



Department for
Business, Energy
& Industrial Strategy

Designing a Climate Compatibility Checkpoint for Future Oil and Gas Licensing in the UK Continental Shelf

Government Response to the consultation

September 2022

Contents

Introduction	3
Principles of the Checkpoint	4
Overview of Question 1	4
Overview of Question 2	7
Potential Test 1	9
Overview of Question 3	9
Overview of Question 4	11
Potential Test 2	12
Overview of Question 5	12
Overview of Question 6	14
Overview of Question 7	15
Overview of Question 8	16
Potential Test 3	18
Overview of Question 10	18
Overview of Question 11	20
Overview of Question 12	21
Overview of Question 13	22
Potential Test 4	23
Overview of Question 14	23
Overview of Question 15	24
Overview of Question 16	25
Overview of Question 17	25
Potential Test 5	27
Overview of Question 18	27
Overview of Question 19	29
Potential Test 6	31
Overview of Question 20	31
Implementation of the Checkpoint	34
Overview of Question 21	34
Overview of Question 22	35
Overview of Question 23	37
'Out of Round' Licence Awards	38
Overview of Question 24	38

Introduction

Following a review of oil and gas licensing in the UK which concluded in March 2021, it was found that continued licensing for oil and gas is not inherently incompatible with the UK's climate objectives. This means that if the UK were to issue another licensing round for oil and gas, it would not materially impact the ability of the UK to meet the international commitments it has made to combat global warming. These commitments are to meet Net Zero by 2050, and to do so in a way that is consistent with our carbon budgets, our nationally determined contribution and wider undertakings under the Paris Agreement.

However, it was acknowledged that this may not always be the case in future. While it is possible to make projections, these can only be made with the data presently at hand and it is not possible to account for all possible eventualities. As such, the government cannot state that continuing with future licensing rounds will always be compatible with our climate change commitments.

To address this issue, it was recommended that a "checkpoint" be introduced, to make sure that the compatibility of future licensing with the UK's climate objectives is evaluated before a licensing round is offered.

In December 2021, a consultation on the design of this checkpoint was launched. This consultation ran until the end of February 2022. The consultation saw very strong engagement with 55,640 responses received, which the government has carefully considered. Many of these responses referenced papers with further details or other supporting evidence, which the government has evaluated.

Many of the responses received made broadly similar arguments, demonstrating the strength of opinion on some aspects of the consultation. There were also 455 'unique' responses received from a range of private citizens, industry bodies and NGOs. 342 responses were received in email format, with no attached documentation. 42 were particularly detailed, typically including accompanying papers and reports. 71 responses were submitted through the Citizen Space consultation platform, providing written responses on a question-by-question basis.

In the intervening time, BEIS announced the British Energy Security Strategy. This strategy focuses on how the UK can reduce its dependence on foreign energy sources, for reasons that are outlined in further detail in the strategy¹. In the strategy, it was stated that the North Sea Transition Authority plans to launch another licensing round in the autumn (of 2022), taking into account the forthcoming climate compatibility checkpoint and the need for energy security.

The checkpoint, the design of which is outlined in the checkpoint design document which has been published in parallel with this government response, can play an important role in providing key information to decision makers on the progress of the sector against its commitments before a decision on permitting a future licensing round is made.

This document outlines the government's response to the issues raised in the consultation. The detailed design of the checkpoint itself is a separate document which is being published alongside this response.

¹ British Energy Security Strategy, <https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy>

Principles of the Checkpoint

Overview of Question 1

We asked whether the following principles were the right ones for the checkpoint to consider:

- **Evidence-based:** the checkpoint must use either reliable data or credible projections when drawing its conclusions.
- **Transparent:** the checkpoint structure should be clear and objective, and the sources of all data and projections should be publicly available and transparent.
- **Simple:** the checkpoint should be able to be described in a short document, and therefore give confidence to all stakeholders that a clear and methodical process is being followed.

While most respondents agreed that these were the correct principles, a number of suggestions were made.

Equity as an additional principle in the checkpoint

Many respondents suggested that equity should be included as an additional principle. Respondents argued that the UK is wealthier and has, on average, emitted more pollution per capita than many other petroleum producing nations. Some respondents also noted that the UK derives a smaller fraction of its wealth from petroleum production than other petroleum-producing nations. It was therefore argued that the checkpoint should consider equity as a core principle, and that this should be reflected by encouraging UK production to decline while allowing production from other countries to decline less quickly.

Government Response

The government acknowledges that the UK is an economically developed country, and that some nations are more financially dependent on oil and gas production than the UK is. However, the government does not view the UK's international economic standing as a reason that its oil and gas industry should reduce production more quickly than any other producer.

There are two issues to address in this argument. Firstly, the effect that taking into account equity considerations would have on global emissions as a whole, and secondly, the ethical justification for taking into account equity.

In response to the first point, it is not clear that including equity as a principle guiding the design of the checkpoint would result in a checkpoint that contributes to a reduction in global emissions. As the primary purpose of this checkpoint is to assess the climate compatibility of new licensing rounds, overall reduction in global emissions is relevant.

The UK follows IPCC recognised equity principles in its Nationally Determined Contribution (NDC). This is because the government believes that principles of equity, when applied to restrictions on greenhouse gas emissions, result in better global outcomes. Through internationally agreed NDCs more economically developed countries are incentivised to invest in alternative sources of energy, transitioning traditional energy systems, and directly reducing GHG emissions.

However, it is unclear that applying the same equity principles on the supply side has the same shared benefits. If the UK were to scale down production, the international market would

determine where additional production is scaled up. In a market where suppliers manage output to influence prices, it cannot be said that such a step would result in lower emissions globally

In response to the second point, it should first be noted that ethical considerations are beyond the scope of the checkpoint, which is focused on factors which are directly climate related. That being said, it is not clear that anything the UK can do in its own fossil fuel licensing system would benefit less economically developed countries. Many of the UK's existing oil and gas demands are met by nations with a higher GDP per capita than the UK. Reducing UK production may drive demand to such producers instead of delivering any incremental benefit to less economically developed countries.

In particular, there is potential that the main beneficiaries of any unilateral supply side measures taken by the UK or any other country would be locations where oil and gas production is most easily scalable. These locations include the US which has large amounts of easily scalable shale gas, and wealthy Middle Eastern nations coordinated by the Organisation of Petroleum Exporting Countries (OPEC). Less economically developed nations may be less well placed to move quickly to meet spare demand.

It is therefore the government's view that the argument that wealthier nations should scale down production on the basis that doing so would benefit developing nations is flawed, especially for smaller producers such as the UK where any unilateral movement is likely to be absorbed in scalable production locations.

Finally, the local consequences of any reduction in production on the grounds of equity must also be considered. This is particularly important for citizens that are dependent on the UK's energy industry to make a living. The industry currently supports 117,000 direct and indirect jobs and makes significant fiscal contributions (£33.7 bn paid since 2010; and a non-trivial balance of trade contribution).

It is therefore the government's position that it would not be appropriate to include equity as a guiding principle of the checkpoint.

Simplicity as a Principle

Many respondents noted that while simplicity is advantageous, this should not be at the expense of the checkpoint being rigorous.

Government Response

The government agrees and is endeavouring to make the checkpoint rigorous, without being unnecessarily complex. Given the need to ensure the quality of data and projections used in the checkpoint, a degree of complexity will be necessary.

The principle of simplicity will remain however, as the government believes it is important for the information presented in the checkpoint to be understandable.

The checkpoint will incorporate the principle of simplicity as outlined in the consultation document.

Wider concerns on future oil and gas development

Many respondents expressed a general opposition to oil and gas exploration and production due to climate concerns and obligations.

Government Response

The government recognises that oil and gas consumption has a negative impact on the climate, and is therefore working to reduce the UK's reliance on fossil fuels. Measures the government has taken include supporting increased renewable energy generation, particularly offshore wind, supporting new nuclear energy generation, improving public transport infrastructure, making houses more energy efficient, and putting regulatory targets in place to reduce demand.

However, the UK, like much of the rest of the world, is still significantly dependent on oil and gas to meet its energy needs. In 2021 oil and gas accounted for approximately 75% of UK inland energy consumption². While the government is working to reduce dependence on oil and gas as a source of energy, it will take time to put in place the alternatives.

The checkpoint will provide Ministers with key information relating to the climate performance of the UK oil and gas sector, so that they are properly informed before making a decision about whether to endorse further licensing. It is recognised that Ministers may wish to consider factors that aren't directly related to the climate, such as energy security and the economy, however these are beyond the immediate scope of the checkpoint.

² BEIS Digest of UK Energy Statistics (DUKES) 2022, published 07/2022

Overview of Question 2

We asked whether there were any tests, in addition to the 6 that were set out in the consultation document, that should be considered for inclusion in the checkpoint.

Including developments under existing licences

Many respondents noted in response to this question that the proposed scope of the checkpoint is too limited, as it considers only whether more licensing rounds should take place and does not cover whether development consent should be awarded to projects which are under existing licences.

Government Response

The government recognises that where a licence has already been granted, it is important to treat the licensee fairly, maintain certainty in the industry and avoid adverse impacts on future investment decisions in the UK, potentially not just in the oil and gas sector.

The government will therefore not be including previously awarded licences in the checkpoint, but notes that all development under existing licences will be subject to rigorous examination by our expert regulators. This includes an environmental impact assessment by the Offshore Petroleum Regulator for Environment and Decommissioning (OPRED), net zero related assessments by the North Sea Transition Authority who will ensure that developments are as low-emission as possible, and other assessments by the Health and Safety Executive.

Clarity on the method of application for the tests

Several respondents focused on the way that tests are applied, with some arguing that all tests would need to be passed, while others favoured a more nuanced “scorecard” approach

Government Response

The North Sea Transition Authority (NSTA) takes the final decision on whether to proceed with another licensing round. The checkpoint as proposed in the consultation and as designed is non-statutory and does not change this.

The checkpoint will be used to evidence how compatible any given new licensing round would be with the UK’s commitments to tackle climate change.

The checkpoint will be a piece of advice which ensures Ministers have considered the sector’s performance against climate related targets before endorsing a prospective licensing round. The checkpoint will therefore be structured around three tests, which will present data on emissions and import/export balance to Ministers in a clear and concise way.

Roadmap for Phasing out Oil and Gas

Some respondents argued for a predetermined roadmap for reducing UK oil and gas production. Some responses provided a figure for this, while others argued for this in a more general sense.

One benefit cited for an approach like this was that it would ensure a phase out of oil and gas in the UK happened, regardless of economic factors (for example, increased oil prices delaying

cessation of production dates). It was also argued that such an approach would provide clarity to workers in the industry on the trajectory of the sector.

Government Response

The government does not support implementing a decline in oil and gas production that proceeds more quickly than the natural decline of the North Sea basin. This position is reflected in a core statutory objective of the North Sea Transition Authority which is to work with industry to maximise economic recovery of oil and gas from the UKCS.

The inclusion of such a test would require changes to policies and legislation that are beyond the scope of this checkpoint, and therefore the checkpoint will not include such a test.

Other factors in favour of continued licensing

Several respondents noted that there are other factors that should be taken into account when considering whether further licensing rounds are the right decision for the UK. These included energy security, employment opportunities, taxation revenue, and energy affordability.

Government Response

Ministers may wish to consider factors that are not directly climate related when considering whether or not to endorse any decision by the NSTA to proceed with further licensing rounds. However, the scope of the checkpoint is limited to considering factors that the government views as directly related to the climate.

The checkpoint will be used to illustrate compatibility with UK climate commitments, but it is not the sole factor that will determine whether a new round is permitted to take place. In making a decision on whether to endorse a prospective future licensing round, the need to limit climate change, as evidenced by the checkpoint, will be weighed by Ministers along with other factors such as the need for energy security and affordability, a just transition for people employed by the industry, and the potential impact on the UK economy. Such factors are outside the scope of the checkpoint.

For this reason, the government will not add additional considerations to the checkpoint that are not directly related to climate considerations.

Potential Test 1

Overview of Question 3

We asked whether potential test 1 (Reductions in operational greenhouse gas emissions from the sector vs. commitments), should be included in the checkpoint as described.

Alignment of North Sea Transition Deal targets with Carbon Budget 6

Several respondents claimed that the targets set out in the North Sea Transition Deal (NSTD), which the consultation document stated would be followed for this test, do not align with Carbon Budget 6.

The reason cited for this claim is a report written by the Climate Change Committee that recommended that operational emissions from oil and gas production should be reduced by 68% by 2030, whereas the corresponding NSTD target for 2030 is 50%³.

Government Response

The government's plan for reaching Net Zero does not completely mirror the Climate Change Committee's recommendations. The distribution of reductions across sectors is different in the two plans; and as such it is not accurate to compare at a sectoral level and infer that the government's ambition for the sector is inconsistent with CB6 or with Net Zero because it does not match the Climate Change Committee's targets. Instead, targets for all sectors must be considered together. We have been clear that building on the North Sea Transition Deal is key to the Fuel chapter of the Net Zero Strategy, so forms a part of our path to meeting our legally binding carbon budget obligations.

The checkpoint will focus on the targets outlined in the North Sea Transition Deal as per the consultation document. If the North Sea Transition Deal targets are subsequently revised, or other targets are agreed between government and industry, then these will be incorporated into the checkpoint in place of the NSTD targets.

Improved operational emissions performance does not justify exploring for fossil fuels as these will still emit emissions when used

Several respondents focused on the difference in scale between operational emissions and 'Scope 3' emissions – the emissions released when the oil and gas is ultimately burnt for energy, or otherwise used.

Government Response

The government accepts that producers globally will ultimately need to leave some oil and gas in the ground in order to meet global climate targets. However, the government's view is that in practice, global carbon emission reductions are far more likely to be attributable to reductions in global consumption of oil and gas rather than a proactive curtailment of global production, unilateral or otherwise.

³ Joint Recommendations – June 2021 Report to Parliament, Climate Change Committee
<https://www.theccc.org.uk/wp-content/uploads/2021/06/CCC-Joint-Recommendations-2021-Report-to-Parliament.pdf>

The government has not seen clear evidence that unilaterally reducing UK oil and gas production would reduce global consumption. The inelasticity of global oil demand coupled with the existence of price controlling activity by the Organisation of Petroleum Exporting Countries (OPEC) make this unlikely and may instead result in displacement of production to other parts of the world with lower environmental and safety standards.

As outlined in responses to previous questions, the checkpoint will consider the progress made by the sector in reducing operational emissions as part of Test 1.

Conclusion on Test 1

The government's view is that ensuring the sector meets the targets set in the North Sea Transition Deal between the industry and government (or other targets agreed with government) is important, and the Checkpoint should reflect this.

For this reason, Test 1 will be included in the checkpoint. As the checkpoint has been designed as an informative process rather than a deterministic one, there will be no predetermined threshold at which the sector is defined as having passed or failed a given checkpoint test. Instead, this information will be shown clearly on a graph, giving Ministers all the information required to come to a view on whether to support any decision by the NSTA to offer a further licensing round.

Overview of Question 4

We asked whether there should be any “grace margin” included in the calculation on whether industry had met agreed targets on emissions reductions. Such a grace margin would function to allow for differences in calculation methodology, and other sources of error. We did not specify exactly how the grace margin would work.

Most respondents suggest that there should be no grace margin included.

Some respondents suggested that there should be a grace margin of 2-3 years, others suggested that instead of a fixed grace margin, a rolling average should be applied, to avoid short-term fluctuations impacting the decision and reduce the probability of switching between negative and positive outcomes over time.

Other respondents said that the grace margin should depend on the reason for any shortfall. For example, if the sector argued that a particular target had been missed due to new government policies, then the grace margin should take this into consideration.

Government Response

The approach taken in designing the checkpoint is that it will act as an informative exercise. When applying this test, the checkpoint will exhibit the data on graphs, which will be accompanied by a written narrative. There will be no predetermined threshold for the checkpoint to pass or fail.

By reading the checkpoint document, Ministers will be able to see whether the sector has met previous targets, and whether the sector is on track to meet future ones. Ministers will then be free to consider all factors, both climate related and non-climate related when forming a view on whether or not to support any decision by the NSTA to proceed with a new licensing round.

Due to this approach, there is no requirement for a grace margin as described in the consultation document.

Potential Test 2

Overview of Question 5

We asked whether potential test 2 (operational greenhouse gas emissions from the sector benchmarked internationally), should be included in the checkpoint.

Comparisons should be on emissions intensity, not total emissions

Some respondents suggested that consideration should be given to the projected greenhouse gas intensity of future production resulting from licensing round success, as well as future production emissions from fields under existing licences. It was argued that these figures should be compared against projected global or country averages at the time of new production.

Government Response

The government agrees that emissions intensity is a key factor that should be taken into account in assessing the climate impact of any oil or gas field. However, at the licensing stage it is not possible to predict accurately either the volume of recoverable oil and gas, or the greenhouse gas intensity of production from facilities that have not at that stage even been designed.

However, due to increasing standards on flaring, venting, and electrification, it is highly likely that operational emissions from any newly licensed site would be considerably lower than the current average.

Additionally, the NSTA advise that any activity arising from new licensing rounds is not expected to materially influence total emissions from the sector. Almost all new fields are assumed to be tiebacks to existing infrastructure, and it is assumed that this won't add materially to the host infrastructure greenhouse gas emissions. While it is possible that there could be some life extension effects, these are not expected to be material.

The government will therefore not seek to make an estimate of the additional carbon emissions that would occur from an individual licensing round, instead Test 2 will focus on the carbon emissions performance of the sector as a whole and compare this with the performance of international peers.

Any comparisons made should be based on the “as received to the UK” emission intensity (i.e. include emissions associated with transportation to the UK).

Some respondents suggested that test should include transportation emissions, methane and other greenhouse gas emissions.

Government Response

It is clear that the processes involved in the import of Liquefied Natural Gas (LNG), including liquefaction, shipping, and regasification are carbon intensive, and increase the overall emissions intensity of imported LNG significantly.

Full detail on how this issue is addressed can be found in the checkpoint design document.

Any international comparison should be adjusted to consider differences in production context

Some respondents suggested that for international benchmarking to be a consistent and fair comparison, UK emissions should be compared to countries with similar reporting and assurance standards, similar maturity and production levels of basins and the same scope of emissions.

For example, some respondents felt that it would be inappropriate to compare UK emissions with Norway due to differences in their fiscal regime and electricity costs.

Government Response

The government has considered this view and is aware of the drivers for some other countries having a lower emissions intensity than the UK. However, the government does not take the view that circumstances for other international producers are so extraordinary as to necessitate excluding them from any emissions benchmarking process.

The UK will be benchmarked against the top countries that it imports gas from, regardless of individual advantageous characteristics that specific countries may have.

Although emissions intensity may be expected to be lower at new sites, benchmarking will be against existing UK production levels, as data for new or future sites is not available. The NSTA advise that any activity arising from new licensing rounds is not expected to materially influence total emissions from the sector. Almost all new fields are assumed to be tiebacks to existing infrastructure, and it is assumed that this won't add materially to the host infrastructure GHG emissions. While it is possible that there could be some life extension effects, these are not expected to be material.

Conclusion on Test 2

The government's view is that benchmarking can play a positive role in encouraging the sector to make progress in reducing operational emissions. For this reason, Test 2 will be included in the checkpoint.

Overview of Question 6

We asked what sources of data could be used in the application of potential Test 2, as set out in the consultation document.

Respondents put forward a number of suggested data sources, which could help in the design of the test, including a number of private data providers.

Alongside suggested sources, respondents also noted the need to consider the credibility of sources, and to understand how any corrections that are required for international sources are made (for example where greenhouse gas reporting is inadequate).

Respondents also noted that emissions benchmarking data, particular data that is only available through proprietary databases, may conflict with the checkpoint's transparency principle as this would not allow for independent verification without paying for the same proprietary data.

Government Response

While this response will not identify specific private data providers, the government acknowledges the need to consider data sources carefully to ensure an accurate test.

In the event that officials are unable to source data from open sources, the government's view is that industry leading proprietary databases would be the most appropriate option to use in Test 2. This is likely to be the case for any checkpoint run in the immediate future.

Overview of Question 7

We asked whether respondents agreed with the proposal as set out in the consultation document that any benchmarking exercise should look at comparing oil and gas using different methods.

Difficulty of differentiating between oil and gas at the licensing stage

Several respondents highlighted that it is not possible to accurately predict whether a given prospective licence area will contain oil or gas at the licensing stage.

Government Response

The government recognises that it is not possible to reliably predict whether a prospective licence area will yield gas or oil, neither, or both. For this reason, we will not seek to integrate such predictions into the climate compatibility checkpoint.

Scope for confusing outcomes if results are different

Some respondents pointed out that if oil and gas are benchmarked separately, a potentially confusing outcome could occur where the UK performs well in terms of gas emissions intensity but performs poorly in terms of oil emissions intensity. The opposite case could also occur. Some argued that such an outcome should result in a pause to licensing, while others thought licensing should continue even if only one of the pass thresholds was met.

Government Response

The government recognises that this is a possibility. However, as the checkpoint has been designed to be informative rather than determinative, this does not present a major problem.

The checkpoint will make it clear to Ministers how the UK is performing in relation to international peers, enabling them to make an informed decision on future licensing on the basis of the checkpoint as well as other factors.

Overview of Question 8

We asked whether respondents had specific suggestions for which countries the UK sector should be benchmarked against for oil and gas respectively.

Import Based benchmarking

A number of respondents agreed with the consultation proposal that the UK should be benchmarked against countries from which it would otherwise source gas, and then against an average of other producer nations for oil reflecting the fact that the UK currently imports about half the gas we use and exports the majority of oil produced from the UK Continental Shelf.

Government Response

Oil is an internationally traded commodity. High fungibility and relative ease of transportation means the UK receives a mixture of crude oil as well as refined products such as petrol and diesel from a wide range of exporting countries. In addition to market factors, UK imports from specific regions may vary due to geopolitical factors. These factors make it difficult to predict where the UK will source its oil and refinery products from. In addition, given that much of our imported 'oil' is actually refined products such as diesel and petrol, assigning scope 1 and 2 emissions to these imports would be highly complex, potentially violating the simplicity principle of the checkpoint, and bringing the performance of sectors other than the upstream oil and gas sector into consideration in the checkpoint.

For these reasons we do not intend to benchmark the UK against specific countries based on the source of oil imported into the UK. Instead, global average emissions intensity will be used.

On the other hand, gas is more easily traceable, either arriving via a pipeline from a nearby producing nation, or via LNG tanker in which case the origin of the gas is usually known.

The checkpoint will therefore consider the UK's top sources of gas and compare gas emissions intensity against these sources.

Economy based benchmarking

Several respondents made the point that if international comparisons are made, these should be against countries of a similar economic level, and that it would not be fair to judge UK oil production against countries with less strong economies that may not have implemented the same standards on emissions.

Government Response

The government recognises that economic inequalities mean countries should not be held to the same standards at all times. However, in line with the principles ensuring the checkpoint is simple and evidence based, it is important that data is presented in as even handed a way as possible. As outlined in response to one of the arguments made regarding question 5, this approach equally applies when comparing UK emissions against countries that perform better than the UK in terms of operational carbon emissions intensity.

For these reasons the government does not intend to benchmark the UK against a limited number of other supplying countries, or to apply a particular correction to global emissions figures to account for advantages that the UK, or another country may have in minimising emissions intensities.

Overview of Question 9

We asked what position the UK should achieve relative to other countries' benchmarks in order for this test to be passed.

The UK should be better than the global average

Most respondents to this question stated that the UK should be above average in terms of performance (producing below average emissions) when viewed against other countries' benchmarks or a global average for emissions.

Government Response

The government agrees that the UK sector should aim to reduce emissions intensity to below the international average.

As the checkpoint will take an informative approach, there will not be a pre-determined pass threshold. Instead, Ministers will be able to see the position of the UK relative to international peers and will be able to take a view on a future licensing round accordingly.

The UK should be a global exemplar

Some respondents felt that the UK should aim for much better than above average, and instead be world leading for continued licensing to be justifiable. Other respondents argued that regardless of the UK's emissions standards, it should not permit further licensing.

Grounds for both positions included the UK's stated climate ambitions, its relative wealth and financial capacity to fund an energy transition, and its responsibility for historical emissions.

Government Response

The government agrees that the UK oil and gas industry should be a global exemplar, and is working with industry to support electrification, the minimisation of flaring and venting, and the redeployment of resources (including personnel), to green energy.⁴ NSTD targets require a 50% reduction in emissions by 2030, with a view to reducing emissions by 90% by 2040.

We intend to show the position of the UK relative to international peers so that Ministers can make their own judgement.

⁴ North Sea Transition Authority, North Sea flaring cut by 19% last year, reaching record low press release, March 2022, <https://www.nstauthority.co.uk/news-publications/news/2022/north-sea-flaring-cut-by-19-last-year-reaching-record-low/>. North Sea Transition Authority, North Sea flaring cut by 19% last year, reaching record low press release, March 2022, <https://www.nstauthority.co.uk/news-publications/news/2022/north-sea-flaring-cut-by-19-last-year-reaching-record-low/>

Potential Test 3

Overview of Question 10

We asked whether potential Test 3 (status of the UK as a net importer or exporter of oil and gas) should be included in the checkpoint.

Import-Export Status is important to UK Energy Security

A number of respondents argued that energy security should be factored into the checkpoint and supported the inclusion of Test 3 on this basis. These respondents highlighted recent geopolitical events and rising global energy prices and argued that maximising domestic energy independence increases energy security and reduces the UK's vulnerability to volatile energy prices.

Government Response

This checkpoint is being designed to only consider factors that the government views as directly climate related. As such, energy security would be outside of the direct scope of the checkpoint.

However, it should be noted that the government views energy security as a priority and is encouraging investment in all forms of domestic energy production including renewable energy, nuclear power, and domestic oil and gas production.

Import-Export Status is Relevant

Some respondents argued that import / export status should be an important consideration in the decision to continue to award licenses. These respondents argued that the UK's consumption, if in line with UK climate obligations including net zero, serves as a useful threshold for oil and gas production, i.e. as UK consumption of oil and gas falls steadily over the coming decades, a net import test would help to ensure that production falls in tandem, eventually to zero (with the exception of oil and gas produced for non-energy uses, or for abated energy uses). If production were to increase beyond the level of consumption, Ministers may want to review whether continued exploration was truly necessary.

Government Response

It is not the government's view that increasing production to the level of being a net exporter would be inherently incompatible with the UK's climate objectives, especially if UK environmental standards and operational emissions intensity continued to be good on a global level.

Import-Export Status is Irrelevant

Some respondents argued that this test was potentially redundant given the likelihood that the UK will remain a net importer of oil and gas, due to the current and long-term projections of supply and consumption and the likely available reserves. Related to this, other respondents

noted that more clarity on the ways in which the export of oil and gas is incompatible with UK climate change objectives would be needed.

Government Response

Most forecasts suggest the UK will remain a net importer in the coming years. However, it is possible that reductions in consumption, together with large oil and gas discoveries, could in theory result in the UK becoming a net exporter at some future date.

As the UK has below average production emissions, some would argue that this would be advantageous, as UK oil is less environmentally damaging than oil from some other parts of the world.

Given the informative approach of the checkpoint, net export is not being set as a pre-determined fail point of the checkpoint, and it is therefore not necessary to present an argument for why net export would be compatible or not with climate change objectives. Indeed, the government does not view such an eventuality as incompatible. However, it is acknowledged that Ministers may wish to take any projection that showed the UK moving into a net export position into account when deciding whether or not to endorse future licensing rounds for oil and gas.

The government's view is still that the status of the UK as a net importer or exporter of oil and gas is relevant to the decision on whether to endorse future licensing rounds, and test 3 will therefore form part of the checkpoint.

Conclusion on Test 3

The government's view is still that the status of the UK as a net importer or exporter of oil and gas is relevant to the decision on whether to endorse future licensing rounds. Test 3 will therefore be included in the checkpoint.

Overview of Question 11

We asked whether it would be problematic for the UK to become a net exporter of oil and gas in the future.

Becoming a net exporter of oil and gas is incompatible with the UK Climate objectives

Many respondents felt that the UK becoming a net exporter of oil or gas would be incompatible with its climate objectives. A key reason highlighted was that there would be implications for the UK's moral leadership of climate issues, and that climate leadership is central to the UK's climate objectives.

Government Response

The government acknowledges the UK's important role in global climate influence and concerns around the impact on the UK's moral leadership of climate issues.

The checkpoint has been designed to be informative, such that it will provide Ministers with up-to-date information and projections on the UK's status as a net importer/exporter, as well as the sector's progress in reducing operational emissions.

If a net exporter position becomes more probable at some future time, Ministers will be able to consider whether that is acceptable in the context of other factors at the time. The informative approach of the checkpoint will enable Ministers to consider both factors which are directly climate related, as well as ones that are not (e.g. energy security).

Becoming a net exporter of oil and gas can be compatible with UK climate objectives

A number of respondents highlighted that becoming a net exporter could benefit global emissions as the UK has a growing potential for producing with a lower carbon intensity than the global average.

Aside from the impacts on global emissions, many respondents noted that becoming a net exporter could bring economic benefits, as well as potentially enable the UK to support global climate action if the UK exported low carbon intensity fuels to other countries, particularly those dependent on more polluting fuels, such as coal.

Government Response

The checkpoint is being designed to only consider factors which the government views as directly climate related, as such, the potential economic benefits of additional oil and gas are outside of the scope of the checkpoint.

For this reason, the checkpoint, and this test, has been designed to be informative such that it will provide Ministers with the key information needed to decide whether to endorse a future licensing round, while providing the flexibility to consider other factors outside of the checkpoint.

Overview of Question 12

We asked stakeholders for views on the forward time period that should be used when projecting whether the UK could become a net exporter of either oil or gas.

A mix of responses were received, with no clear majority view. Many respondents highlighted the inherent uncertainties in long-term energy market projections which make any assessment of future import-export status difficult.

Some respondents suggested that a timeframe of ~10 years would be proportionate (10 years is a typical timeframe from licence award to initial production).

Several respondents stated that forecasted life expectancy of licensed assets due to come online should be considered.

Government Response

The government recognises that uncertainties are an inherent part of projections, which increase the further into the future projections are made. However, projections represent the best idea we have about what the future looks like.

After reviewing consultation responses, and the available sources of data, we consider a projection period of 10 to 15 years to be appropriate. This is partly driven by the current availability of robust projections. The checkpoint will use the best available projections of domestic oil and gas demand that take into account reduced demand from future policies consistent with Carbon Budget 6 and the government's Net Zero pledges.

As we have seen in recent times, the global oil and gas markets are volatile due to their vulnerability to political and economic shocks. Therefore, the uncertainty in projections cannot be entirely controlled for in any time period due to this volatility.

However, due to the data choice, of the BEIS Net Zero Strategy demand projections, the time period used may be constrained for future checkpoints. For example, if we were to run the checkpoint in 2022, we would present the data for the period up until 2037 as currently covered by BEIS' Net Zero Strategy projections. The demand projections would be updated in line with Carbon Budget 7 and further budgets in the future.

For this reason, the checkpoint will compare projected production for the North Sea with the projected demand that is consistent with UK carbon budgets and Net Zero progress, for a period of 10-15 years.

Overview of Question 13

We have asked for views on a potential situation where the UK could be a net exporter of oil, while being a net importer of gas. We received a mix of responses, with no majority view on this question. There were many parallels with responses received to question 11.

The UK should be allowed to be a net exporter of oil, as long as operational emissions are minimised

In parallel with responses received to question 11, several respondents argued that becoming a net exporter of oil should not exclude the UK from future licensing. The UK being a net importer of gas would further strengthen this position.

Arguments included respondents' belief that the UK can produce oil with a lower carbon intensity than the global average, and therefore that maximising UK production of oil and gas would therefore reduce global emissions rather than increase them.

Being a net importer of gas does not stop the export of oil being incompatible with UK climate objectives

Many respondents argue that the UK should not be permitted to become a net exporter of any individual fossil fuel, regardless of its possible status as an importer of other fuels.

Arguments given included that becoming a net exporter would be inconsistent with the UK's climate goals and commitments and that oil is a higher carbon fuel than gas.

Government Response

These issues have been considered in the response to question 11.

Potential Test 4

Overview of Question 14

We asked whether potential test 4 (Sector progress in supporting Energy Transition technologies) should be included in the checkpoint.

Notably, there was quite significant opposition to this test in the respondents. This perspective was seen from responses that were generally opposed to future licensing, as well as responses that were generally supportive of future licensing.

It is wrong to use investment in clean energy to justify continued extraction of oil and gas

Some respondents took issue with this test, arguing that it could be perceived to link the development of new clean technologies with future licensing. Respondents argued that technology such as CCUS and Hydrogen could not justify the “expansion” of North Sea oil and gas.

Government Response

It should be noted that the award of new licenses will not result in the expansion of North Sea oil and gas. Instead, new licensing would only serve to marginally slow the decline in production that is projected from the UK continental shelf in the coming years.

The government does not intend to justify continued extraction of oil and gas on the basis of investment in clean energy. Instead, extraction is justified based on the UK’s need for energy, a smooth transition for the people employed by the existing industry and its supply chain, and the recognition that North Sea oil and gas is extracted with high environmental and safety standards.⁵

While incentivising investment in development of clean technologies should be a priority, on balance, the government does not view the checkpoint as the ideal place for this incentivisation to be applied.

Test 4 will therefore not be included in the checkpoint.

Singling out Carbon Storage and Hydrogen Generation could be seen as deprioritising other new energy technologies

Some respondents took the view that identifying hydrogen and CCUS in this test wrongly put these technologies on a pedestal above other technologies and risked “picking winners” among clean energy technologies.

Government Response

The reason for including both hydrogen and CCUS in the proposed test 4 the consultation was that these are technologies where the expertise of oil and gas sector are most transferable.

⁵ The NSTA details the regulation of environmental and safety standards in the UK oil and gas industry: <https://www.nstauthority.co.uk/exploration-production/production/field-operatorship/>

These technologies are not therefore being promoted above others, rather the intention of this test would be to encourage investment in the technologies that the oil and gas sector is most suited to applying its existing skillset and supply chain to.

The checkpoint will not include Test 4 and so this is no longer a risk.

The success of energy transition technologies such as CCUS and Hydrogen is not entirely within the sector's control

Some respondents argued that particularly in the case of CCUS, the success of UK implementation is not entirely within the sector's control. Successful implementation depends on government programmes to facilitate the rapid scale up of carbon capture in order to provide the required CO₂ for sequestration. Respondents argued that this made it an inappropriate test to tie to future licensing.

Government Response

The government agrees that the success of energy transition technologies is not entirely within the oil and gas sector's control. The point that only few in the sector would be able to contribute to meeting this target was well-made by respondents.

The checkpoint will not include test 4 so this is no longer a risk.

Overview of Question 15

We asked whether respondents had any specific suggestions for how progress in the oil and gas sectors development of energy transition technologies could be measured. A number of suggestions were received which are listed below for completeness:

- Considering sector level investment targets outlined in the North Sea Transition Deal (NSTD) versus actual investments made
- With a continuous assessment of CCUS and H₂ capacity targets versus actual capacity
- Considering increasing renewable kW hours produced [by in-scope technologies] compared to reduction in equivalent fossil fuel energy production
- Oil and gas sector spend on energy transition technologies projects and relative contribution to carbon capture and hydrogen capacity targets, such as those outlined in the Energy White Paper and Net Zero Strategy
- Using multiple metrics, that could include capital allocation as a percentage of project capital. Joule/kWh or other energy measure as a percentage of operational energy budgets and enumerated listing of renewable energy devices.

A significant number of respondents considered this test to be unfair, confusing or excessively complex, although arguments on both sides were given.

Government Response

The government has concluded that this test will not be included and therefore investment by the sector into CCUS and Hydrogen will not be tracked by the checkpoint.

Overview of Question 16

We asked whether they had any specific suggestions for targets or pathways for Energy Transition technologies that could be used.

We received a long list of suggestions of possible targets or pathways, which are listed below for completeness:

- Commitments of NSTD
- The removal of tax subsidies for fossil fuel sectors
- Provide support for research and development
- Create incentives for the oil and gas sector linked to renewable investment
- Include policy and regulatory support, alongside targeted funding

While arguments were made on both sides, a significant number of respondents considered the test relating to this question to be unfair, confusing or excessively complex.

Government Response

The government has concluded that this test will not be included and therefore investment by the sector into CCUS and Hydrogen will not be tracked by the checkpoint.

Overview of Question 17

We asked whether potential test 4 (Sector progress in supporting Energy Transition technologies) would be a fair test, given that the delivery of the above targets is only within the control of a small number of operators. Arguments on both sides were presented.

Only a few companies are capitalised to invest in energy transition technologies

A number of respondents argued that this would be an unfair test, as it considers factors that are outside the control and influence of many impacted parties, particularly as only a small number of companies are capitalised to lead on energy transition technologies such as Carbon Capture and Storage, and blue hydrogen. Respondents noted that many companies that are responsible for the development of such technologies are not even oil and gas companies, making the test less fit for purpose.

These respondents argued that there is therefore the potential for the performance of very few companies to compromise exploration licensing for all, and that such a test would add to the unpredictability of regulatory decision-making on the UKCS.

Government Response

The government agrees that not all companies working in the North Sea are equally well positioned to invest in energy transition technologies.

The government has concluded that this test will not be included and therefore the unequal level of control of different companies over the success of rolling out clean technologies in the North Sea is no longer a risk.

This is a fair test as it encourages progress

Some respondents considered this to be a fair test. Arguments given include that the industry is being assessed as a whole, and that there is a strong link between the supply chain for oil and gas projects and CCUS and H2 projects.

Other respondents noted that support for the test could be increased if the range of qualifying investments was widened, such as for increasing capacity in existing energy transition technologies and verifiable carbon offset projects

Government Response

The government is working to encourage companies working in the North Sea to increase investment in existing green technologies and verifiable carbon offsets.

The government has concluded that this test will not be included and therefore the unequal level of control of different companies over the success of rolling out clean technologies in the North Sea is no longer a risk.

Conclusion on test 4

Encouraging the development of clean energy generation technologies is key to achieving net zero, which is a top priority for the government.

However, on balance the government's view is that the checkpoint is not the appropriate tool with which to encourage this investment. Test 4 will therefore not be included in the checkpoint.

Potential Test 5

Overview of Question 18

This section of the consultation focused on the potential test 5 - Consideration of international Scope 3 emissions. We asked stakeholders how Scope 3 emissions be measured and monitored in a comparable way.

The inclusion of Scope 3 emissions was mentioned throughout the consultation questionnaire by stakeholders. Many stakeholders opposed the measurement of international Scope 3 emissions as part of the checkpoint, given the difficulties and complexities associated with accurate measurement, existing consideration in the Carbon Budgets and Nationally Determined Contributions of consumers of UK-produced fuels, and the coverage of Scope 1 and Scope 2 emission reductions in other tests, which many responses suggested may be more relevant and controllable.

Many respondents pointed out that the phrasing of this question was different from questions about earlier tests. This was an intentional difference, because for tests 1-4 there was a proposed mechanism that would allow for sourcing and presentation of relevant data, and a known comparators for the industry to be judged against (NSTD targets for Test 1, international comparisons for Test 2, etc).

For tests 5-6, we did not propose any specific designs, as it was unclear what comparison Ministers would need to make in order to conclude whether to endorse a further licensing round. This is why these questions were framed more openly.

A mixture of responses were received to this question, with no clear majority view.

There are a wide range of methods for estimating scope 3 emissions

Some respondents with specific suggestions for how Scope 3 emissions be measured and monitored, proposed methods including:

- The Greenhouse Gas Protocol Corporate Standard (GHG Protocol) developed by the World Resources Institute
- The Methodology for estimating Scope 3 emissions developed by IPIECA
- The Net Zero Standard for oil and gas companies developed by the Institutional Investors Group on Climate Change (IIGCC)
- The Net-Zero Company Benchmark developed by Climate Action 100+
- The Guidelines for National Greenhouse Gas Inventories developed by the Intergovernmental Panel on Climate Change (IPCC)
- The methodology used in the Carbon Take Back Obligation (CTBO), which considers the quantity of oil and gas produced
- Any other current methods employed by UKCS majors

Government Response

The government acknowledges that there are a range of methods for estimating scope 3 emissions and has reviewed the methods proposed. It is acknowledged that it would be possible to calculate an estimate, or range of estimates for UK scope 3 emissions. One

approach would be to pick a calculation methodology that is already employed by the industry, another approach would be to produce a range of scope 3 estimates based on using a number of different approaches.

However, given this information, it is not clear what action Ministers would take, as there is no agreed target for the reduction of scope 3 emissions.

There is no need to employ complex methods to estimate scope 3 emissions

Several respondents pointed out that rather than seeking to measure scope 3 emissions, it would be simpler to estimate this as a worst-case scenario conversion, in which it is assumed that all oil and gas is combusted. Under this assumption, the calculation of scope 3 emissions would be simple.

Government Response

This checkpoint is intended to be an unbiased assessment helping to weigh the climate impact of North Sea production against the benefits. Applying a worst-case scenario estimate would not be an even-handed approach, as oil is generally not entirely combusted.

It is acknowledged that another simpler but similar method that could be applied would be a simple conversion factor, allowing for a certain portion of crude oil production to be assumed to be used in non-combustion related uses (e.g. for use in chemicals, plastics, or tarmac production).

However, for reasons outlined elsewhere in this document, the government's view is that scope 3 emissions are not directly relevant to the decision on whether to endorse further licensing round. Including any estimate of scope 3 emissions in the checkpoint would add little value, and it is not clear how Ministers would take such a number into account.

It is not necessary to consider scope 3 emissions

A number of respondents were opposed to the consideration of scope 3 emissions in the checkpoint. A key argument given for this position is that scope 3 emissions are covered by consuming nations' carbon accounts and therefore at a global level scope 3 emissions will be reduced through widespread demand reduction as sources of alternative energy come online.

Respondents argue that the logic of asking producing nations to reduce scope 3 emissions is flawed, as the only lever a country has to reduce scope 3 emissions is to reduce production rates. Tracking scope 3 emissions therefore adds an unnecessary step into the process, because if reducing production was the desired outcome, then the focus could be on production from the outset.

Respondents also noted that scope 3 emissions reflect uncontrollable factors driven by global demand, and that methods for accurate measurement of scope 3 emissions are complicated, burdensome, and potentially inaccurate.

Some respondents argued that other mechanisms, such as carbon pricing and containment guarantees, would likely be more effective, however these are outside of the scope of the checkpoint.

Government Response

The government agrees that reducing demand is key to controlling scope 3 emissions and does not support or encourage other countries to proactively restrict oil and gas production, for

which the choice, capacity and supporting infrastructure of alternative cleaner energy generation technologies is still growing.

This is a different position from that which the government takes on coal, as coal can be more readily replaced by alternative fuels with relatively less retrofitting to infrastructure, immediately reducing emissions. We have committed to phase out the use of unabated coal generation by the end of 2024, and the 2021 Glasgow Climate Pact called upon all parties to accelerate efforts towards the phasedown of unabated coal power. Crude oil is traded globally before being refined or otherwise used. The government understands that North Sea operators do not control the final destination of crude oil that they produce, or how it is used once it arrives at its final destination.

The law does not consider producers to be responsible for assessing scope 3 emissions

Some respondents highlighted recent legal cases in which the issue of scope 3 emissions was addressed.

Government Response

It is not within the scope of this checkpoint to alter any of the legislative requirements relating to environmental impact assessment.

For all of the above reasons the checkpoint will not include assessment of scope 3 emissions.

Overview of Question 19

We asked how a test that considers Scope 3 emissions could be designed. This question was not aimed at understanding how scope 3 emissions could be measured, as this was addressed in question 18. Rather, it was intended to collect views on how a test could be designed, assuming that scope 3 emissions could be accurately measured. We therefore asked for detail of any proposed methodology and sources of data and projections that would be required.

We received a mix of responses. Given the open nature of the question there was no single consensus view.

There are academic resources for how countries should reduce their scope 3 emissions and therefore their production of fossil fuels

Some respondents cited specific resources that the UK could consider to understand how to reduce emissions, including scope 3 emission. The resources cited included University College London's Energy Institute's TIAM-UCL model, and World Resources Institute's Greenhouse Gas Protocol Corporate Standard (GHG Protocol).

Government Response

The government has explored these resources and taken into account academic studies that have used the approaches outlined above. It is acknowledged that some academic work has sought to assign specific production decline rates to global regions in order to align with limiting global warming to 1.5 C. For further information on our response to such papers, please refer to question 20.

Scope 3 Emissions should not be considered

Some stakeholders noted again in response to this question that Scope 3 emissions should not be taken into account. Reasons cited to support this position included:

- The methodological challenges with applying this test
- Greater importance of UK Carbon Budgets and other countries' Nationally Determined Contributions
- The attempts to establish measurement at the company/hydrocarbon field level goes against the principles of the checkpoint (evidence based and simple)

These issues are considered in the response to question 18.

Conclusion

Responses to questions 18 and 19 outlined a number of different methods for estimating the magnitude of scope 3 emissions from UK produced oil and gas. While there are many methods to choose from, the government acknowledges that estimation of scope 3 emissions is fundamentally feasible, and many oil and gas producing companies have applied these techniques to estimate their own scope 3 emissions levels which they publish openly.

However, on balance, the government finds limited benefit to including an evaluation of scope 3 emissions in the checkpoint. Reasons for this include:

- The limited control that UK oil and gas producers have over scope 3 emissions of their production, beyond simply reducing their production.
- The lack of clarity over what step a Minister should take given even perfect knowledge of what scope 3 emissions are.

The government will not be including a test on scope 3 emissions in the checkpoint.

Potential Test 6

Overview of Question 20

We asked respondents how would a test that considers the world's 'production gap'⁶ be designed. As with potential test 5, this was a more open question than those asked for potential tests 1-4, as a potential test design was not proposed in the consultation document.

We asked for detail of any proposed methodology and sources of data and projections that would be required.

We received a mix of responses. Given the open nature of the question there was no single consensus view. Some respondents, particularly NGOs, argued that a test based on the world's production gap would be the most important test the checkpoint could include.

In contrast to this view, some respondents said that consideration should be given to other issues outside of climate related ones, such as emissions targets, UK energy security, and investment in renewables. Furthermore, stakeholders argue that other factors could make this test difficult to justify, given the fact that they perceived the intent of the checkpoint to be reducing emissions intensity in the UK. Stakeholders pointed to other factors such as prior industry commitments, ongoing worldwide demand reduction via other countries' carbon reduction targets, and the lack of an appropriate measurement methodology.

Ways in which the test could be designed

A number of suggestions were provided which included:

- A simple pass/fail method that considers the existence of the production gap, such that if there is an existing production gap, the checkpoint result is a fail, and future licensing rounds and exploration is not possible (given the current size of the global production gap this would preclude future licensing in the UK from taking place and remove the need for a checkpoint in the foreseeable future).
- Recognition that the capacity for the UK to manage the energy transition should justify a design that ensures UK production declines faster than global average. Downscaling could be based on:
 - **Equity**, where poorest nations (per capita GDP) are assigned a higher right to produce, or;
 - **Cost**, where relative costs of production are considered, with the most expensive basins closing first

Sources of Information a Production Gap test could use

- The United Nations Environment Programme's (UNEP) Production Gap Report
- The Global Registry of Fossil Fuels
- The IEA's Net Zero 2050 Roadmap

⁶ The production gap is the difference between the quantity of fossil fuels the world can afford to burn while remaining within Paris-agreement limits, and the quantity of fossil fuels that the world is planning to burn, based on a global sum of government projections.

Government Response

Unilaterally reducing production has the potential to drive demand to highly scalable locations for oil and gas production, and there is no way to guarantee that reduced UK production would result in lessening of global emissions. As such, halting new licences based only on whether there is a production gap is an over-simplified, and potentially counter-productive approach.

Additionally, the proposed down-scaling systems based on equity would rely on global cooperation that is completely improbable. At present, accelerating the UK's production decline is likely to drive demand to wealthy, emissions intensive producers (like the US and Canada) more than to the poorest nations.

The government has reviewed all suggestions put forward, and on balance has concluded that a specific test on the production gap is not required. Including such a test would infer that the government subscribes to the view that proactive unilateral production cuts will meaningfully help the world reach net zero, which the government does not.

However, information on the projected rate of decline of UK oil and gas production, together with key decline curves sourced from literature can still be presented in the document, purely to provide Ministers with context on this data. Providing this data as context rather than a specific test will allow officials drafting the document to exercise judgement as to which prescribed curves are displayed, rather than predetermining this in the design.

Reasons not to have a production gap test

Many respondents were of the view that a production gap test shouldn't be included.

Respondents argued that there are many other priorities for the UK above the existence of a global production gap, and that using the production gap as a justification for stopping or reducing licensing for UK oil and gas could be counterproductive.

Respondents also argue that such a test would not contribute to the purpose of checkpoint, which is to help ensure that any future licensing is consistent with UK climate objectives, and that the test poses risk of unintended consequences, due to complexity and uncertainty in its application

Government Response

The government accepts that producers globally will ultimately need to leave some oil and gas in the ground in order to meet global climate targets. However, the government's view is that in practice, global carbon emission reductions are far more likely to be attributable to reductions in global consumption of oil and gas rather than a proactive curtailment of global production, unilateral or otherwise.

On balance, the government has concluded that a specific test on the production gap is not required. As well as introducing data quality issues, including such a test would infer that the government subscribes to the view that proactive unilateral production cuts will meaningfully help the world reach net zero, which it does not.

Conclusion

The government recognises the existence of a global production gap, and its significance. However, for the reasons outlined above, particularly production emissions intensity and the

improbability of global cooperation on pro-active production cuts, the government does not believe the production gap is best mitigated through this checkpoint and will therefore not include test 6 as a specific test in the checkpoint.

However, information on the projected rate of decline of UK oil and gas production, together with key decline curves sourced from literature can still be presented in the document, purely to provide Ministers with context on this data.

Implementation of the Checkpoint

Overview of Question 21

We asked respondents for views on whether it would be advantageous to put the checkpoint on a statutory footing if such an opportunity arose in the future. We received a mix of responses.

Reasons to put the checkpoint on a statutory note

It could be useful in:

- Giving certainty on longer term regime, particularly for investors
- Allowing for further consultations and opportunities to receive feedback on design
- Giving courts greater clarity if legal challenge is brought, particularly after a test failure
- A statutory footing would, and should, override OGA's Central Obligation and enable enforcement

Government Response

The government has considered these arguments and agrees that in some circumstances greater legal certainty could be beneficial. However, as the checkpoint is intended as an informative tool to help Ministers decide whether to endorse NSTA decisions on further licensing rounds, it does not need to be legally binding at this time.

Reasons not to put the checkpoint on a statutory note

Respondents argue that this would add complexity to implementation of the checkpoint, which will further slow the process and recommencement of licensing, and therefore jeopardise investment in the UKCS. Some respondents argue that it would be more appropriate to consider after initial implementation given the checkpoint is new and untested.

Additionally, some respondents pointed out that the North Sea Transition Authority operates independently from the government, and that therefore it would be inappropriate to put the checkpoint on a statutory footing.

Government Response

The government has considered these arguments and agrees overall.

At this stage there is no intention for the checkpoint to be put on a statutory footing, but this will be kept under review.

Conclusion

The checkpoint will not, for now, be put on a statutory footing.

Overview of Question 22

We asked for views on how long the outcome of a checkpoint should be considered valid for.

Reasons to introduce a medium to long term period for checkpoint implementation

Most respondents were of the view that it would be appropriate for the checkpoint to be valid for a medium (>3 years) to long intervals (5-10 years). These respondents argue that this would support company and investor confidence, and align with existing processes in this space, such as the Strategic Environmental Assessment, National Carbon Budgets, and emission reduction targets of the NSTD

Government Response

The government acknowledges these arguments and recognises the benefits of a medium to long implementation period for the checkpoint. The government aims to support company, investor, and public confidence wherever possible.

However, both data and projections can change quickly. It is the government's view that it is important for decision makers to be equipped with the latest data with which to support their decisions.

Parties seeking predictability on whether licensing rounds are likely to take place at some future time will be able to review the checkpoint design document and make a judgement based on data from sources identified in this document.

Reasons to introduce a regular review period for the checkpoint

Many respondents argued that the design of the checkpoint should be reviewed frequently. The main reasons given for this approach were that changes to related climate targets may happen relatively quickly.

Government Response

In the interests of legal certainty and promoting company, investor, and public confidence, the government believes that there should be some consistency in the checkpoint; it should not be reviewed with excessive frequency.

However, significant developments in sources of data, UK climate objectives, or technologies might provide grounds for a review.

The checkpoint will not be reviewed unless there are clear grounds for doing so. This will be outlined in advice to Ministers.

The checkpoint should include a forecast of validity

One view expressed by some respondents was that the checkpoint should forecast whether future checkpoints are likely to pass or fail in the years ahead. Given uncertainty inherent in projections, one way that this could be achieved would be through the use of a traffic light system.

Government Response

As the checkpoint has been designed to take an informative approach, there is no forecast to be made about whether future checkpoints will pass or fail. The decision to endorse or not endorse a future licensing round could be made by a Minister taking into account the information presented in the checkpoint, alongside other factors.

Parties seeking predictability on whether licensing rounds are likely to take place at some future time will be able to review the checkpoint design document and make a judgement based on data from sources identified in this document.

For this reason, the checkpoint will not explicitly make predictions about whether future checkpoint will pass or fail. Instead, the likely future performance of the UK oil and gas sector against various tests presented in the checkpoint will be implicit in the data presented.

Conclusion

The checkpoint will not apply for a specified period of time but will be considered valid for a proposed licensing round taking place shortly after completion of the checkpoint.

The checkpoint will not be reviewed at set times but will be reviewed if there are clear grounds for doing so.

Overview of Question 23

We asked whether the checkpoint outcome should apply to potential future onshore licensing rounds within England.

Reasons to apply it to onshore licensing

Some respondents argued that consistency across the industry is important, and that therefore all future licensing should be subject to the checkpoint, regardless of location. Respondents pointed out that the operational emissions from the two sectors are comparable, and therefore there would be no reason to separate them under any Ministerial decisions around future licensing.

Reasons not to apply it to onshore licensing

Some respondents argued that the two industries have significant differences, with only the offshore sector being subject to the North Sea Transition Deal. There is no corresponding deal with the industry body for the onshore sector (UK Onshore Operators Group (UKOOG)).

Government Response

For historical and practical reasons, onshore and offshore oil and gas production are subject to different regulatory schemes and bodies in the UK. In addition, onshore makes up a very small fraction of UK production. However, should a Minister take the view that future licensing offshore is incompatible with UK climate objectives, there would need to be special circumstances to justify why onshore licensing should still proceed.

The presumption is therefore that the outcome of any Ministerial decision on future licensing taken following the advice presented in this checkpoint will apply to onshore licensing as well as offshore.

Other views on the checkpoint application to future onshore licensing rounds

Some stakeholders told us that the checkpoint should apply to all of the UK, rather than specifically to England.

Government Response

Due to the devolution settlement concerning onshore oil and gas policy, a Ministerial decision on onshore licensing can only apply to England.

‘Out of Round’ Licence Awards

Overview of Question 24

We asked whether ‘out of round’ licences should be subject to the existing regulatory process and effective net zero test, rather than the climate compatibility checkpoint.

Many respondents who addressed this question specifically agreed that that ‘out of round’ license awards should be subject to the existing regulatory process and effective net zero test, rather than the climate compatibility checkpoint.

‘Out of round’ licences should be subject to the existing regulatory process and effective net zero test

Respondents supportive of out of round licences being excluded from the checkpoint argued that existing regulatory processes should be sufficient in addressing emissions impacts, particularly due to the OGA Strategy and North Sea Transition Deal. Respondents also noted that out-of-round licenses typically focuses on making efficient use of existing licences and acreage and was only deployed in limited and specific circumstances. Respondents argue that imposing additional requirements on out-of-round licences risks slowing down processes, decision making, and damaging investor confidence.

‘Out of round’ licences should be subject to the outcome of the checkpoint

Respondents supportive of out-of-round licences being included in the checkpoint argued that a lack of consistency in standards between different licensing rounds risked creating policy loopholes, inferring that that ‘out-of-round’ applications could therefore be used to bypass checkpoint tests if not specifically included in the checkpoint. Respondents were concerned that if the OGA expanded the definition of out of round licences to include non-adjacent or substantial potential developments, then this would bypass any decision the Minister made on future licensing.

Conclusion

Given that the design of the checkpoint is of an informative nature rather than a deterministic one, the implication of this question is slightly less critical. For example, after reviewing the checkpoint, a Minister may take the view that a further licensing round should not take place, but that out of round licensing can go ahead in limited circumstances and at the discretion of the NSTA. Likewise, they could reach the view that no further licensing is required, and that that applies for out of round licensing too.