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Hydrocarbon Tax - experience of Denmark, Iceland, Norway and the United Kingdom

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**The contents of this document do not reflect the official views of the Parliament of Montenegro .*

Contents

Foreword

The oil and gas industry is most commonly divided into three activity sectors[1]:

- Exploration and production - “upstream industry”,
- Transportation, storage and marketing - “midstream industry”,
- Refining and processing - “downstream” industry (refining and processing of hydrocarbons into usable products - petrol, diesel oil, jet fuel).

In addition, the oil and gas industry may also be divided into two more sectors:

- Exploration and production,
- Refining and marketing.

“Upstream industry” involves exploration and production of oil and gas, i.e. exploration, production, infrastructure and operational support in production, management of oil and gas reserves, major projects involving exploration and production, and management of processes of the Science and Technologic Centre.[2]

In Montenegro, conditions, manner of and procedure for exploration and production of hydrocarbons, as well as other matters important for exploration and production of oil and gas are governed by the Law on Exploration and Production of Hydrocarbons[3]. In the beginning of February 2014, the Government determined the Draft Law on Taxation of Hydrocarbons, which introduces liability of payment of corporate income tax on profits gained from upstream operations related to hydrocarbons. As defined in the law proposal, upstream operations involve: operations for the purpose of extracting hydrocarbons from deposits, construction or use of facilities, for the purpose of production and delivery of oil and gas, including exploration, drilling of wells, production, transport and utilization of oil and gas for production purposes and other activities related to upstream operations, except for transport of oil or gas in bulk by rail-borne vehicles, aircrafts, road-borne vehicles, or watercrafts.

According to the law proposal, the tax rate on hydrocarbons shall be 59% of the tax base, where 20% of the tax generated revenue will be directed to the state budget, whereas 80% to the Hydrocarbons Fund.

In order to prepare a comparative overview on tax regimes imposed on businesses dealing with upstream operations, the Research Centre gathered and processed data related to imposition of corporate taxes on income generated from activities involving exploration and production of hydrocarbons in the following four countries: Denmark, Iceland, Norway and the United Kingdom. In the course of preparation of this document, the following were analysed: relevant regulations governing this particular area, publication of the American

[1] Petroleum education: Upstream, Midstream & Downstream http://wpccanada.com/yc/industry-info/about-the-industry/upstream-midstream-downstream.html
[2] Company NIS webpage http://ir.nis.rs/kratak-pregled/
[3] Law on Exploration and Production of Hydrocarbons (Official Gazette of Montenegro no. 41/10 of 23 July 2010, 40/11 of 8 August 2011, 62/13 of 31 December 2013) http://www.skupstina.me/~skupcg/skupstina/cms/site_data/SKUPSTINA_CRNE_GORE/ZAKONI/Zakon%20o%20istrazivanju%20i%20proizvodnji%20ugljovodonika.pdf

consultancy Ernst & Young, entitled “Global oil and gas tax guide 2013” and publication of BAHR consultancy with its headquarters in Oslo, entitled “Norwegian Petroleum Taxation”, websites of the European Commission and HM Revenue & Customs-department of the UK Government. In accordance with the collected data, Denmark, Iceland and Norway have separate laws governing taxation of upstream operations related to hydrocarbons, while in the United Kingdom, this field is governed by the Finance Act and Corporation Taxation Act. Corporate income tax rates on profits generated from upstream operations may vary in the aforementioned countries, whereby their amount is determined by several factors, including the date of receipt of the license to carry on this sort of business (Denmark and United Kingdom).

The rest of the document provides a comparative overview of concise data concerning upstream industry taxation by each the aforementioned country.

The complete document in Montenegrin language can be found at: http://www.skupstina.me/images/dokumenti/biblioteka-i-istrazivanje/Porez_na_ugljovodonike_iskustvo_Danske_Islanda_Norveske_i_UK.pdf