Norway defends its Tax regime supporting oil exploration

Norway's tax rules for the oil industry, which include allowing firms to deduct 78 percent of their exploration costs from their taxable income, do not constitute state aid, the country's finance ministry told a European competition watchdog on Friday.

The competition watchdog of the European Free Trade Association (EFTA) is investigating the tax regime following a complaint by Norwegian environmental group Bellona. Environmental groups, including Greenpeace, have also mounted a legal battle in Norway to try to stop the government from expanding exploration areas in the Arctic.

"The Ministry maintains that the Norwegian rules on reimbursement of exploration costs and interest on carry forward of losses ... do not constitute state aid under Article 61 of the EEA Agreement, and are therefore in compliance with the EEA (European Economic Area) law," the ministry said in the letter.

The EEA comprises the European Union and three EFTA states, Norway, Iceland, Liechtenstein, and it has been discussed as one of the options for Britain after it quits the European Union. Switzerland, the fourth EFTA member, doesn't belong to the EEA.

Norway, western Europe's largest oil and gas producer, which is seeking to attract more oil firms to explore in the Arctic Barents Sea, taxes companies heavily when they start producing. "This means that if income is derived from petroleum activity taxed at a rate of 78 percent, the state, through the tax system, should cover a corresponding share of the cost incurred to earn this income," the ministry said.