

GREENLANDIC ICE AND WATER EXPORT

Benchmark of water production in Greenland,
Denmark, Canada, Norway, Iceland, UK,
Italy, France, Fiji and USA (Alaska)

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Benchmark of bottled water regulation and taxation

PwC Denmark has prepared a benchmark analysis in relation to the proposed strategy for the production in and export of ice/water from Greenland.

The countries subject to the benchmark analysis are; Greenland, Denmark, Norway, Iceland, France, Italy, Canada, UK, Fiji and USA (Alaska).

The benchmark includes both an analysis of the countries' national regulation, taxation, duties (etc.)

on bottled and bulk water as well as analysis and scenario calculations of different tax- and duty/royalty models for bottled water that could be implemented in Greenland in order to improve Greenland's competitiveness on the global bottled water market. This leaflet however only includes analysis results concerning bottled water but export of bulk water and ice is also possible.

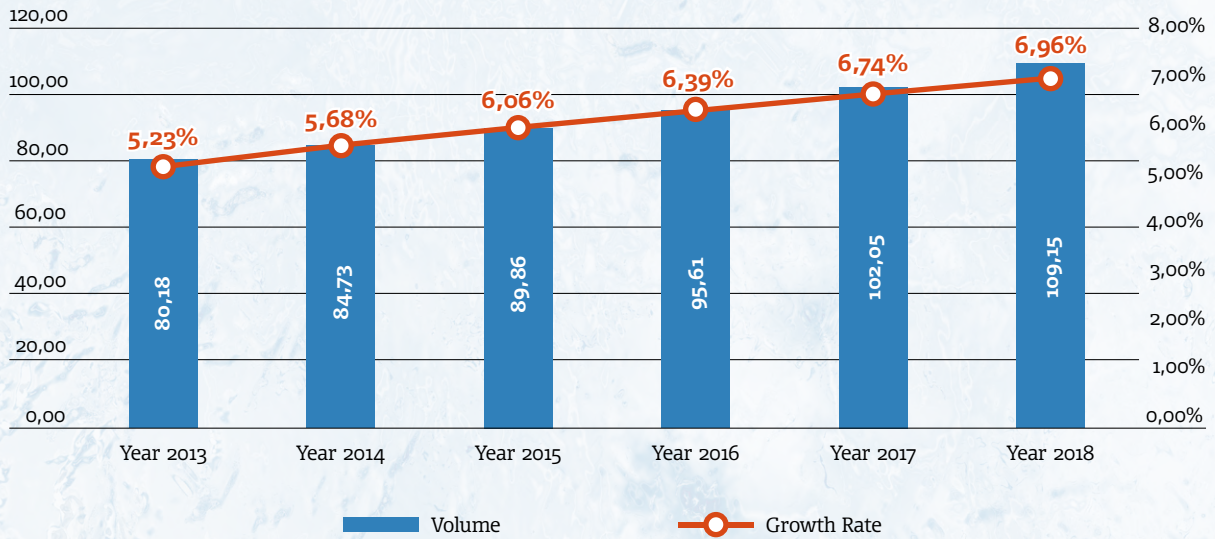


Introduction – Global bottled water market

The demand for bottled water is growing and the bar chart below shows that a global consumption of bottled

water has had an annual volume increase of 5-7% in recent years.

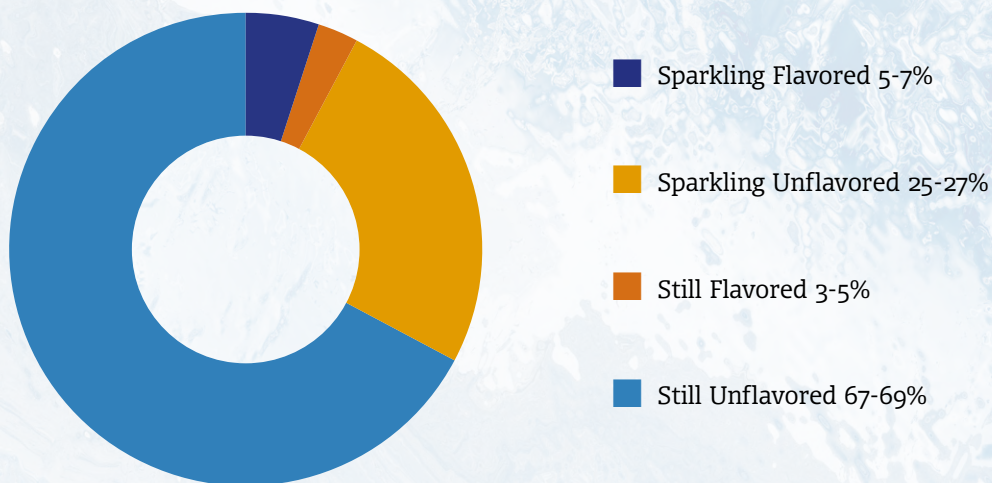
■ **Global Bottled Water Market 2013-2018 (billion gallons)**



Based on recent studies, bottled still unflavored water has become the leading bottled soft beverage measured by quantity as compared with car-

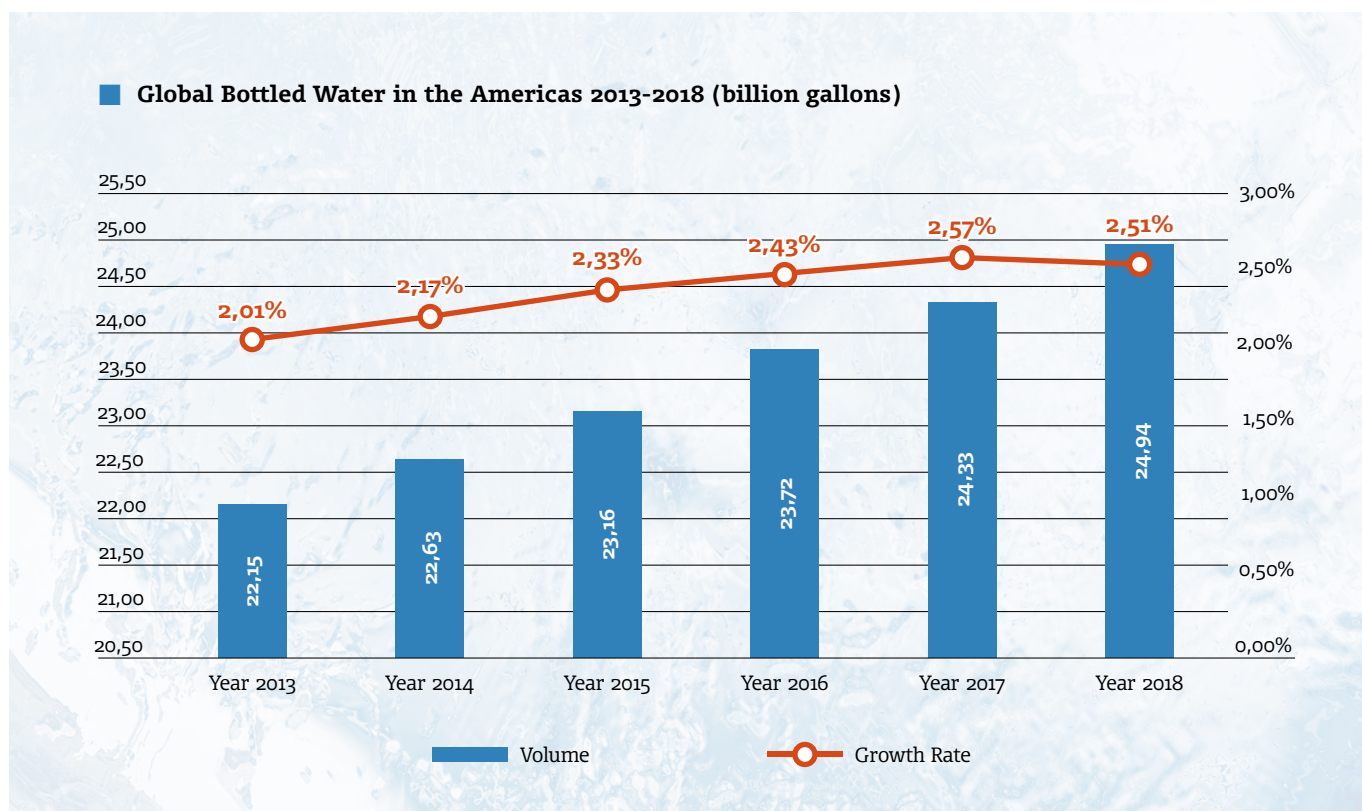
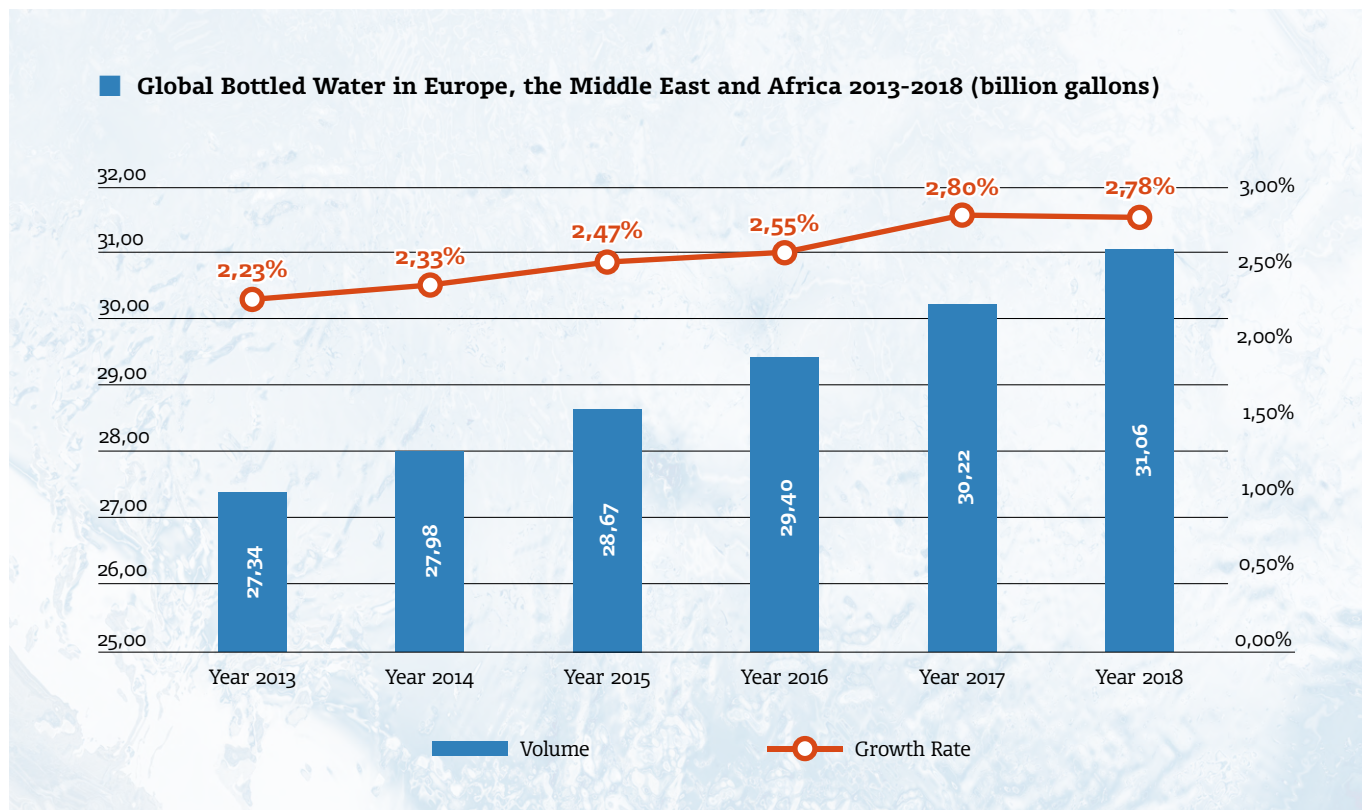
bonated beverages. This is illustrated in the circle diagram just below.

■ **Global Bottled Water Segmentations by Product Type 2013**

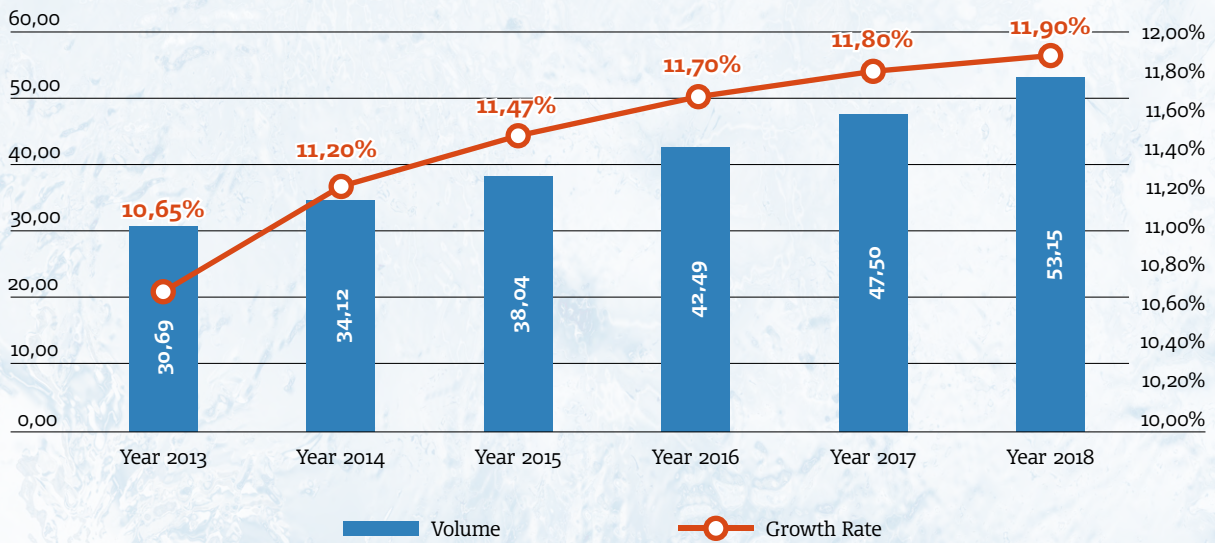


The largest volume increases are in China, the USA and India. However, there has been growth in demand for bottled still unflavored water in all markets worldwide.

The bar charts below show the increase in demand for bottled water in different regions of the world.



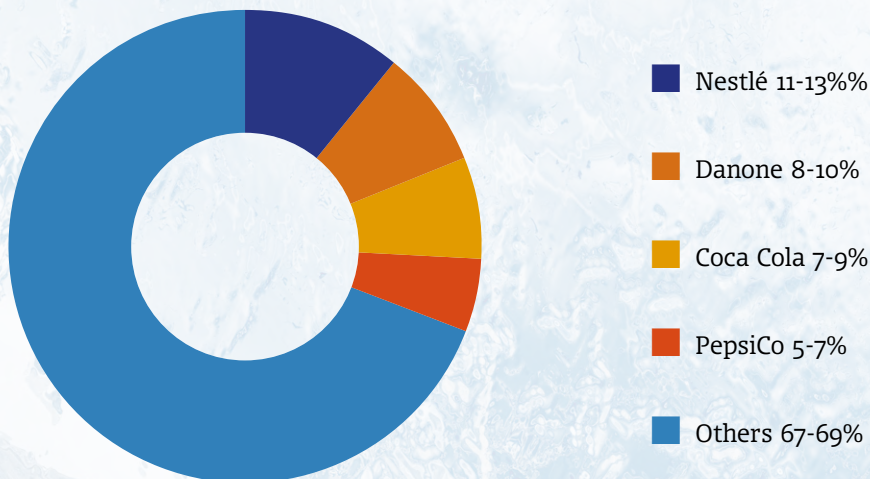
■ **Global Bottled Water in the Asia Pacific Region 2013-2018 (billion gallons)**



Some of the key drivers in the Global Bottled Water Market have found to be an increased consumption of bottled water, contamination of drinking water and changing of consumer lifestyle.

As for the Global Bottled Water Market, there are a limited number of major vendors dominating the market. Amongst those are Nestlé SA, Danone SA, PepsiCo Inc., and The Coca-Cola Co. The companies' market shares are each illustrated in the circle diagram below.

■ **Global Bottled Water Market by Vendor Segmentation 2013**



Greenlandic Ice Cap Water – Potential and locations

The global bottled water market has a high level of competition. However, due to high quantities of ice cap water and high water quality with unique selling proposition possibilities, Greenland can prove to be a competitive player in the global water market.

Greenlandic Ice Cap Water

According to GEUS (Geological Survey of Denmark and Greenland): *“The Greenland Ice Sheet has covered Greenland for the last 2,5 million years, growing during the ice ages and shrinking in the warm periods like the present. Each year, fresh snow settles on the 1,7 million square kilometers of inland ice, eventually compacting under the weight of new layers of snow to become glacier ice. With enough weight on top, ice crystals deform, recrystallize and slide causing the glacier ice to move. Over millennia, the ancient snow is transported through the ice sheet from the great white plains of the interior to the ice margin. Here it breaks off as icebergs into the fjords or melts, causing new fresh layers of ice to resurface constantly. The age of the ice that melts spans the whole period of the human civilization and before.”*

GEUS is an independent scientific research and advisory institution in Denmark. GEUS has been charged by the Government of Greenland to identify suitable locations for extraction of drinking water from meltwater rivers.

In matter of supply, it is worth mentioning that glaciers in Greenland and the Greenlandic ice cap are the largest reservoir of fresh water on earth and second only to oceans as the largest reservoir for water in total. This makes melted surface water from large ice caps and glaciers suitable as high-profile and high-quality drinking water in large volumes for both bottled water and bulk water purposes.

Existing activities

There are currently five water/ice exploitation licenses and five water/ice prospecting licenses in Greenland. Most recently, a company was issued a license for a sea area in Arsuk fjord in the South of Greenland. The area has been identified by GEUS as a suitable location for extracting drinking water from meltwater rivers. Additionally, there has been conducted field investigation and water sampling in the area.





Benchmark summary

PwC's benchmark includes the countries: Greenland, Denmark, Norway, Iceland, Fiji, France, Italy, UK, Canada and USA (Alaska).

Most of the water-exporting countries govern the production of bottled water.

Many of the bottled water companies in the global market have typically started as smaller suppliers and factories which later have become part of either an already established multinational company, such as Nestlé, Danone, An Bev, Coca Cola, etc., or have entered into a distribution agreement with such multinational companies.

The benchmark shows, that most of the national tax- and royalty models subject to the study have duties or royalties on bottled water. For example, Fiji has water

resource duties based on the exploited liters of water per month. France has packaging duties and two accumulative duties on the production of bottled water, a general water duty (applicable in most cases) and a mineral water duty (applicable in special cases). Canada has a water deposit system and consumption or sales taxes, which are different in each state and province in Canada. Some provinces in Canada have limitation and/or restrictions. Alaska has rules on Water Conservation fee to the Government on water export based on annual sales in acre-feet. Denmark has water consumption duties applicable when water is bottled in Denmark. Both Denmark and Norway have sewage fees and levies duties directly on the bottle packaging (deposit system).





Ice/water export incentives from the Greenlandic Government



The Greenlandic corporate tax rate is currently 31.8 % including the tax surcharge. The Greenlandic withholding tax can be up to 44%, which is high compared to other countries. However, special for Greenland is that the Greenlandic withholding is deductible in the taxable income. This means that the sum of the corporate tax and the withholding tax can be limited to a maximum of 44%. Similar to most of the other countries subject to the study, the applicable withholding tax can be lower if there is a double tax treaty available. For example, the double tax treaty with Denmark and Norway reduces the withholding tax rate to 35%.

In order to make Greenland more competitive on the global water market, the Greenlandic Government is considering a change of the tax and royalty system in order to have a more competitive government take model. These changes include incentives in form of;

- Lower tax rates for corporate and withholding tax for ice/water export, with an aggregated maximum of 25% tax rate (comprising both corporate and withholding tax) is considered. The 25% tax rate includes the withholding tax and no additional surcharge tax
- A possibility of wholly or partially exemption of duties and corporate taxation for ice and water exporting companies, which can be agreed in the specific license granted by Greenlandic Authorities
- The introduction of ice and/or water export licenses both with or without exclusive rights
- Exemption from payment of remuneration and royalties to the Greenlandic Government in the first 5 years of an exercise period.

- As part of the ongoing process of making Greenland more competitive, Greenland has already introduced new ice and water incentives. This involves a reduced sales royalty, reduced from 0.10 DKK/liter to 0.04 DKK/liter. The royalty is deductible in the taxable income.

Government take

– comparison from benchmark study

As mentioned above *Greenland's* current effective tax rate is 31.8% consisting of a flat tax rate of 30% and a surcharge. Thus, the effective tax on remitted profit at 44% as dividend distributions and royalties are deductible in the taxable income. This means that the sum of the corporate tax and the withholding tax can be limited to a maximum of 44%. The new sales royalty in force is set to 0.04 DKK/per liter.

When comparing to the other countries subject to the benchmark analysis, *USA (Alaska)* has a Federal income tax rate of 21 % (adjusted to 2018 rate) plus an additional surplus tax of up to 9.4%. In addition, there are water conservation fees to the Government based on the annual sale and calculated on a scale range system. The conservation fee, however, based on an annual export of 45 million liters, will only be approximately DKK 700 annually (USD 110).

In relation to *Fiji*, the *Fijian* companies listed on the South Pacific Stock Exchange (SPSE) are subject to a 10% tax rate. Non-resident companies with regional or global headquarters in *Fiji* are subject to 17% tax rate. In addition to the corporate tax, *Fiji* has exploitation duties of;

- >3,499,999 liter = 0.04 DKK/liter
- <3,500,000 liter = 0.50 DKK/liter

Canada's corporate tax rate ranges between 26-31%, including local taxes.

Denmark has royalties of 0.63 DKK/liter and the corporate tax is 22%. *Norway* has sewage fee to the appropriate municipality. Based on the applicable municipality, the sewage fee can range from 8-12 DKK/m³ up to 20-29 DKK/m³.

Also, packaging duties and fees applies to several countries.

Comparison tables

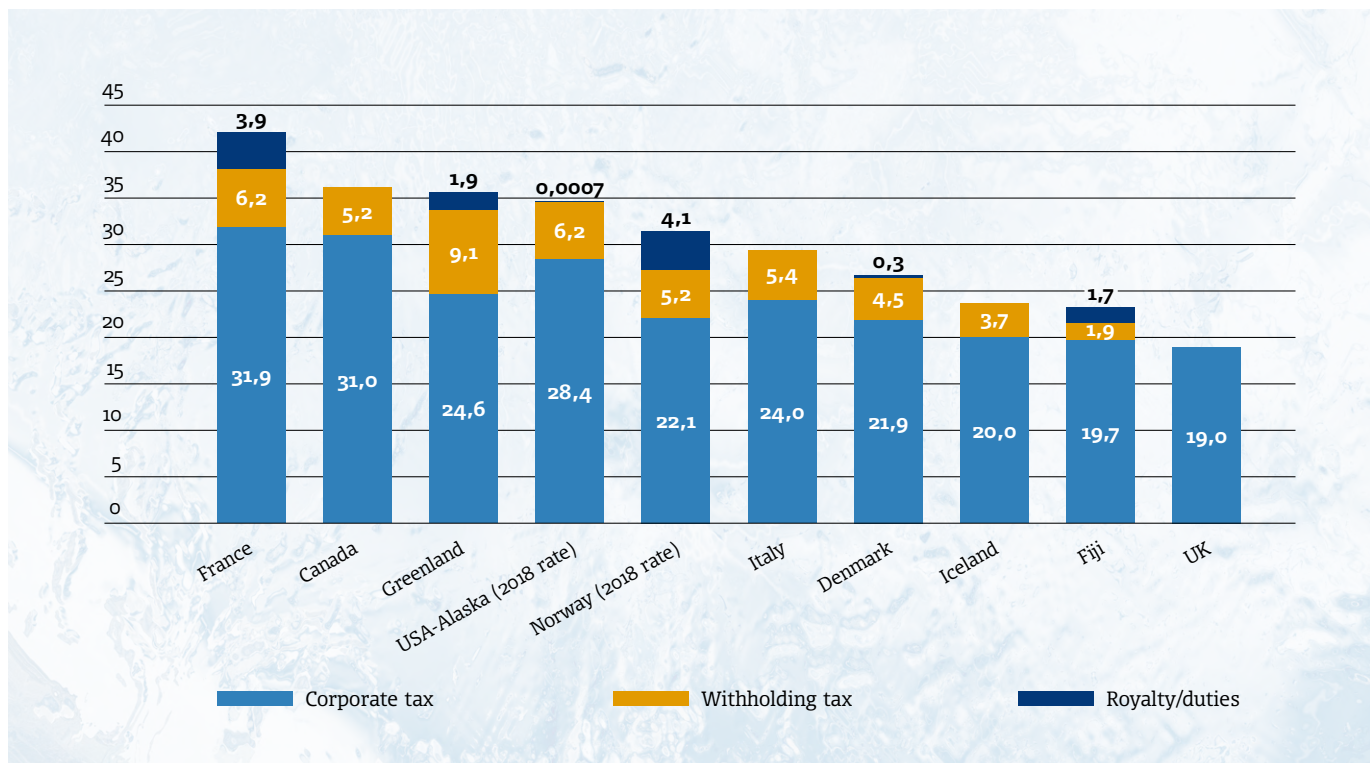
The table below and the corresponding graph below illustrate one scenario of the total *government take* (in percentage) for each country, including corporate tax,

withholding tax and royalty/duties based on mutual sales and production assumptions.

■ Scenario 1 – Tax/royalty assumptions

Annual production	45.3 million liters (12 million gallons)
Sales price	DKK 3.00 per liter
Annual production costs	DKK 0.76 per liter
Freight costs	DKK 0.10 per liter
Dividend distribution	DKK 20,000,000

Government take comparison (%)



As illustrated in the graph above, the effective government take comparison, with the applicable withholding tax rates before a reduction according to either the EU Parent/subsidiary directive or an entered double tax treaty, places Greenland with its current regime as the country with the third highest government take percentage of 35.6% in total.

Alaska places fourth, just below Greenland. Note that, in relation to Alaska, the government take comparison is based on the new reduced federal tax rate of 21%.

Since UK has no withholding taxes on outbound dividends and no royalties or duties on ice/water export,

UK is the country with the lowest government take percentage of 19% in total equivalent to its national corporate tax rate. The government take in certain countries will be significantly reduced if taking into account entered double tax treaties. This can change the order.

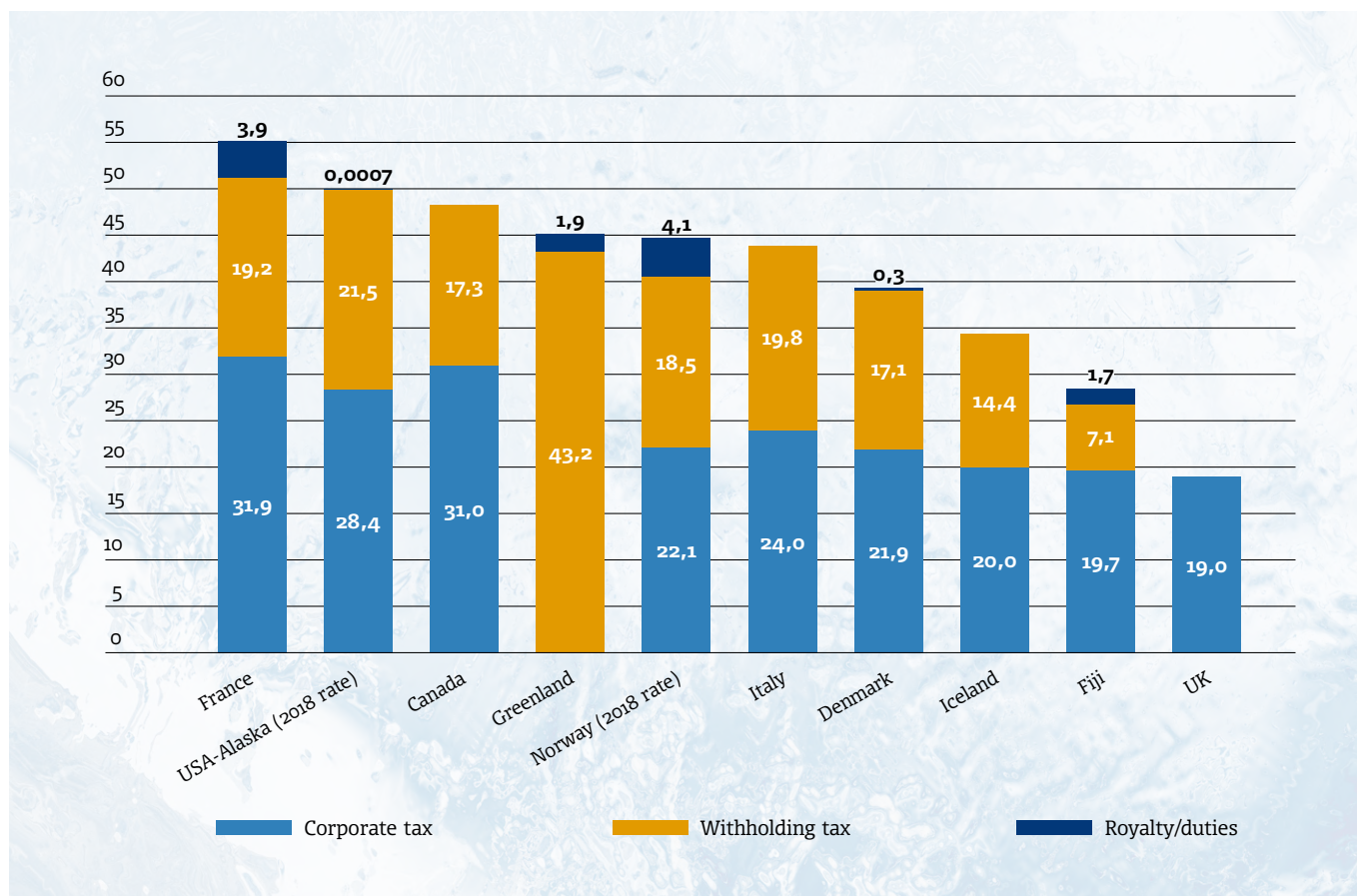
The table below and the corresponding graph below illustrate another scenario of the total government take (in percentage) for each country, including corporate

tax, withholding tax and royalty/duties based on mutual sales and production assumptions, but under the assumption that all profit is distributed as dividends.

■ Scenario 2 – Tax/royalty assumptions

Annual production	45.3 million liters (12 million gallons)
Sales price	DKK 3.00 per liter
Annual production costs	DKK 0.76 per liter
Freight costs	DKK 0.10 per liter
Dividend distribution	All profit distributed as dividend

Government take comparison (%)



As illustrated in the graph above, the effective government take comparison under the assumption that all profit is distributed as dividends and with the applicable withholding tax rates before a reduction according to either the EU Parent/subsidiary directive or an entered double tax treaty, places Greenland, with its current government take regime, as the country with the fourth highest government take percentage.

The government take in certain countries will be significantly reduced if taking into account entered double tax treaties. This can change the order.

Due to the fact, that all profit is distributed as dividend and the fact that distributed dividend is deductible in Greenland, no corporate tax is levied in Greenland in this scenario. Thus, the total government take consists solely of duties and withholding taxes.

Recommendations from benchmark study

Based on the benchmark study, PwC Denmark has recommended a new tax model for the Greenlandic Ministry of Industry and Energy to consider implementing.

The recommendation suggests a total 25% corporate/withholding tax and further 4% sales royalties, which however as a minimum must be a fixed duty pr. unit of 0,04 DKK pr. liter. Each income year, paid Greenlandic

corporate tax and withholding tax are deductible in sales royalties/duty pr. unit. Sales royalties/duty pr. unit are deductible in the taxable income.

Greenland has already lowered its existing royalties to a competitive royalty on sales in the amount of 0.04 DKK/liter which is also deductible in the taxable income.

Inatsisartut (the Parliament of Greenland) has adopted the legal act on commercial exploitation of ice and water, on the 13th of November 2018.

The legal act implies for instance that the tax level may be reduced for companies who have a license within the area of ice and water. Additionally, these companies may experience an exemption from certain taxes and charges for a limited period in the initial phases.

