4.3.3	Guaranteed reimbursement of loss carried forward	Yes	N/A
4.3.4	Exploration reimbursement to exploration companies	Yes	4,024
4.3.5	Fast deduction of investments	Yes	20,812
4.3.6	Liquefied natural gas in Northern Norway: The case of Snøhvit	Yes	181
4.3.7	Uplift: An additional investment subsidy	No	
4.3.8	Transfer of production licences	No	

THE CONCLUSION

- 3 potential subsidies that matter
 - Snøhvit (no surprise)
 - Exploration refund (no surprise)
 - Fast depreciation (has been up before)
- The other 6 potential subsidies does not matter

“We estimate that removing the non-fiscal subsidies would have almost zero direct effect or very unpredictable indirect effects. Removal of the research and development (R&D) subsidy would most likely have zero impact on oil and gas activity itself, and thus no impact on government revenue, employment or carbon dioxide emissions, but consequences could be unpredictable for research programs and research institutions.”

THE SEMANTICS – SUBSIDY OR INCENTIVE

“By defining policies as subsidies, it is not our purpose to be normative. The latter word has, over decades, acquired negative connotations.”

A subsidy is a preferential treatment

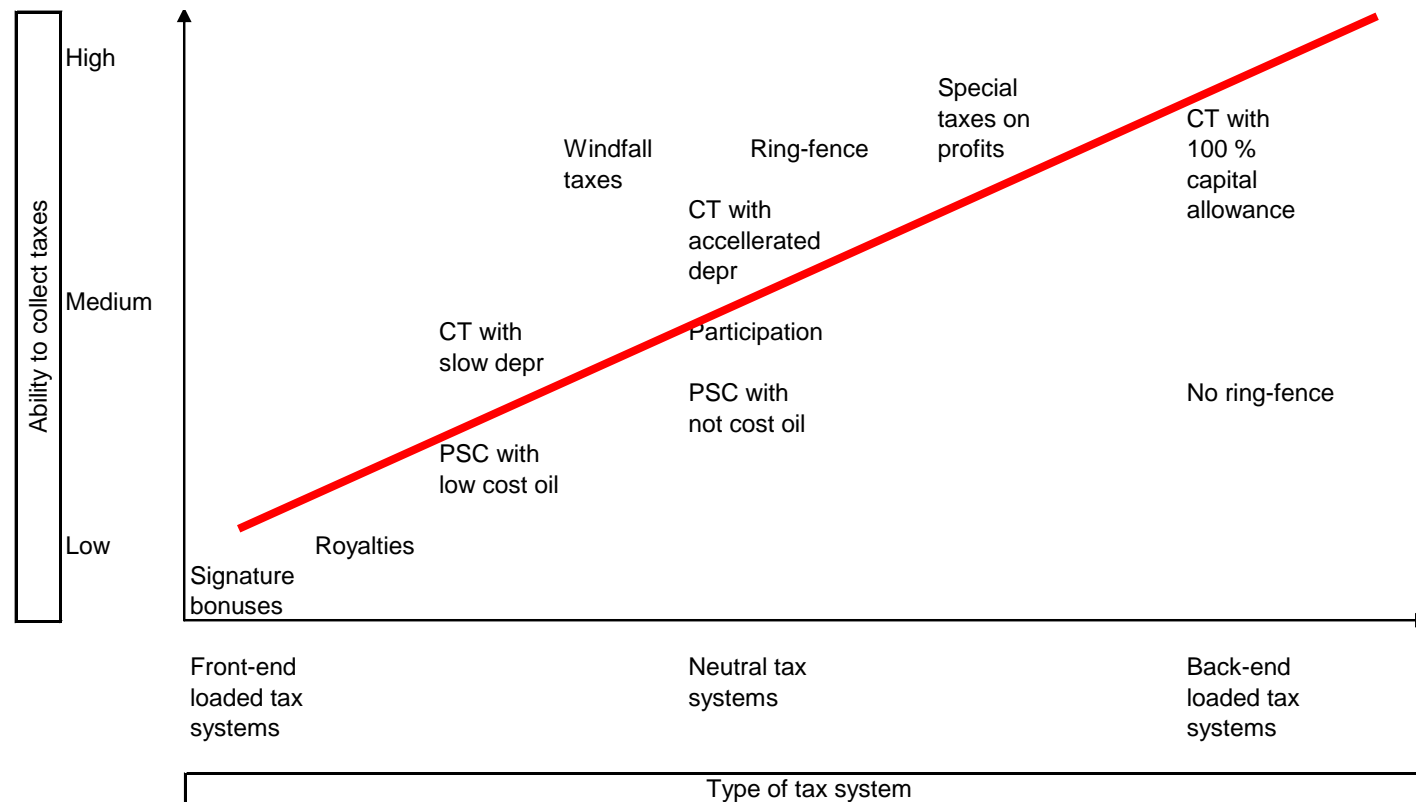
An incentive is a preferential treatment

It is very hard to see the real difference, and thus it is more a question of semantics than anything what these preferential treatments are called. According to the WTO definition they are probably subsidies.

THE CRITICISM – FROM THE MINISTRY OF FINANCE

Kjetil Lund: *"The petroleum tax system is neutral"*

- Well, most of the world would call the Norwegian petroleum tax system a "back-end loaded tax system"



THE CRITICISM – IN THE DEBATE

- Hans Henrik Ramm: *“None of the instruments are what one in daily speech would think of as subsidies”*
- Petter Osmundsen: *“wrong method to call this subsidies”*
- The criticism seems to be based on that there is clearly a surplus from this industry and thus that these mechanisms cannot be subsidies.
- However, these critics are clearly not arguing based on whether these are subsidies according to the definition or not, but whether they are desirable or not or whether they are subsidies under a different definition.
- Pöyry has carried out a study based on a definition that over 150 countries supports, including Norway. Pöyry has however refrained from saying whether the subsidies are desirable or not. That is up to others, and in particular Hans Henrik Ramm has turned up the arguments for them being desirable.

THE CRITICISM – IN THE MEDIA

- During the same days as the subsidy report has been commented there have been two examples that partly support and partly underscores the report:
 - on Tuesday 14th February 2012 the newspaper Aftenbladet ran a story of preferential treatment of the time it takes to approve renewable projects versus oil and gas projects: *”Energy Norway complains of too slow administrative treatment for renewable projects while at the same time complaining of too fast treatment of oil development projects.*
 - this week the Minister of Oil and Gas is also referred to in the media to have asked the oil and gas industry to willingly slow down the activity on the Norwegian shelf to avoid further cost spirals in the industry

THE CRITICISM – IN THE MEDIA

- It has turned up a mistake in the report
- By a mistake Pöyry has for some unexplainable reason written that the oil and gas industry does not pay CO2 fees in addition to having to pay CO2 quotas.
- We apologize for this mistake in the report. It should never have been there.
- However, this mistake has no effect on the rest of the report, as the individual elements have been reviewed in isolation. Since the CO2 elements are part of the tax sanctions these have not received the same scrutiny as the potential subsidies, which most probably is the reason why it slipped through in the first place.

THE INDIVIDUAL SUBSIDIES – ARE THEY SUBSIDIES?

- Transfer of funds and liabilities

- Research and development

R&D IS a subsidy per definition. However, it is also a subsidy that has a lot of public good in it (when the research is done, the results can be utilized very much by everyone without negative effects for anyone)

- Emergency preparedness

This is a precaution, and it has again a lot of public good in it (no single company benefits by itself unless an accident happens). The reason it is a potential subsidy is that these costs really belongs to the industry, and when the society picks up the bill, this goes a long way in the direction of subsidizing the companies

THE INDIVIDUAL SUBSIDIES – ARE THEY SUBSIDIES?

- Goods and services at below-market prices

- NPD seismic investigation costs

These seismic packages are sold at the same price to all the companies, but the price is set lower than what would have been going market rates from a private company. These costs are thus goods and services provided at below-market prices and is most likely a subsidy under the WTO definition. However, it is also a subsidy that meets the public good definition.

- Gassco operating costs

The operating costs of Gassco is distributed based on cost. This clearly benefits the companies selling the gas, and thus seems to meet the WTO definition of a subsidy. It does not meet the public good definition.

THE INDIVIDUAL SUBSIDIES – ARE THEY SUBSIDIES?

- Government revenue foregone
 - Exploration reimbursement to exploration companies
 - It is a preferential treatment for companies exploring for oil and gas only
 - It is supporting individual companies
 - The state is not guaranteed a positive return
 - This seems to fall within the WTO definition
 - Fast investment deduction
 - It is a preferential treatment for companies in the oil and gas sector
 - It is supporting a specific industry
 - The state is not guaranteed a positive return in all cases (but Norway has been extremely lucky)

THE INDIVIDUAL SUBSIDIES – ARE THEY SUBSIDIES?

- Government revenue foregone
 - Snøhvit
 - It is a preferential treatment for companies in the Snøhvit licenses
 - It is supporting a specific project
 - The state was not guaranteed a positive return (but again Norway has been extremely lucky)
 - This seems to fall within the WTO definition

THE INDIVIDUAL SUBSIDIES – ARE THEY SUBSIDIES?

- Government revenue foregone
 - Loss carry forward with interest rate
 - Guaranteed reimbursement of tax value of loss carry forward upon closing down company
 - It is preferential treatment for companies in the oil and gas industry
 - It is supporting specific companies
 - The state is not guaranteed a positive return
 - This seems to fall within the WTO definition

THE EFFECT CALCULATIONS

- There are many ways of calculating effects
- Pöyry has used methodologies commonly applied by the Statistical Bureau of Norway, but applied them to amongst other fiscal mechanisms in the oil and gas industry
- Pöyry stands fully behind these calculations, but at the same time recognizes that other parties could have used other methodologies to calculate the same effects and also recognizing that calculating these effects for one year (2009) can produce other results than calculating them for a number of years.

THE FINAL REMARKS

- A partial evaluation of each element in a regulatory system analyzed by themselves will obviously result in a rather fragmented picture of the situation for the petroleum companies.
- Pöyry has pointed out that it is not obvious that other industries would want to be within the same system. That is however not the point.
- The point is that there are preferential treatments for the oil and gas companies in Norway that in varying degrees falls within the WTO definition of subsidies, and this preferential treatment have effects in the Norwegian economy.

THE FINAL REMARKS

- It is not up to Pöyry to conclude within this project whether these are desirable mechanisms or not.
- The Global Subsidy Initiative wants through the report to create debate around ANY preferential treatments to oil and gas companies.
- It is up to politicians, regulatory authorities, media, the various industries in Norway etc to find out if all these mechanisms are desirable in the long run or not.
- Pöyry is certain of that the oil and gas industry is an important industry for Norway ... but so are other industries as well.