

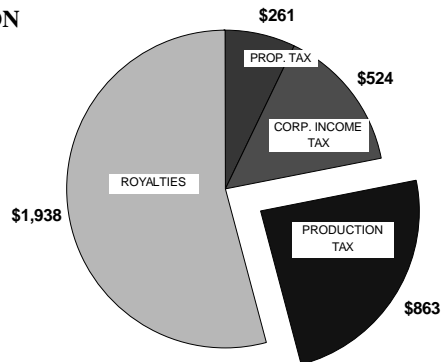
# Alaska's Production Tax

## Theory and Practice

### Alaska's CURRENT Oil Fiscal System by Source FY '05

**TOTAL**

**\$3631 MILLION**



Alaska Dept. of Revenue Fall '05 Revenue Sources  
Property taxes includes Municipalities  
Royalties include Permanent Fund

# Alaska's Oil and Gas Fiscal Regime

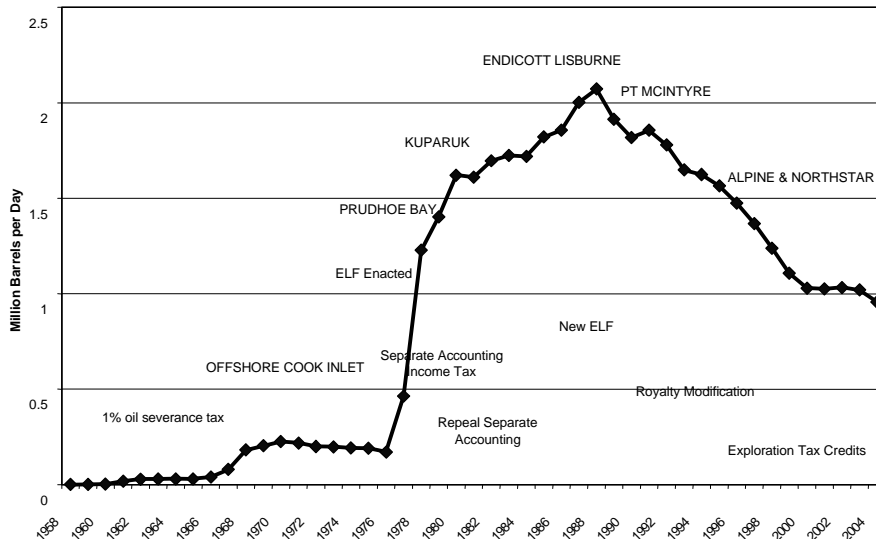
**Royalty:** State ownership share of the resource removed and sold from State lands.

**Production tax :** Tax on the severing of the resource from the State as either a % of value or a minimum cents per barrel or mcf.

**Property Tax:** Levied on the assessed value of production and transportation hardware at a rate of 20 mils

**Corporate Income Tax:** World-wide income allocated to Alaska based on three factors: production, property and sales (includes tariffs)

Alaska Oil Production and Major Fiscal Adaptations 1958 - 2004



# An International Perspective on Petroleum Fiscal Systems

Norwegian Petroleum Directorate

## The fiscal policy Objective

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- ♦ Government objective
    - Maximise Government take
      - Get as high share of the profit as possible
    - Maximise value of the petroleum resources
- ↑↓
- The goal is to create a win-win  
situations between the state  
and the oil companies*
- ♦ Companies objective
    - Maximise shareholders interest (private or public)

06/06/2007

9

## The fiscal policy

### Government objective

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- ♦ Important to create a win-win situations between the state and the oil companies
  
- ♦ The bargaining relationship depends mainly on profitability and risk
  - the government has to take the mother earth and the geological potential into consideration when it design the fiscal packages
  
- ♦ Crucial to relate the fiscal packages on the geological basis and where on the geological learning curve that province is

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4

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7

## The fiscal policy

### Challenge

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- ♦ The challenge of the fiscal policy:
  - Ensure as high share of the value as possible for the Government
  - Encouraging the exploration and exploitation of valuable resources
  
- ♦ One has to find a correct balance between the state interest and the oil companies.

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8

## The fiscal policy

### The fiscal package



- ♦ The fiscal packages can be characterized both by the
  - The tax level
  - The tax system
- ♦ The fiscal policy can create disincentives to explore or to exploit the petroleum resources due to either the tax level or the tax system
- ♦ A key question to any fiscal package is whether it will influence the investment decision of the investor adversely with respects to the nation optimal decisions.

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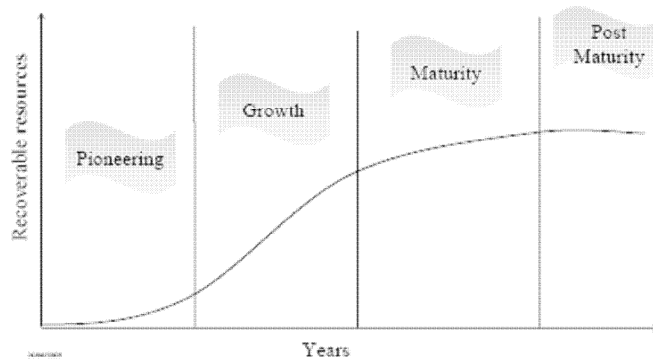
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## The fiscal package

Relate to the geological basis and the geological learning curve

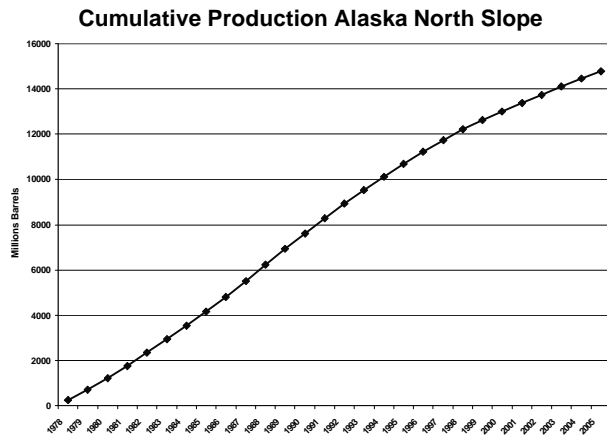


The geological learning curve



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## What Have Experts Told Us Repeatedly

- Taxes on net are more economically efficient because they allow investors to recover their investment and rate of return.
- This ensures a competitive area to invest in.
- Governments need to style their fiscal system around their geology.
- Alaska is a high cost environment

13

- Alaska thus is not a particularly attractive place to explore and develop with its current system (no sharing of upstream costs in a high cost environment)
- Alaska could change its system to both increase its government take and encourage investment.

14

## A Sample of these Experts

- The 1978 study by Walter Levy and Associates which lead to the adoption of separate accounting.
- The primary conclusion in the 1989 Alex Kemp/Gaffney/Motamen study following the ELF change.
- The conclusions in the 1994 Arthur D. Little/John Gault Study

15

- Woods MacKenzie in its 2004 study of international fiscal systems also described Alaska as a high cost regressive system that did have a good ranking thanks to high oil prices and the discovery of the lucrative Alpine field in 1994.
- 2005, Pedro Van Meurs recommends net profit system to replace ELF to provide State revenue upside and encourage investment

16

## Why has the State Been Reluctant to Change the System?

- Throughout the 1990's significant concern about low prices.
- This led implicitly to a desire to give up some upside potential to protect against catastrophic low prices (see FY 1999)
- Changing oil fiscal regimes is not taken lightly--especially in a declining production environment.

17

## Conclusions

- Alaska can take a positive step to making its tax system more efficient by changing the petroleum production tax
- We will still have our royalty share calculated before upstream cost deduction
- We will still have a piece of world-wide corporate income as long as the companies produce in Alaska

18

## Conclusions

- We will also have a property tax
- At the same time if prices stay anywhere near as high as they have been over the last three years, we will generate more revenue for the state AND
- Provide significant new incentive to spend investment dollars exploring for and developing oil and gas in the State