CHC
HELIKOPTER
SERVICE

CHC Helikopter Service AS

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Finansdepartementet
Skattelovavdelingen
Postboks 8008 Dep
0030 Oslo

April 10, 2015

Dear Sirs,

This submission addresses the proposals stated in *NOU 2014:13 – Capital Taxation in an International Economy* in respect of its impact on CHC Group Ltd. and its affiliated operations in the Kingdom of Norway. Specifically, the imposition of a withholding tax on certain royalty payments could significantly harm CHC Group Ltd.'s Norwegian operating entities.

The proposals would negatively impact CHC Group Ltd.'s Norwegian operations in the following manner:

- Limiting access to global capital markets for helicopter leases; and
- Lowering margins in an already high cost aviation sector.

1. Background – CHC Group Ltd.

CHC Group Ltd. operates over 200 helicopters in over 20 countries, with approximately 4,500 employees globally. Its primary business involves the operation of helicopters in the transportation of customer personnel to offshore oil platforms. CHC Group Ltd. also operates search and rescue helicopters and emergency medical service helicopters in certain countries, and provides helicopter repair and overhaul services from facilities in four countries, one of which is located in Norway.

2. Background – Norwegian Operations

CHC Group Ltd. has two primary operating entities in Norway: CHC Helikopter Services AS and Heli-One (Norway) AS.

CHC Helikopter Services AS has maintained operations in Norway since 1956 and currently leases over 30 helicopters which are used in its provision of helicopter flight services to customers in the Norwegian offshore oil and gas sector. In support of these operations, CHC Helikopter Services AS employs close to 500 employees in Norway, who are located at its operating bases in Stavanger, Bergen, Brønnøysund, Florø, Kristiansund, and Hammerfest. CHC Helikopter Services AS is the sole operator of the helicopters it leases, and employs pilots, maintenance engineers, ground crew, and other support staff in its provision of helicopter flight services.

Heli-One (Norway) AS operates a helicopter maintenance and overhaul facility in Stavanger, Norway, which employs approximately 400 employees in Norway. This facility was originally established in Norway to support the maintenance requirements of the helicopters operated by CHC Helikopter Services AS, but has since grown to provide services to CHC Group Ltd.'s global helicopter fleet, as well as third party customers. Heli-One (Norway) AS does not utilize any leased helicopters, but its business is dependent on the maintenance requirements of CHC Helikopter Services AS's fleet of leased helicopters, in addition to providing services to other customers located in Norway and outside of Norway.

3. Regulatory Constraints

CHC Group Ltd. operates in a highly regulated industry; each of its helicopter operators is regulated by a civil aviation authority ("CAA"). Typically, the CAA is responsible for granting the helicopter operator an Air Operator's Certificate ("AOC"), which is required to operate civilian aircraft within the CAA's jurisdictional domain. There are numerous regulatory requirements which the helicopter operator must adhere to in order to qualify for and maintain an AOC.

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One of the common CAA requirements is that the AOC license holder must have legal control and custody of its aircraft. From a legal perspective, this control can be achieved by the AOC license holder holding legal title to the aircraft, or alternatively having full economic and legal control through a formal aircraft operating lease agreement. This regulatory requirement is key to understanding CHC Group Ltd.'s operating structure, which involves aircraft operating lease structures, which in turn is key to understanding the punitive nature of the proposed withholding tax on CHC Helikopter Services AS's financial stability.

CHC Helikopter Services AS holds a Norwegian AOC, granted by the Norway Civil Aviation Authority, Luftfartstilsynet. CHC Helikopter Services AS does not have the economic means to directly purchase helicopters. Consequently, to comply with Norwegian CAA requirements, it is required to enter into helicopter lease agreements. Without this leasing structure, CHC Helikopter Services AS would not be legally permitted to undertake commercial flight operations in Norway.

4. Centralization of Functions

CHC Group Ltd. centralizes its personnel performing lease management functions and the entities that enter third-party helicopter lease financing agreements. This centralization enables CHC Group Ltd. to better manage its helicopter assets and its relationships with its third-party leasing companies. In addition, a centralized helicopter lease model insulates CHC Group Ltd.'s helicopter operators, like CHC Helikopter Services AS, from significant lease financing and asset ownership risks, including foreign exchange risk, idle helicopter risk, lease term mismatch risk, and other risks.

Regardless of how CHC Group Ltd. chooses to internally structure its helicopter leases, given that CHC Helikopter Services AS's fleet is ultimately owned by third-party lessors, the imposition of a domestic Norwegian withholding tax will have negative financial consequences on CHC Helikopter Services AS, and its stakeholders.

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5. Operating and Financial Constraints

Helicopter flight operations is labour intensive, as it requires the employment of a large pool of pilots, ground crew, engineers, technicians, and numerous other support staff. This reliance on labour results in a high local cost structure due to significant wage, benefit, and pension costs. In addition, the operation of a helicopter requires significant maintenance costs. This contrasts significantly from other more capital asset intensive industries which may have significantly greater opportunities to shift profits outside of a given operating jurisdiction. The helicopter flight operations sector has relatively low margins, especially in mature markets, such as the Eastern North Sea region, including Norway.

As mentioned above in Section 2, CHC Helikopter Services AS is constrained in its financing abilities, and it largely operates helicopters owned by third-parties. A small number of its fleet of helicopters are leased from Norwegian resident financial institutions, but this is a rather limited capital market, and most of its fleet are financed by non-Norwegian financing companies unrelated to CHC Group Ltd.

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The imposition of a lease withholding tax will cause CHC Helikopter Services AS to be an unintended victim of a withholding tax policy that appears to be aimed at taxing companies which are perceived to be shifting 'super profits' out of the Norwegian tax base; this is clearly not the case for CHC Helikopter Services AS and CHC Group Ltd.

6. Impact of Withholding Tax on Norwegian Operations

CHC Group Ltd.'s global capital structure strategy is significantly weighted towards leasing helicopters from third-party lessors, rather than outright ownership or debt financing. Third-party lessors are often resident in jurisdictions that Norway has not concluded a tax treaty. Furthermore, in the commercial arrangements with third-party lessors, the helicopter operator (CHC Helikopter Services AS) is contractually responsible for all tax costs arising in the operating jurisdiction, regardless of whether it is the lessor's or lessee's statutory tax charge. This is known as the 'tax gross up clause', where the lessee is required to absorb the additional tax costs of any withholding taxes applicable on the lease payments. This is typical in the aircraft leasing sector. Consequently, the imposition of a withholding tax on leases would result in significantly higher operating costs for helicopter operators, like CHC Helikopter Services AS. As mentioned in Section 3 above, due to Norwegian CAA regulatory considerations, CHC Helikopter Services AS must be the ultimate lessor of the aircraft it operates. The result of an imposition of a Norwegian withholding tax together with these regulatory considerations would mean that this withholding tax cost would be entirely borne by CHC Helikopter Services AS.

In essence, the imposition of a withholding tax may reduce CHC Helikopter Services' cash flow from operations and thus its ability to further invest in its future operations in Norway. NOU 2014:13 does not appear to appropriately consider the impact of how withholding taxes will negatively affect a Norwegian company that is dependent on access to the global capital markets.

Withholding tax is a tax on expenses and does not correspond with income for a company. It contradicts the general principle that net profit is taxed. In addition, a withholding tax is discriminatory. A Norwegian domestic leasing company would not pay such a tax. A discriminatory tax is against the EEA-Agreement and withholding is in contradiction with the OECD Model Convention.

7. Conclusion

We respectfully request the Minister reconsider the proposed implementation of a lease withholding tax, as it will have significant negative financial consequences to our business and cost structures in Norway.

We are committed to Norway as one of our most important markets and we are committed as a long term investor and employer. If a withholding tax is to be implemented, we would request that aircraft lease rental payments be specifically exempted from such a tax. This would allow CHC Group Ltd. to continue to grow and manage its business in Norway.

We would very much welcome the opportunity to meet with you in person, should your schedule permit, to allow us to familiarize you with our company, our business, our people and the impact of a withholding tax.

With respectful thanks for your kind consideration,

Arne Roland

Arne Roland
Managing Director, CHC Helikopter Services AS

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