



HM Treasury

# Oil and Gas Fiscal Regime Review

## **Call for Evidence**

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July 2023





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# Chapter 1

## Introduction

- 1.1 In the [2022 Autumn Statement](#), the Chancellor announced a review into the long-term fiscal regime for oil and gas to ensure the regime delivers predictability and certainty, supporting investment, jobs and the country's energy security.
- 1.2 The current fiscal regime that applies to upstream oil and gas activity is outlined in detail in Chapter 3 and currently consists of three permanent elements and one temporary element (the Energy Profits Levy). The review will consider the future of the permanent regime in its totality, including Petroleum Revenue Tax, Ring Fence Corporation Tax, Supplementary Charge, and the different tax reliefs and allowances available within the regime.
- 1.3 The government published the [Terms of Reference](#) for the review in June 2023. These set out that it is considering whether and how the fiscal regime can support investment in the UK consistent with the UK's energy security and net zero ambitions by:
- Supporting UK energy security and helping to meet domestic energy demand, as we transition to net zero, through incentivising activity that maximises economic recovery of the UK's oil and gas resources in the medium term;
  - Promoting the pathway to a net-zero basin by 2050 through supporting the decarbonisation of upstream oil and gas activities as set out in the [North Sea Transition Deal](#) (NSTD);
  - Prioritising long-term energy security, and responding to the diversification of activity in the basin in a way that minimises barriers to investment in greener technologies;
  - Being made more efficient and predictable, including in its response to any future price shocks and persistent price volatility as well as through further simplification;
  - Delivering a fair return on the nation's resources to support the public finances and fund vital services.
- 1.4 The review is considering how the regime can support broader government objectives as they apply to oil and gas activity in the UK and on the UK Continental Shelf (UKCS), and broader activity on the UKCS, including the government's [Energy Security and Net Zero Growth Plans](#), but any outcomes will relate wholly to fiscal policy.

- 1.5 The review is led by HM Treasury, working closely with HM Revenue & Customs (HMRC), the Department for Energy Security & Net Zero (DESNZ) and the North Sea Transition Authority (NSTA). Since the announcement of the review, officials across departments have started work to consider the issues highlighted in 1.2-1.3. The government will use this call for evidence and direct engagement with stakeholders to progress this work further. HM Treasury is committed to engaging with the oil and gas industry and other interested stakeholders as part of the review's process.

## Purpose of the Call for Evidence

- 1.6 This call for evidence seeks information on the areas outlined above, centred on the evolving context of oil and gas operations and how the design of the fiscal regime has an impact on the activity of the sector.
- 1.7 The focus of the call for evidence is on the long-term future for the regime rather than short-term changes to the current fiscal regime. Therefore, changes to the Energy Profits Levy (EPL) will not be considered as part of this call for evidence. The government recognises that the sector will continue to adapt in different ways at different stages of the transition to net zero and welcomes evidence about these different periods up to 2050. While demand for oil and gas will decline, they will retain a crucial role as critical fuels that play an important part in ensuring secure energy supplies. The government's recent [Powering Up Britain: Energy Security and Net Zero Growth Plans](#) form an important foundation for the review's objectives. As oil and gas consumption was considered in these documents, it will not be reconsidered as part of this review.
- 1.8 Mainstream elements of the UK tax system as they apply to the industry and its supply chain, including income tax, National Insurance contributions, VAT and mainstream Corporation Tax are also out of scope of the review - changes to these are considered in the context of the wider UK tax system.
- 1.9 The review will consider how any future reforms to the regime can continue to support the public finances by delivering a fair return in exchange for the use of the nation's resources.
- 1.10 **Chapter 2** asks some questions about you, including any relevant professional background, or whether you are replying on behalf of a business or representative organisation. **Chapter 3** considers the existing tax and policy landscape. **Chapter 4** focuses on investment and energy security. **Chapter 5** centres on the transition to net zero and decarbonisation. **Chapter 6** explores how the fiscal regime could be more simple, predictable and stable. **Chapter 7** considers equalities.
- 1.11 The government will review all responses in considering next steps towards the long-term design of the fiscal regime and will use the evidence gathered from this call for evidence to inform

that process. Respondents may wish to focus on the issues which most impact them, but the government welcomes responses to any questions that respondents choose to answer. The government will confirm next steps by the end of this year.

# Chapter 2

## About you

2.1 Anyone is welcome to respond to this call for evidence. To help the government understand the context of your answers and assess the views from different stakeholders, it would be helpful to have some information about you. You should indicate if you are responding on behalf of an organisation, business or other group. In the case of representative bodies, please provide information on the number and nature of people you represent.

### Question 1

What is your name?

### Question 2

What is your email address?

### Question 3

Which category in the following list best describes you? If you are replying on behalf of a business or representative organisation, please provide the name of the organisation/sector you represent, where your business(es) is located, and an approximate size/number of staff (where applicable).

- Oil and/or Gas Upstream Producer (offshore)
- Oil and/or Gas Upstream Producer (onshore)
- Oil and/or Gas Mid or Downstream Sector
- Oil and/or Gas Supply Chain
- Renewable Energy Producer
- Renewable Energy Supply Chain
- Energy Trader
- Energy Supplier
- Carbon Capture and Storage Sector
- Trade Body or Association
- Provider of Finance
- Environmental Group
- Academic
- Education and Skills
- Accountant / Tax Adviser
- Individual
- Other

# Chapter 3

## The fiscal regime and its context

- 3.1 The fiscal regime has been designed to encourage companies to explore for and develop the nation's oil and gas resources whilst aiming to ensure that an appropriate share of the benefits accrues to the UK economy as a whole. Since the start of offshore production in the mid-1960s the context of exploration and development has evolved significantly as the basin has matured and commercial practices have changed.
- 3.2 Almost all UK production comes from offshore fields. The great majority of onshore oil production comes from Wytch Farm while most onshore gas production comes from Saltfleetby, which recently restarted, with much lower volumes from several dozen smaller fields. In total, onshore production accounts for around 2% of UK crude oil production and much less than 1% of gross gas production.<sup>1</sup>

### Key features of the fiscal regime

- 3.3 The exploration for and production of oil and gas in the UK and on the United Kingdom Continental Shelf (UKCS) is taxed differently to other activities. These activities are treated as a separate trade, ring fenced from other activities, and profits arising are taxed accordingly. The current tax regime consists of three permanent elements and one temporary element.
- 3.4 **Ring Fence Corporation Tax (RFCT).** This is calculated in the same way as the standard corporation tax applicable to all companies but with the addition of a 'ring-fence' and the availability of 100% first year allowances for virtually all capital expenditure. The ring-fence prevents profits from UK and UKCS oil and gas extraction being reduced by losses from other activities or by excessive interest payments. The current rate of RFCT is 30% and is set separately from the rate of mainstream corporation tax (currently 25%).
- 3.5 **Supplementary Charge (SC).** This is an additional charge on a company's ring-fence profits. The ring-fence profits are adjusted so there is no deduction for finance costs, and companies can

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<sup>1</sup> NSTA analysis of NSTA field production data, <https://opendata-nstauthority.hub.arcgis.com/datasets/NSTAUTHORITY::nsta-field-production-pprs-wgs84/explore>

benefit from a further 62.5% (75% for onshore activity) Investment Allowance on certain expenditure, after their investment starts generating income. The current rate of SC is 10%.

- 3.6 Petroleum Revenue Tax (PRT).** This is a field-based tax charged on profits arising from oil and gas production from individual oil and gas fields which were given development consent before 16 March 1993. Since 1 January 2016, the rate of PRT has been set permanently to 0% to simplify the tax regime for investors and to level the playing field between investment opportunities in older fields and infrastructure and new developments. PRT repayments are chargeable to RFCT and SC.
- 3.7** Ordinarily, for the purposes of corporation tax, companies can carry back losses one year. However, losses arising from decommissioning of oil and gas assets can be carried back and set against historic profits to April 2002 in the case of RFCT and SC and for the whole life of the field in the case of PRT.
- 3.8 Energy (Oil and Gas) Profits Levy (EPL).** Following record high oil and gas prices seen after the Russian invasion of Ukraine in 2022, in May 2022 the government introduced a temporary surcharge on the extraordinary profits arising within the oil and gas sector. The rate of EPL is now 35%. In order to support investment, the EPL includes a 29% Investment Allowance. A new, alternative 80% Investment Allowance for decarbonisation expenditure is effective from 1 January 2023. The EPL is due to end on 31 March 2028.
- 3.9** In June 2023 the government announced the [Energy Security Investment Mechanism](#) (ESIM). This confirmed that both average oil and gas prices will need to meet or fall below set price thresholds for two successive quarters in order for the EPL to be disapplied before March 2028. The government is currently seeking views on the technical detail of the ESIM separately and therefore the ESIM will not be considered as part of this call for evidence.

## Evolving context of UK oil and gas production

- 3.10** The UK's oil and gas sector is of national importance. Production began offshore in the UKCS in the mid-1960s and peaked in 1999,<sup>2</sup> with over 46 billion barrels of oil equivalent (boe) extracted so far.<sup>3</sup> Over this period the sector has contributed significantly to energy security, economic growth, jobs and tax revenue.
- 3.11** Oil and gas still supply around three quarters of the UK's overall energy use today, meaning these fuels continue to play a key role

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<sup>2</sup> UK Extractive Industries Transparency Initiative, Oil and Gas in the UK, Figure 4, <https://www.uketi.org/oil-gas#pro>

<sup>3</sup> NSTA, UK Oil and Gas Reserves and Resources 2022, p.4 <https://www.nstauthority.co.uk/media/8394/reserves-and-resources-2022.pdf>

in our national energy security.<sup>4</sup> Though policies to deliver net zero will accelerate the reduction in oil and gas use, oil and gas are important sources of energy and will remain essential for many years to come as fuels, as well as in the production of essential materials such as plastics, chemicals and fertilisers. The [British Energy Security Strategy](#) highlighted that even in 2050, when we have reached net zero, it is estimated that the UK may still be using a quarter of the gas we do now and we will still require oil in transportation and for manufacturing products, such as plastics and fertiliser. While any remaining fossil fuel combustion will be fully abated by technologies like Carbon Capture Utilisation and Storage, we will still need sources of oil and gas.

- 3.12 There are significant economic benefits from domestic oil and gas production. These benefits include an improved balance of payments position, contribution to the UK economy and continued support for a number of highly skilled jobs and supply chains across the UK. Gross sales revenue has averaged around £30 billion in recent years.<sup>5</sup> According to Offshore Energies UK, in 2021 around 120,000 jobs were supported by the sector directly or indirectly.<sup>6</sup> To date over £400 billion in direct taxes in 2022/23 prices has been generated from domestic oil and gas production, helping to fund significant public spending.
- 3.13 The government's [Powering Up Britain](#) publication highlighted the significant progress the UK is making to reduce its reliance on fossil fuels, having decarbonised more than any other G7 country since 1990. Oil and gas production in 2021 was responsible for around 3% of UK greenhouse gas emissions.<sup>7</sup> The government is working closely with industry and regulators to decarbonise oil and gas production in the North Sea. Through the NSTD, industry is committed to reducing its emissions by 10% by 2025, 25% by 2027 and 50% by 2030 (against a 2018 baseline). Decarbonisation measures including ending routine flaring and venting and platform electrification are essential to meeting the 2030 target.
- 3.14 Given the significant volume of hydrocarbons extracted to date and the fact that production in the basin peaked over two decades ago, the UKCS is very mature and now in long-term decline. Even with continued new field development and licensing, future UK production of oil and gas is currently projected to be around 6

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<sup>4</sup> DESNZ, Supply and Use of Fuels, Energy Trends Table 1.3

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1147082/ET\\_1.3\\_MAR\\_23.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147082/ET_1.3_MAR_23.xlsx)

<sup>5</sup> NSTA, Income from and expenditure on UK upstream oil and gas exploration, development, operating and decommissioning activities - 1970 to 2022, <https://www.nstauthority.co.uk/data-centre/data-downloads-and-publications/income-and-expenditure/>

<sup>6</sup> Offshore Energies UK, Workforce Insight 2022, <https://oeuk.org.uk/product/oeuk-workforce-insight-2022/>

<sup>7</sup> Office for National Statistics, Atmospheric emissions: greenhouse gases by industry and gas, <https://www.ons.gov.uk/economy/environmentalaccounts/datasets/ukenvironmentalaccountsatmosphericemissionsgreenhousegasemissionsbyeconomicsectorandgasunitedkingdom>

billion barrels of oil equivalent in total. With continued exploration and development, oil and gas production is expected to decline by 7% a year.<sup>8</sup>

- 3.15 Whilst production at the start of the industry involved exploiting easy-to-recover fields through the development of a small number of very large fields, many of the remaining UKCS fields are relatively smaller and/or more technically challenging to exploit. This makes them costlier and riskier for businesses to invest in and has in turn caused greater risk sharing amongst operators as they seek to diversify portfolios by owning interests across multiple fields. Decommissioning activity in the UK has also ramped up in recent years and decommissioning activity is expected to plateau at around £2 billion a year in 2022 prices for the next decade or so as the basin becomes more mature and more fields reach cessation of production.<sup>9</sup>
- 3.16 Today around 200 companies operate in the UK and UKCS, but as the basin has matured the demographic of the industry has changed significantly. The production footprint of international oil and gas companies has reduced gradually over time, reflecting a shift in their commercial focus towards more profitable investments elsewhere (e.g., North America, the Middle East or Norway). Instead, there is now a strong population of private equity groups and foreign-state owned oil companies that have steadily replaced international oil and gas companies. In most cases such newer entrants as remain in the UK are not integrated (i.e., do not have downstream or midstream operations) and tend to have upstream-only portfolios often heavily focused on UKCS activities.
- 3.17 The government recognises that this context will continue to evolve as the basin further matures and is interested in any further understanding of this to contextualise tax policy development. Aspects related to net zero and energy security are explored in later chapters.

## Question 4

Net-zero, energy security and the predictability of the fiscal regime are discussed separately in the following chapters. Putting these contexts to one side, is there any additional context to oil and gas production and its future evolution that the Government should be aware of? Comparisons to the evolution of other mature basins are welcomed.

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<sup>8</sup> NSTA analysis including from Projections of UK oil and gas production and expenditure February 2023, <https://www.nstauthority.co.uk/media/9084/nsta-medium-term-projections-feb-2023-v3.xlsx>.

<sup>9</sup> NSTA, Projections of UK oil and gas production and expenditure February 2023, <https://www.nstauthority.co.uk/media/9084/nsta-medium-term-projections-feb-2023-v3.xlsx>.

# Chapter 4

## Investment focused on oil and gas production

4.1 The investment context will continue to evolve as the basin matures and market conditions change, with the fiscal regime an important consideration in investment decision making. Investment by and in the oil and gas sector will influence production levels and could support the energy transition. To help understand these issues better, this chapter seeks views on the changing investment context, how the design of the fiscal regime impacts investment and what this could mean for energy security.

### Oil and gas investment context

4.2 As highlighted in Chapter 3, the UK Continental Shelf is a mature basin and this maturity will reduce levels of production over the coming decades. As the basin matures, an increasing proportion of commercial activity is likely to focus on smaller or more technically challenging fields (due to their geographical locations or reservoir properties). Significant commercial activity is also expected to support decommissioning of existing oil and gas assets approaching end of life.

4.3 As this happens, the types of investment are also likely to evolve. To have a fiscal regime fit for the future, the government will need to consider these trends carefully. Government also notes the role of the standing fiscal regime in shaping the basin's future, and its impact on the commercial viability of particular projects.

4.4 The government recognises that investment in the basin will impact on domestic production. This investment takes many different but equally important forms. It supports exploration and appraisal activities to understand the nature of the basin and identify potential future resources. It enables the complex and capital-intensive projects to build the required infrastructure to extract resources from new fields. It supports vital upgrades to existing assets, such as to increase performance and decarbonise production. It underpins the maintenance and continued operation of the UK Continental Shelf's existing on-production fields. Finally, it ensures that assets approaching end-of-life can be appropriately repurposed or decommissioned.

4.5 To provide this investment, UK operators large and small need to compete for capital at a global level. In larger and mid-tier companies, major projects are typically sanctioned at board level,

following comparisons of opportunities across global portfolios. Similarly, small firms need to attract finance from investors with a global outlook, whether that be from banks or private equity.

- 4.6 The UK Continental Shelf is unique. As such, it is challenging to make direct comparisons between the UK fiscal regime and the fiscal regimes of different basins at varying levels of maturity. For example, less mature basins may have higher profit margins or larger production opportunities affecting the commercial viability of new projects and existing production activities. As highlighted in the Terms of Reference for this review, there is a wide variety of impacts on investment, including on energy security and net zero.
- 4.7 This section of the review therefore seeks to explore how decision making may vary according to type of investment and how the UK compares as an investment opportunity with basins of a similar maturity.

### Question 5

What are the main factors that influence investment decisions in a stable fiscal regime?

### Question 6

When evaluating the economics of a project, what metrics and / or hurdle ratios are used?

### Question 7

How do you expect the economics of UK projects to evolve over the coming decades, including new and incremental investments? How might these economics vary on project scale and type?

### Question 8

Over the coming decades, how will the UK typically compare to other oil and gas investment opportunities globally in other mature basins?

## The fiscal regime

- 4.8 In acknowledgement of the high capital costs at key stages of the oil and gas exploration, appraisal, development, production and decommissioning life cycle, the current fiscal regime includes several reliefs and allowances to encourage investment. These are summarised below.
- 4.9 **First Year Allowances (FYA)** allow 100% of expenditure on plant or machinery wholly for use in a ring-fence trade to be deducted from RFACT profits in the year the expenditure is incurred. Currently, qualifying expenditure incurred outside of a ring-fence trade can also benefit from other FYAs including under full expensing. The benefit of the FYAs is carried through to both SC and EPL as these use ring fence profits (allowing for FYA deductions) as their starting point for the charge to tax.

- 4.10 In addition to FYAs, **Investment Allowances (IAs)** provide companies with an additional 62.5% relief on capital expenditure (75% for onshore activity), and some operating and leasing expenditure after the investment starts generating income against SC profits. A separate Investment Allowance provides companies with additional relief of 29% against EPL profits available immediately, with an 80% enhanced **Decarbonisation Investment Allowance (DIA)** for qualifying expenditure that decarbonises upstream oil and gas production. Note that, for EPL, either the 29% IA or the 80% DIA can be claimed in respect of the expenditure, not both.
- 4.11 Until the end of EPL, for every £100 of qualifying investment, across all three taxes these reliefs will provide companies with a potential benefit in terms of reduced tax paid of either £91.40 (IA) or £109.25 (DIA). Remaining profits will be taxed at 75%.

**Table 4.A Relief on investment expenditure**

Tax head	Tax rate	Relief	Relief rate	Relief for £100 of expenditure	Relief for £100 of decarbonisation expenditure
Ring Fence Corporation Tax	30%	First Year Capital Allowance	100%	30	30
Supplementary Charge	10%	First Year Capital Allowance	100%	10	10
		Investment Allowance	62.5%	6.25	6.25
Total tax relief under the permanent regime				46.25	46.25
Energy Profits Levy	35%	First Year Capital Allowance	100%	35	35
		Investment Allowance	29% / 80%	10.15	28
Additional tax relief under EPL				45.15	63
Total tax relief				91.40	109.25

- 4.12 **Decommissioning Relief.** Normal corporation tax rules dictate that losses can be carried back one year. However, oil and gas companies are required to decommission assets after the end of their economic life. This process is costly and time consuming. Therefore, the fiscal regime provides oil and gas companies with decommissioning relief that can be set against current, future or past profits. Losses can be carried back to relieve historic profits liable to PRT, RFCT and SC and may result in a repayment of tax previously paid. Note, as the EPL is a temporary tax on exceptional profits, decommissioning relief is not available against EPL profits. **Decommissioning Relief Deeds (DRD)** provide companies with certainty on the basis on which tax relief will be available when they decommission oil and gas assets and on the tax relief available to them in the case of default by another company resulting in an imposition of costs.
- 4.13 **Transferable Tax History (TTH)** allows companies selling an interest in an oil and gas licence to transfer some of their tax payment history to the purchaser. In turn, this allows the purchaser to set the cost of decommissioning assets against the transferred tax history. This was introduced in November 2018 to encourage investment in the UKCS as the basin continues to mature.
- 4.14 **Ring Fence Expenditure Supplement (RFES)** allows companies to elect to have a supplement to be added to the value of unused expenditure or the losses they carry forward from one period to the next. The rate of the RFES is 10% and it can be claimed in a maximum of ten accounting periods.
- 4.15 There is a range of elements to the current fiscal regime, examples of which are outlined above, which can make assessing their individual impact difficult. The government would like to understand how significant the different elements - including the above examples and any other relevant parts of the oil and gas fiscal regime - are in influencing investment decisions to inform future policy.

## Question 9

Which elements of the current fiscal regime have incentivised investment in the UKCS? What elements if any have discouraged investment?

## Question 10

How have existing capital allowances influenced decisions to invest in the UKCS and how important is this in comparison to other investment incentives? Is the capital allowances regime for ring-fence activity fit for purpose?

## Question 11

Are there elements of project expenditure that don't currently qualify for relief under the existing allowances? Are there any elements which should no longer be included as they reflect historical and not future practice?

### Investment in oil and gas to support energy security

- 4.16 The government set out its [Powering Up Britain](#): Energy Security Plan in March 2023, which confirms the government's ambition to increase the overall share of domestic energy production whilst reducing energy demand. This included strategic objectives to enable the transformation of the energy system so it is secure, low cost and low carbon. It also noted the continuing crucial role of oil and gas as fuels. The Terms of Reference for the review restated the Government's objective to maximise the economic recovery of UK oil and gas.
- 4.17 On average in recent years, UK indigenous production of natural gas accounted for the equivalent of over half of UK gas demand. Furthermore, oil and gas accounted for 76% of total UK energy demand in 2022, signifying the important role these fuels play in the UK energy system. Continued investment by the oil and gas sector matters for security of supply of these fuels by limiting our overall reliance on imports.
- 4.18 [Powering Up Britain](#): Energy Security Plan outlined a wide range of steps that the Government is taking to ensure the UK is more energy independent, secure and resilient, including enhancing our strengths on wind, solar and nuclear power generation alongside hydrogen production and CCUS. The Energy Security Plan was accompanied by the complementary Net Zero Growth Plan which is covered in Chapter 5. The [North Sea Transition Deal](#) further recognises the role of the oil and gas sector's capability and transferable skills in mobilising this energy transition.
- 4.19 This section builds on earlier sections looking at the connection between the fiscal regime and investment in oil and gas by considering the links between oil and gas investment and energy security. Subsequent chapters explore how investment in other activities on the UKCS might evolve as part of the transition to net zero.

## Question 12

What evidence do you have on the scale of oil and gas investment opportunities to contribute to UK energy security over the coming decades? How will this contribution vary across different types of investment e.g. investment in new developments, incremental investment in existing developments?

## Chapter 5

# Investment to support decarbonisation and the transition to net zero

- 5.1 As the UK transitions to net zero, oil and gas will retain a crucial role in the energy system, until there are sufficient clean energy alternatives that can replicate their role. As recognised by the Climate Change Committee, natural gas will play a role for decades to come, particularly in the hardest to decarbonise sectors.<sup>10</sup> Even when we meet our net zero targets in 2050, we still require gas for power and oil in transportation and for manufacturing products, such as plastics and fertiliser. This is consistent with achieving net zero targets if the consumption of oil and gas is combined with carbon capture and storage, and any residual emissions are balanced by negative emissions from greenhouse gas removal technologies.
- 5.2 NSTA analysis indicates that imports of Liquefied Natural Gas (LNG) are on average over double the emissions intensity of UK gas production, at 59kgCO<sub>2</sub>e/boe compared to 22kgCO<sub>2</sub>e/boe.<sup>11</sup> This takes into account emissions from transportation and from the processes involved in getting imported gas to the grid. There is a variation of the level of emissions intensity of imported gas – in the case of pipeline gas imports from Norway these are lower than domestically produced gas.
- 5.3 In 2021, the government agreed the [North Sea Transition Deal](#) (NSTD) with the sector. Through the NSTD, the UK's oil and gas sector and the government will work together to deliver the skills, innovation and new infrastructure required to decarbonise North Sea oil and gas production, as well as moving forward on hydrogen, on carbon capture, usage and storage and on offshore renewables.
- 5.4 The consumption of oil and gas has recently been considered as part of the [Powering Up Britain](#) Energy Security and Net Zero Growth plans. This forms an important foundation for the review's

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<sup>10</sup> Committee on Climate Change, Net Zero, The UK's contribution to stopping global warming, p. 252, [Net Zero - The UK's contribution to stopping global warming - Climate Change Committee \(theccc.org.uk\)](#)

<sup>11</sup> NSTA, Natural Gas Carbon Footprint Analysis, <https://www.nstauthority.co.uk/the-move-to-net-zero/net-zero-benchmarking-and-analysis/natural-gas-carbon-footprint-analysis/>

objectives and its conclusions on the consumption of oil and gas will not be reconsidered as part of the review.

## Decarbonising oil and gas production

- 5.5 Combustion of hydrocarbons for power generation was the main source of UKCS upstream GHG emissions between 2018 and 2021, making up 72%, followed by flaring, 21%, venting, 4%, and other non-combustion processes, 3%.<sup>12</sup> As part of the NSTD, the sector agreed to voluntary targets to reduce production-related emissions relative to a 2018 baseline by 10% by 2025, by 25% by 2027, and by 50% by 2030. It also has its own targets to reduce its production related emissions by 90% by 2040, and ultimately reaching a net-zero basin by 2050.<sup>13</sup> Latest NSTA analysis of DESNZ data indicates that production-related GHG emissions fell by 14% to 14.5 million tonnes of CO<sub>2</sub>e in 2021, adding up to an overall reduction of 21% since 2018.<sup>14</sup> The NSTA previously reported that the average carbon intensity of offshore assets was 21.2kgCO<sub>2</sub>e in 2021, a reduction of around 2% in comparison to 2018 levels.<sup>15</sup>
- 5.6 Greenhouse gas emissions from the UK onshore and offshore upstream oil and gas sector are currently partly covered by the UK Emissions Trading Scheme (UK ETS), which provides an incentive for decarbonisation. The UK ETS currently covers reported carbon dioxide emissions from the upstream oil and gas sector including the production and flaring of hydrocarbons. The UK ETS does not currently cover methane (CH<sub>4</sub>) or nitrous oxide (N<sub>2</sub>O) emissions from the upstream oil and gas sector. The 2022 consultation [Developing the UK Emissions Trading Scheme](#) included consideration of increasing the UK ETS coverage for the oil and gas sector. The 2023 government response to this consultation confirmed the intention to include process emissions from CO<sub>2</sub> venting from the upstream oil and gas sector in the UK ETS from 2025 and that the policies for the inclusion of methane and nitrous oxide would be kept under review.
- 5.7 The sector is also working to clean up existing production, whether by reducing flaring and venting of excess gas or by converting existing offshore operations to use low carbon electricity. In 2022, the NSTA's work with operators is estimated to

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<sup>12</sup> NSTA analysis of Department for Energy Security and Net Zero, Final UK greenhouse gas emissions national statistics: 1990 to 2021, end user data tables, <https://www.gov.uk/government/statistics/final-uk-greenhouse-gas-emissions-national-statistics-1990-to-2021>

<sup>13</sup> OGUK, Pathway to a Net-Zero Basin: Production Emissions Targets <https://oeuk.org.uk/wp-content/uploads/2020/09/OGUK-Production-Emissions-Targets-Report-2020-1.pdf>

<sup>14</sup> NSTA analysis of Department for Energy Security and Net Zero, Final UK greenhouse gas emissions national statistics: 1990 to 2021, end user data tables, <https://www.gov.uk/government/statistics/final-uk-greenhouse-gas-emissions-national-statistics-1990-to-2021>

<sup>15</sup> NSTA, Emissions Monitoring Report 2022, <https://www.nstauthority.co.uk/media/8439/emr-2022-final-v2.pdf>

have helped reduced offshore flaring so it was 50% lower than in 2018.<sup>16</sup>

- 5.8 The NSTA collects regular information on greenhouse gas emissions through its annual Stewardship Survey. As part of its commitment to hold industry to account on the new NSTD targets the NSTA publishes an annual Emissions Monitoring Report. The 2022 Emissions Monitoring Report highlighted that, while forecasts are inherently uncertain, it appears industry is on track to meet the 2025 and 2027 emission reduction targets of 10% and 25% respectively. It also highlighted the importance of delivering on electrification commitments to meet the 2030 emissions reduction target.<sup>17</sup> The Aberdeen & Grampian Chamber of Commerce Energy Transition Survey Spring 2023 highlighted that 33% of the sector have no net zero strategy and 34% have no deadline for their net zero strategy. The Survey also found that of those companies with a net zero strategy, only 29% believe it is on track.<sup>18</sup>
- 5.9 As there continues to be evolution of decarbonisation plans and future market conditions, technology and skills, it is important to understand better future challenges and barriers to decarbonisation over time.

### Question 13

What do you see as the main obstacles / barriers to decarbonising existing and future production in the UK?

### Question 14

To what extent does the fiscal regime influence decarbonisation of production in the UK? How does this interact with other influences on decarbonisation, including the UK Emissions Trading Scheme?

### Question 15

In the long term, how do you think UK production emissions from oil and gas will compare to other production globally and will this vary over time?

## Supporting the energy transition and road to net zero

- 5.10 The NSTD has highlighted the role which the oil and gas sector could play to support the energy transition and road to net zero. The sector has built a significant supply chain across the UK to

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<sup>16</sup> NSTA, UK North Sea Flaring Halving in Just Four Years, <https://www.nstauthority.co.uk/news-publications/news/2023/uk-north-sea-flaring-halved-in-just-four-years/>

<sup>17</sup> NSTA, Emissions Monitoring Report 2022, <https://www.nstauthority.co.uk/media/8439/emr-2022-final-v2.pdf>

<sup>18</sup> Aberdeen & Grampian Chamber of Commerce, Energy Transition 37<sup>th</sup> Survey Spring 2023, <https://www.agcc.co.uk/files/ET37-final-comp-2.pdf>

support UK operations, with Offshore Energies UK assessing that there were over 1,000 supply chain companies active on the UKCS in 2021.<sup>19</sup> The UK's energy supply chain should be competitively positioned to seize such opportunities presented by offshore electrification of oil and gas platforms, carbon transportation and storage, offshore wind and hydrogen, both in the domestic market and internationally. It specialises in several technologies that could enable more energy integration, support renewable energy generation and also aid commercialising services for mature basins, including decommissioning.

- 5.11 The offshore wind and hydrogen industries and carbon transportation and storage, use similar skillsets to those currently in the oil and gas industry, such as geologists, project managers, a wide variety of engineers, and fabricators. The electrification of offshore assets could unlock energy integration on the UKCS supporting not only oil and gas decarbonisation but also benefiting and supporting growth in other offshore sectors such as offshore wind development and green hydrogen through the energy hubs they create and the infrastructure they provide. The oil and gas sector can also play a role by leveraging existing oil and gas infrastructure, such as pipelines, to provide transport and storage facilities.
- 5.12 As the industry continues to transition to net zero, it will start to utilise new technologies to decarbonise the production of oil and gas extraction. At some point, those technologies, along with existing oil and gas infrastructure, may be used for non-oil and gas purposes. For example, there are potential future opportunities to repurpose existing offshore oil and gas sector assets to support the delivery of offshore carbon transportation and storage. Under the current fiscal regime there is a ring-fence corporation tax on profits from trade a company undertakes related to exploration for, and production of, oil and gas in the UK. Profits arising from non-ring-fence trades are taxed under normal corporation tax rules. One company may carry out both ring-fence and non-ring-fence trades. If an asset is used for a non-ring-fence and a ring-fence trade (either concurrently or consecutively or both), then those activities must be treated as separate trades, and appropriate apportionments of costs, allowances etc, be made.
- 5.13 Under the current fiscal regime, assets ordinarily used in the ring-fence trade that are sold to companies not operating in the ring-fence and repurposed to be used in a non-ring-fence trade, would, assuming that asset qualified for capital allowances, give rise to a disposal event which may result in a balancing charge. Profits arising from the disposed asset in a non-ring fence trade would then be subject to normal corporation taxation rules.

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<sup>19</sup> Offshore Energies UK, Economic Report 2021, <https://oeuk.org.uk/wp-content/uploads/2021/08/OGUK-Economic-Report-2021.pdf>

- 5.14 Given the above, the government would like to understand better the role that the oil and gas sector could play in supporting our transition to net-zero and energy integration and whether the existing fiscal regime might act as a barrier to this transition.

### Question 16

To what extent do you think future lower carbon projects will be dependent on the existing fossil fuel infrastructure and skill base?

### Question 17

Increasingly both oil and gas and other sectors are becoming involved in lower carbon technologies. What are the main barriers within the fiscal regime to the repurposing of assets for the deployment of lower carbon technologies? How does the oil and gas fiscal regime compare to the non ring-fence regime in respect of lower carbon technologies?

### Question 18

How does the prospect of assets being repurposed in the deployment of lower carbon technologies in the long-term influence current investment decisions and the economics of projects?

# Chapter 6

## A simpler, more predictable, and stabler regime

- 6.1 This chapter explores how in designing the fiscal regime in the long term the government can consider important principles of tax policy making of contributing towards a more predictable, stable and simple tax system. These principles were originally published in 2010 and reaffirmed in 2017 in [the new Budget timetable and the tax policy making process](#).

### Simplicity

- 6.2 Simplifying the tax system reduces the time and money businesses and individuals spend on tax administration, helps boost productivity and supports growth. Progress towards these principles can often align, but sometimes there are trade-offs to consider between them. Following the closure of the Office of Tax Simplification, HM Treasury and HMRC were given a clear mandate to focus on simplicity of tax policy design throughout the policy making process and on simplifying existing tax rules and administration.
- 6.3 The three different permanent tax regimes and one temporary regime each have their own tax bases, rates, allowance rules and administrative structures. All have evolved over time and have significant points of difference with each of the other regimes – to support wider objectives. This necessarily creates some complexity.
- 6.4 Petroleum Revenue Tax (PRT) remains in place, despite being zero-rated, in order to allow for repayments of tax when losses arise, primarily due to decommissioning. Although fields can opt out of the tax or apply to defer filing returns many companies continue to file returns and claims contemporaneously, as they do not wish to lose out on possible tax refunds.
- 6.5 Supplementary Charge (SC) profits are generally higher than those for Ring Fence Corporation Tax (RFCT) due to the removal of finance charges in the computation of those profits. But those profits can then be reduced by the investment allowance regime. The rate of SC has usually been lower (although subject to greater fluctuation) than the rate of RFCT. The two taxes are nonetheless

very similar in many respects and it may be that the tax regime as a whole could be simplified by closer alignment between the two.

## Stability and predictability

- 6.6 The government wants to continue to understand better where problems for businesses arise and the scale of these. This review is an opportunity to consider these issues and any solutions to them in more detail. Whilst doing so in this case, the government also wants to ensure the regime can continue to support the public finances by delivering a fair return in exchange for the use of the nation's resources. Given that, the government is most interested in revenue neutral simplification reforms.
- 6.7 The government recognises that stability in the tax regime plays an important role in influencing investment decisions, as a stable tax regime provides a foundation of certainty, enabling investors to assess accurately the costs and benefits associated with investment opportunities. Whilst this is the case across the economy, it is particularly true for those investors operating in the oil and gas industry, given the time horizons over which projects occur, the significant upfront investment required, and time taken before a return on that investment is seen.
- 6.8 It is also important, however, that the government strikes a balance between attracting investment and ensuring the nation receives a fair return on the exploitation of its natural resources. The government introduced the Energy Profits Levy (EPL) in May 2022, which was the first major change to the oil and gas fiscal regime since 2016. The government introduced the EPL as profit levels in the sector had increased significantly due to very high oil and gas prices caused by global circumstances, including Russia's invasion of Ukraine. Initially set at 25%, the rate of EPL increased to 35% from January 2023, and was extended from December 2025 to March 2028. The EPL is forecast to raise around £26bn between May 2022 and March 2028, when the EPL is legislated to end.<sup>20</sup> This significant contribution has played an important role in funding cost of living support.
- 6.9 The government announced in June 2023 the [Energy Security Investment Mechanism](#) in EPL. The government will ensure that the EPL is disapplied permanently if oil and gas prices fall to historically normal levels for a sustained period. The Energy Security Investment Mechanism will be activated only when prices consistently meet or fall below a level typically associated with pre-crisis household energy bills. The mechanism will use a 20-year historic average to the end of 2022 so that it is set at \$71.40 per barrel of oil and £0.54 per therm of gas. The government will require average prices to meet or fall below the level of both price

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<sup>20</sup> Office for Budget Responsibility, March 2023 Economic and Fiscal Outlook, Annex A, Table A.5, <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023>

thresholds for two successive quarters before disapplying the EPL. In July, the government published a [discussion note](#) to engage with a variety of stakeholders on the remaining technical detail and practical application of the ESIM. The outcome of this engagement will inform a technical note that the government will publish setting out the final detail of how the ESIM will work.

- 6.10 The government's review of the fiscal regime presents an opportunity to consider how, following the end of the EPL, the fiscal regime could adapt to ensure the tax environment is able to react better in future to significant spikes in prices, whilst reducing the likelihood of sudden, unexpected, changes which could deter investment.
- 6.11 In support of this work, the government would like to understand better how stakeholders think about these principles of tax policy design and how they can be translated into a future fiscal regime.

### Question 19

Are there aspects of the fiscal regime that could be simplified in a revenue neutral way overall? If so, what are they and what would the benefits and costs be of implementing the necessary changes.

### Question 20

What are your long-term projections for oil and gas prices? What prices would be above usual profit-making assumptions, and what drivers for higher prices do you foresee?

### Question 21

Do you think in the long term the fiscal regime should have a clear mechanism for responding to future price shocks? If so, what principles should the government consider in relation to this?

# Chapter 7

## Equalities

- 7.1 The public sector equality duty came into force in April 2011 (s149 of the Equality Act 2010) and public authorities like HM Treasury are now required, in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010 to:
- a. eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
  - b. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

### Question 22

If not covered by your answers to other questions, what are in your view the implications of these policy considerations for those who share a protected characteristic? If there are negative impacts, what potential mitigations could be considered?

# Chapter 8

## Next Steps

The deadline for responses to this call for evidence is **11 September 2023**. Responses through SmartSurvey are preferable. If you would like to provide further details or respond to the call for evidence via email, you can do to [oilandgastaxreview@hmtreasury.gov.uk](mailto:oilandgastaxreview@hmtreasury.gov.uk). If you wish to send a hard copy, this can be sent to:

Oil and Gas Tax Fiscal Regime Review  
Energy and Transport Tax Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above email address. This document can also be accessed from GOV.UK. It will not be possible to give substantive replies to individual representations. Where possible, please also provide evidence to support your responses.

### Processing of personal data

This section sets out how we will use personal data for the purpose of this call for evidence and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR).

### Data subjects

The personal data we will collect relates to individuals responding to this call for evidence. Responses will come from a wide group of stakeholders with knowledge of a particular issue.

### The personal data we collect

The personal data will be collected through the use of [SmartSurvey](#) and are likely to include respondents' names, email addresses, their job titles, and employers as well as their opinions.

### How we will use the personal data

This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

Processing of this personal data is necessary to help us understand who has responded to the call for evidence and, in some cases, contact certain respondents to discuss their response.

HM Treasury will not include any personal data when publishing its response to this call for evidence.

### Lawful basis for processing the personal data

The lawful basis we are relying on to process the personal data is Article 6(1)(e) of the UK GDPR; processing is necessary for the performance of a task we are carrying out in the public interest. This task is seeking evidence for the development of departmental policies or proposals and obtaining evidence to help us to develop effective policies.

### Who will have access to the personal data

The personal data will only be made available to those with a legitimate need to see it as part of the call for evidence process.

HM Treasury may share survey responses with HM Revenue & Customs, the Department of Energy Security & Net Zero and the North Sea Transition Authority to support analysis and understanding of stakeholder views because of the role those organisations have in tax and oil and gas policy.

These organisations will only use the personal data for the purposes of understanding who responded to this call for evidence. They will not contact respondents directly and will only hold the data until work on the call for evidence is complete. After this, they will only retain personal data where redacting such information is disproportionate to the task of supporting analysis and understanding views.

As the personal data will be stored on our IT infrastructure, and those of our partner organisations, it will be accessible to these providers. These providers will only process this data for our purposes and in fulfilment with the contractual obligations they have with us and our partner organisations.

Any personal data captured by the SmartSurvey software will also be accessible to SmartSurvey Ltd who will only use it for the purposes of this call for evidence. For information on SmartSurvey Ltd's processing personal data, please visit their privacy policy and notice at <https://www.smartsurvey.co.uk/company/privacy-policy>.

### How long we hold the personal data for

We will retain the personal data until our work on the call for evidence is complete. After this, we will only retain personal data which are embedded in a response, but we will not use it for any unrelated purposes.

### Your data protection rights

You have the right to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

### How to submit a data subject access request (DSAR)

To request access to your personal data that HM Treasury holds, contact:

The Information Rights Unit  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ  
[dsar@hmtreasury.gov.uk](mailto:dsar@hmtreasury.gov.uk)

### Complaints

If you have concerns about our use of your personal data, please contact the Treasury's Data Protection Officer (DPO) in the first instance at [privacy@hmtreasury.gov.uk](mailto:privacy@hmtreasury.gov.uk)

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at [casework@ico.org.uk](mailto:casework@ico.org.uk) or via this website: <https://ico.org.uk/make-a-complaint>.

# Annex A

## Summary of Questions

### Question 1

What is your name?

### Question 2

What is your email address?

### Question 3

Which category in the following list best describes you? If you are replying on behalf of a business or representative organisation, please provide the name of the organisation/sector you represent, where your business(es) is located, and an approximate size/number of staff (where applicable).

### Question 4

Net-zero, energy security and the predictability of the fiscal regime are discussed separately in the following chapters. Putting these contexts to one side, is there any additional context to oil and gas production and its future evolution that the Government should be aware of? Comparisons to the evolution of other mature basins are welcomed.

### Question 5

What are the main factors that influence investment decisions in a stable fiscal regime?

### Question 6

When evaluating the economics of a project, what metrics and / or hurdle ratios are used?

### Question 7

How do you expect the economics of UK projects to evolve over the coming decades, including new and incremental investments? How might these economics vary on project scale and type?

### Question 8

Over the coming decades, how will the UK typically compare to other oil and gas investment opportunities globally in other mature basins?

### Question 9

Which elements of the current fiscal regime have incentivised investment in the UKCS? What elements if any have discouraged investment?

### Question 10

How have existing capital allowances influenced decisions to invest in the UKCS and how important is this in comparison to other investment incentives? Is the capital allowances regime for ring-fence activity fit for purpose?

### Question 11

Are there elements of project expenditure that don't currently qualify for relief under the existing allowances? Are there any elements which should no longer be included as they reflect historical and not future practice?

### Question 12

What evidence do you have on the scale of oil and gas investment opportunities to contribute to UK energy security over the coming decades? How will this contribution vary across different types of investment e.g. investment in new developments, incremental investment in existing developments?

### Question 13

What do you see as the main obstacles / barriers to decarbonising existing and future production in the UK?

### Question 14

To what extent does the fiscal regime influence decarbonisation of production in the UK? How does this interact with other influences on decarbonisation, including the UK Emissions Trading Scheme?

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If not covered by your answers to other questions, what are in your view the implications of these policy considerations for those who share a protected characteristic? If there are negative impacts, what potential mitigations could be considered?

### **HM Treasury contacts**

This document can be downloaded from [www.gov.uk](http://www.gov.uk)

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

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