Poland Woos Shale Gas Investment

Poland has stepped on the shale gas accelerator by proposing tax capping incentives in a bid to woo investment towards developing its unconventional resources.

Carlo Franchina, Partner-in-Charge Tax at the Perth office of KPMG.

In terms of the new regulatory and tax regime plan, taxes would be capped at 40% of profits entailing a 5% tax on gas extraction, 10% on crude and a new hydrocarbons tax of 25% levied according to the difference between revenue and costs.

The total tax includes 19% company tax and competes favourably against the United Kingdom, which imposes a petroleum revenue tax of 50%, and Norway, with a total oil and gas profit tax of 78%.

Australia, by comparison, has one of the highest tax rates in the world in ballpark terms where companies are subject to a complex and convoluted fiscal burden.

Carlo Franchina, Partner-in-Charge Tax at the Perth office of KPMG, said oil and gas companies in Australia were subject to a 30% corporate tax rate and a Petroleum Resource Rent Tax (PRRT) of 40% "that is deductible for tax purposes".

"If you have a producing field, I would say the broad effective tax rate on profits in Australia is 58%, but you probably would describe that as a worst case scenario. If a company undertakes exploration there are allowances and the PRRT effective rate is reduced," said Franchina.

He added that Australia's corporate tax rate was significantly higher than the UK, reduced to 22%.

"One of the main criticisms of the Australian revenue system is that the corporate tax rate is still high in comparison to other OECD countries," said Franchina.

While Australia boasts oil and gas activity that is the envy of many of its peers, operators are continually fingering high costs compounded by heavy tax burdens as a stumbling block to continued growth.

Poland recognises the urgency it faces securing future energy supplies and is prepared to offer attractive incentives to lure major corporations to the country to free it from the shackles of reliance on Russia.

Poland's proposal makes provision for the establishment of a new state-owned company, the National Energy Mines Operator, to participate in consortia. It is envisaged that future exploration and extraction licences will only be auctioned off to qualified buyers.

Poland is estimated to have possible reserves of 67 Tcf, the third largest in Europe according to the National Geological Institute, to Norway and the Netherlands.

The tax incentive scheme was announced after Poland announced plans to invest Euro 15.5 B in shale gas exploration within the next eight years, with spending over the next two years totalling Euro 1.2 B.

Poland Finance Minister Mikolaj Budzanowski articulated the urgency behind the government's tax and investment initiatives, saying: "With the Russian gas accord terminating at the end of 2022, we must be well prepared to noticeably boost the exploitation of our own gas fields three years earlier."

Poland has a population of 38 million and consumes 14 B m^3 of gas per annum with two thirds of the fuel imported from Russia.

The country's shale gas resources are seen as an opportunity to make Poland energy-independent of Russia with first extraction of shale gas targeted for 2014.

Poland's shale hopes were dented in June when US supermajor ExxonMobil flow tested two unconventional wells in the eastern part of the country that proved non commercial, before announcing it had completed its exploration program in the country.

A disappointed Polish Economy Minister, Waldemar Pawlak, claimed ExxonMobil had lost interest in Poland after being sweetened by a deal to develop tight oil reserves in Siberia by Russian state oil company Rosneft.

"With such prospects, shale gas in Poland did not have as much meaning," Pawlak said.

Poland has awarded 109 shale gas exploration licences around the country in which Chevron and ConoccoPhillips, among a number of smaller explorers, are active. ■

PGNiG's Lubocino, Poland's first shale gas production well near Wejherowo.