

Fees and taxation related to exploration and production licences in the Netherlands and its continental shelf.

The Mining Act went into effect on 1 January 2003. It details the taxes and fees on exploration and production of hydrocarbons, as well as the mandatory financial state participation in production.

Corporation tax and Royalty (Vennootschapsbelasting and Winsttaandeel)

Companies owe regular Corporation Tax ("Vennootschapsbelasting"). The rate is 25.5 %.

The holder (or all co-holders) of a production license have to pay Royalty ("Winsttaandeel"). It is based on the Profit as reported in the profit and loss account of activities attributable to the license. The licensee can prepare a consolidated profit and loss account for his licenses.

Royalty is basically 50% of the Profit, i.e. income minus costs, but there are two additional factors which lower the Royalty:

1. In calculating the Profit, an extra 10 % of the costs can be deducted, the so-called *cost uplift*.
2. Corporation Tax can be fully deducted from Royalty.

This results in the following equation:

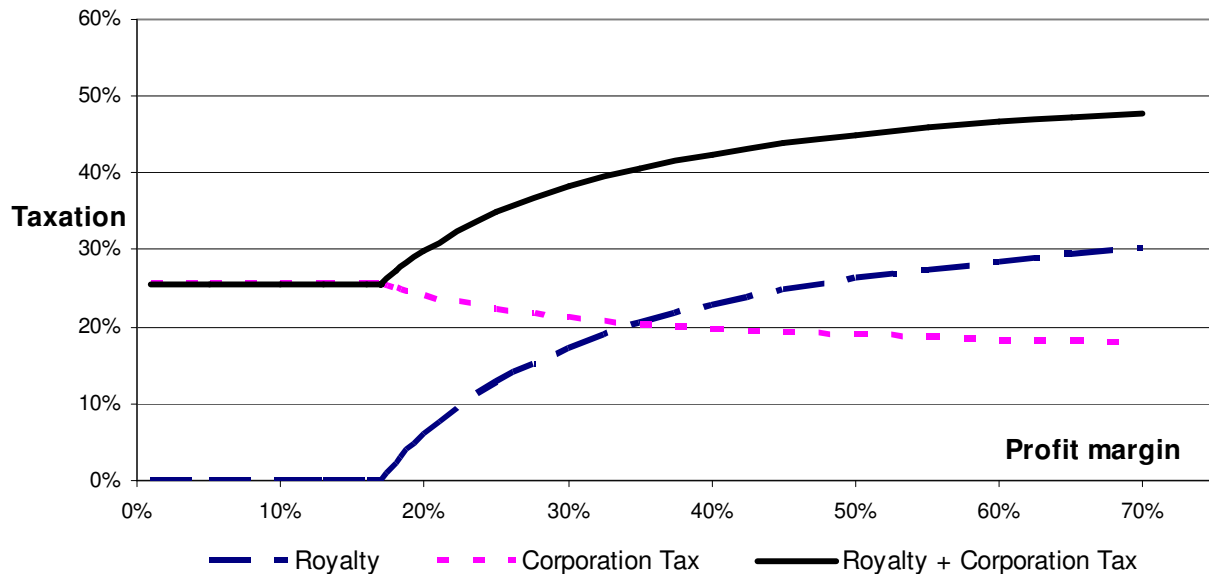
$$\text{Royalty} = 50 \% \text{ of } (\text{income} \text{ -/ - } \text{costs} \text{ -/ - } 10\% \text{ of the costs}) \text{ -/ - } \text{Corporation Tax}$$

The Royalty owed serves in turn as a deduction for the Corporation Tax. The extra cost allowance of 10% does not apply to the Corporation Tax. In formula:

$$\text{Corporation Tax} = 25.5 \% \text{ of } (\text{income} \text{ -/ - } \text{costs} \text{ -/ - } \text{Royalty})$$

As Corporation Tax and Royalty depend upon each other, they can only be calculated in combination.

The figure below shows the percentage of Profit owed in Corporation Tax and Royalty, as a function of the profit margin (profit as a percentage of income). If the profit margin is under 16.95 %, only Corporation Tax is due; above that, the percentage of Corporation Tax and Royalty together gradually increases. For instance, at a profit margin of 30%, 38% of profits are due in Corporation Tax and Royalties combined.



Area fee (Oppervlakterecht)

The owner of any production license owes an annual Area fee ("Oppervlakterecht"). The rate in 2009 is € 679 per km².

The holder of an offshore exploration license also owes an Area fee. This is the only taxation for an exploration license. The rates vary by the duration of the permit.

1–6 calendar years € 227 per km²
 7–9 calendar years € 453 per km²
 9 or more calendar years € 679 per km²

Severance tax (Cijns) – onshore licenses only

The Severance Tax (“cijns”) is only charged to onshore licenses. It is a fee on the turnover generated by a production license. The turnover is determined by production volume (except volume used during exploration/production for processing and transport) and selling price. The rate is determined according to the following volume brackets:

| Amount of gas (in 10 ⁶ m ³) or oil (in 10 ³ m ³) produced | Percentage |
|---|------------|
| 0–200 | 0 |
| 200–600 | 2 |
| 600–1200 | 3 |
| 1200–2000 | 4 |
| 2000–4000 | 5 |
| 4000–8000 | 6 |
| > 8000 | 7 |

Example: If 1 billion (=1000*10⁶) m³ gas is produced, the percentage in Severance taxes owed amounts to (600-200)*2+(1000-600)*3 = 2.5%. At a selling price of, say, € 0,20 per m³, the fees are € 5 million.

The severance tax rate is increased by 25%, if the average cost for crude oil imported into the Netherlands in a year rises above € 25 per barrel.

Fees to the province (Afdracht aan de provincie) – onshore licenses only

A production licensee producing hydrocarbons in an onshore area, owes a one-time fee to the province (“Afdracht aan de provincie”). The base for levying the fee is the size of the area in use for the production installations (not the area to which the production license pertains). The rate for 2003 was € 4.50 per m². It is indexed (with a wage index) and collected by the provincial government.

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