COMMONWEALTH OF AUSTRALIA

1967/71
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DEPARTMENT OF NATIONAL DEVELOPMENT

BUREAU OF MINERAL RESOURCES
GEOLOGY AND GEOPHYSICS

RECORDS:

RECORD No. 1967/71

PETROLEUM ROYALTIES

by

M.C. KONECKI

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The following information was prepared for the Minister for National Development to reply to a Question on Notice by Mr. Luchetti, in the House of Representatives.

QUESTION:

(1) Can he say what are the rates of royalty paid by oil companies and other groups exploiting flow oil and natural gas reserves in the main producing areas throughout the world.

(2) What incentives have been paid or are being paid to companies to encourage their participation in oil and gas search.

ANSWER:

(1) Royalty is the payment made by the concessionnaire in consideration for the right of exploiting any petroleum in the area of his concession. The payment may be made as a percentage of profits or as a part of production (usually based on value of production). The concession system is one of the legal and fiscal systems governing oil and gas development and production throughout the world. Royalty is only one of the forms of government share in the proceeds of the petroleum producing companies; the other forms include various taxes, and exemptions therefrom, and/or direct government participation with or without sharing the risk and development costs. It follows, that royalty rates do not necessarily reflect the host Governments' interest accruing from the proceeds of petroleum production. There is at present a great variety of forms of agreement between the host Governments and the investing companies for the exploration and development of petroleum resources and there is a tendency to a proliferation of these forms. This trend is due to the fact that the host Governments in general desire on the one hand, to extract the maximum financial and social benefit for themselves and their countries from the national natural resources and, on the other, to attract and to commit the investors to the search for and development of these, largely unproven, national natural resources. These two, apparently conflicting, desires on the part of Governments are reflected in the distinct policies of the "have" and "have-not" countries as regards their petroleum resources. It is obvious that the degree of government financial take and economical control will be less harsh in the policies of the petroleum "have-not" countries or those with limited markets for profitable disposal of their production.

It needs to be realized that this profitability factor plays a decisive role, and to illustrate it one may consider the scales involved in the potential market represented by 500 million people living within 400 miles of the North Sea gas and oil developments vis-a-vis the potential market represented by Australia. One may also ponder on the size and relatively low costs of developed petroleum reserves in Venezuela, and the Middle East vis-vis those of Australia. Over 80 percent of the world trade in oil today comes from Middle Eastern sources and if Venezuela is included, this percentage is even greater. To be realistic, Australia's policy must, therefore, be framed in the full cognizance of all these factors.

In this light, although the general rate of royalty in Australia is moderate by international standards, it is by no means unusually low, when considered in conjunction ith taxation imposts. It may be recalled that recently the petroleum exploration representatives in Australia have claimed that the Government "take" in Australia (on the basis of the standard royalty rate of 10% in the proposed joint off-shore petroleum legislation by the Commonwealth and the States) will be higher than in five of the six other countries with recent off-shore legislation. As stated by my colleague the Treasurer on 27 January 1967, the Commonwealth Government does not accept the accuracy or the absolute validity of this claim. However, it may be stated here that Australia's take, although believed to be lower than that claimed by industry is, nevertheless, comparable and neither much higher nor much lower than those of the six countries quoted (United Kingdom, Denmark, West Germany, Norway, France, United States).

To return to royalty rates it may be said that they vary widely, from unspecified rates in countries such as Switzerland to 12½% in Venezuela, 18% in Colombia and Argentina to up to 25% in Egypt. Many royalty rates vary with the distance of production sites from nearest marine terminal, for example, in Colomiba and Argentina. In recent laws of some countries (Canada, France, Italy, Morocco) the rate of royalty increases as production rises. In France, for example, the royalty rate is progressive and is not payable on production of below 1000 barrels of crude oil per day; it is 6% of oil produced and saved when the production is between 1000 and 2000 barrels per day; 9% for daily production between 2000 and 6000 barrels; 12% for daily production between 6000 and 20,000 barrels and 14% for the daily production of 20,000 barrels and over. At the same time royalty declines with distance by 0.02% where production is located 500 to 600 kilometres from point of export or refining; by 0.04% when the distance is between 600 and 700 kilometres and 0.02% more for each additional 100 kilometres. Royalty on natural gas sales is 5% on production in excess of 300 million cubic meters per annum; no royalty is payable on gas sales below this figure. There is also a small additional royalty assessed for the benefit of the French administrative units known as Communes or Departments.

In the areas of the so-called North Sea countries, royalty rates have been fixed at 12.5% of the wellhead value in the United Kingdom legislation, 10% in Norway, 8.5% in Denmark and 5% in Western Germany. In the Netherlands royalty rate is proposed on a sliding scale, rising up to 16% on gas sales in excess of 5000 million cubic meters (about 175,000 million cubic feet).

In the Middle East, the D'Arcy Concession, granted by Iran in 1901 provided for a royalty payment to the Iranian (then Persian) Government of 16% of the Company's net profits. But in other Middle East agreements made between the World Wars, royalty was fixed at 4 shillings gold per ton of the petroleum produced. However, the British Concession was revised in 1933 and royalty was fixed at 20% of company profits plus 4 shillings gold per ton of petroleum produced.

The current royalty systems and rates in the Middle East vary widely. In Sauki Arabia ARAMCO pays 22 cents (U.S.) per barrel of crude produced. In the Neutral Zone, AMINOIL pays 33.5 cents (U.S.) per barrel. Royalty payments to the Government of Iraq, Qatar and Kuwait by major oil companies amount to 12½% of the posted prices, whereas in the Neutral Zone the agreements with Japan Trading Co. provide for a royalty of 20%. In some cases a minimum royalty payment is set; Getty, AMINOIL and Japan Trading Co. have these minima set in their respective agreements at $U.S. 1 million, $U.S. 625,000 and $U.S. 2.5 million.

In Venezuela operating companies have to pay royalty equal to 16-2/3% of value of crude oil extracted, in kind or in cash, at posted prices. In all these cases and royalty payments are deducted from the sums falling due to the Government on account of income tax. However, in Algeria (Sahara) royalty is calculated at the wellhead and is independent of the tax liability. In Libya, so long as production has not reached a commercial quantity (15,000 barrels per day) only royalty of 12½% is payable.

(2) There are very few instances of the payment of incentives to companies searching for petroleum. Actually, the position is the reverse in the so-called oil exporting countries and, in general, the companies have to come up with more and more attractive proposals to obtain the rights from Governments to search for and develop petroleum reserves, particularly in the Middle East and North Africa.

However, some income tax concessions or other indirect fiscal relief are often offered by Governments anxious to maintain local production or by those in whose country little or no petroleum has been found. Thus in the United States a depletion allowance of 27½% of gross income is allowed. (It must not, however, exceed 50% of net income). In France, percentage depletion allowance on exploitation income amounts to a maximum of 27.5% of gross income or up to 50% of net income. It is conditional on re-investment, during the five following years within France or the French Union, in exploration or purchase of shares of other companies engaged in oil exploration within France or the French Union.

I understand that the only Governments who have been providing direct financial assistance to companies in the search for petroleum are the Australian and South African Governments. This assistance in Australia in the last decade has been provided under the Petroleum Search Subsidy Acts 1957/58 and 1959/64. In South Africa the Government set up at the end of 1964 the Southern Oil Exploration Corporation (SOEKOR) and allocated an initial sum of R10 million ($A12.5 million) from the Strategic Mineral Resources Account to finance the company's exploration activities and to provide financial ~~the~~ and technical help to private concerns engaged in the search for oil. (There are now more than a dozen private companies with oil-prospecting rights in South Africa and in South West Africa).

The information concerning royalty payments in Canada and Australia is contained on pages 5, 6 and 7.
It was prepared at a later date than that on pages 1 to 4 and does not form in part of ~~royalty~~ reply to a question on Notice by Mr. Luchetti in the House of Representatives.

Crown royalty rates on crude oil production in Canada's three main producing provinces are payable on a sliding scale, generally increasing as the production increases. This is illustrated in the following table:

Monthly Production (Barrels)	Crown Royalty for Month (Barrels)
ALBERTA	
0 - 750	8%
750 - 2700	60 barrels + 20% of barrels over 750
More than 2700	16-2/3%
SASKATCHEWAN	
Less than 600	5%
600 - 900	30 barrels + 13% of barrels over 600
900 - 1500	69 barrels + 17% of barrels over 900
1500 - 4950	171 barrels + 18% of barrels over 1500
More than 4950	16%
BRITISH COLUMBIA	
0 - 600	5%
600 - 750	30 barrles + 14% of barrels over 600
750 - 950	51 barrles + 17% of barrels over 750
950 - 1150	85 barrels + 18% of barrles over 950
1150 - 1500	121 barrels + 19% of barrels over 1150
1500 - 1800	12½%
1800 - 4050	225 barrels + 20% of barrels over 1800
More than 4050	16%

In Manitoba the royalty rate on crude oil production is a flat 12½% and in the Northwest Territories it is 6½% in the first three years rising to 12½% thereafter, but the Minister may reduce this if he thinks it advisable.

Crown royalty rates payable in respect of natural gas production in Canada are as follows:

Alberta : 16-2/3% of selling price of gas or fair value at the time and place of production. Minimum royalty rate is set at ¾ cent per 1000 cubic feet of gas.

Saskatchewan: 8% of sale or fair value at the time and place of production. Minimum set at ½ cent per 1000 cubic feet.

British Columbia : 15% of sale value and minimum set at ¾ cent per 1000 cubic feet.

Manitoba : 12½% of sale value with minimum set at ¼ cent per 100 cubic feet.

Northwest Territories : As for crude oil.

Depletion Allowance in Canada is presently set at 33-1/3% of net profits before income tax.

In Australia the following rates of royalty are applicable at present, both on crude oil and natural gas :

Queensland :	10% of wellhead value of all production.
New South Wales :	10% of gross value at wellhead of all production.
Victoria :	10% of gross value of production.
Tasmania :	10% of gross value at wellhead after first 50,000 gallons of crude.
South Australia :	10% of selling value of all production.
Western Australia :	Fixed by Minister at between 5% and 15% of gross value of all production.
Northern Territory :	10% of (gross) wellhead value of production.
Territory of Papua and New Guinea :	10% of (gross) wellhead value of production.

There is no provision for the depletion allowance in Australia.

A ten percent standard rate of royalty on the gross wellhead production has been proposed in the draft of the joint Commonwealth-State petroleum legislation for off-shore operations. An additional "over-ride royalty" rate of between one and two and a half percent is payable by those producers who elect to apply for a production licence covering the area of nine blocks totalling about 225 square miles over the "discovery" rather than relinquishing four of the nine blocks and paying a standard royalty of ten percent. The proposed division of royalty on off-shore production is 40/60, viz. 40% going to the Commonwealth Government and 60% to the State concerned.