



House of Commons  
Energy and Climate Change  
Committee

---

**UK offshore oil and gas:  
Government Response  
to the Committee's  
First Report of Session  
2008–09**

---

**First Special Report of Session 2008–09**

*Ordered by the House of Commons  
to be printed 14 October 2009*

**HC 1010**  
Published on 19 October 2009  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## The Energy and Climate Change Committee

The Energy and Climate Change Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Energy and Climate Change and associated public bodies.

### Current membership

Mr Elliot Morley MP (*Labour, Scunthorpe*) (Chairman)  
Mr David Anderson MP (*Labour, Blaydon*)  
Colin Challen MP (*Labour, Morley and Rothwell*)  
Nadine Dorries MP (*Conservative, Mid Bedfordshire*)  
Charles Hendry MP (*Conservative, Wealden*)  
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)  
Anne Main MP (*Conservative, St Albans*)  
Judy Mallaber MP (*Labour, Amber Valley*)  
John Robertson MP (*Labour, Glasgow North West*)  
Sir Robert Smith MP (*Liberal Democrats, West Aberdeenshire and Kincardine*)  
Paddy Tipping MP (*Labour, Sherwood*)  
Dr Desmond Turner MP (*Labour, Brighton Kemptown*)  
Mr Mike Weir MP (*Scottish National Party, Angus*)  
Dr Alan Whitehead MP (*Labour, Southampton Test*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/parliamentary\\_committees/ecc.cfm](http://www.parliament.uk/parliamentary_committees/ecc.cfm).

### Committee staff

The current staff of the Committee are Tom Goldsmith (Clerk), Robert Cope (Second Clerk), Francene Graham (Senior Committee Assistant), Jonathan Olivier Wright (Committee Assistant), Steven Everett (Committee Support Assistant), Estelita Manalo (Office Support Assistant), and Hannah Pearce (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Energy and Climate Change Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 2569; the Committee's email address is [ecc@parliament.uk](mailto:ecc@parliament.uk)

# First Special Report

---

On 17 June 2009 the Energy and Climate Change Committee published its first Report of Session 2008-09, *UK offshore oil and gas*, HC 341-I. On 12 October 2009 we received the Government's response to the Report. It is appended below.

## Government response

---

The Government welcomes the Committee's first report, which has very appropriately addressed a subject central to the development of the UK's energy supplies, and of the economy as a whole, over the crucial transition to the low-carbon energy supplies of the future. We agree with the Committee's stress on the continuing importance of domestic oil and gas production to the UK, in particular to maintaining the security of energy supplies, and the importance of ensuring that the remaining reserves of the UK Continental Shelf (UKCS) are exploited to the greatest benefit. The Government is seeking by all practicable means to ensure that the geological inheritance of the UK is fully explored, and that the maximum economic recovery of these reserves is secured over time.

We welcome the Committee's recommendations, aimed at ensuring that the resources remaining in the UKCS are efficiently realised. The recommendations are set out below, with the Government's responses.

**1. The Government is right to focus on security of energy supply as a key challenge for the UK. Much of the UK's current electricity generating capacity is set to close over the next decade, and there is a continuing risk of disruption to energy supplies internationally as a result of political and economic turbulence. In this context the importance of domestically produced oil and gas is obvious and the case for Government doing all it can to help maximise economic production is compelling. (Paragraph 10)**

**2. The Government's priority when determining policy on UK oil and gas should be security of supply, within the context of moving towards a low-carbon economy. However, proper account also needs to be taken of the immense tax revenues paid by the industry and of the 350,000 people whose employment is reliant upon it. We are concerned to note that the industry predicts that falling capital expenditure could lead to the loss of 50,000 of those jobs over the next two years. This strengthens the case for the Government to investigate further ways by which it can support UK oil and gas production in the current difficult economic climate. (Paragraph 14)**

We confirm that security of supply is central to the Government's policies throughout the energy field, including oil and gas. Domestically produced energy has a key contribution to make towards maintaining this security; and as oil and gas continue to provide the majority of our energy supplies today, getting the best value out of our endowment of North Sea oil and gas is an essential support for the transition to the low-carbon future. We also agree with the Committee's stress on the very significant contributions of oil and gas to the economy at large, to employment and to public revenues. For all these reasons, Government continues to pursue its objective of securing maximum economic recovery of these reserves over time, and the maximum benefit to the economy and UK employment.

**3. Estimates of future levels of UK oil and gas production cover a wide range: from 11 billion barrels of oil equivalent (boe) to 37 billion boe according to DECC. The Government cannot influence the amount of oil and gas remaining in the UK continental shelf. But the policies it pursues in relation to tax, regulation and licensing all have an impact on the attractiveness of producing oil and gas from the UKCS and therefore on production levels. The Minister told us it would be regrettable if oil and gas production was at the low end of the estimates, with a consequential need to import more oil and gas. We think this is an understatement, given the contribution of the UK oil and gas industry to security of energy supply, tax revenues and employment. We support the Government's objective of maximising the economic recovery of UK oil and gas resources but believe that it now needs to articulate a strategy setting out how it intends to achieve that objective with realistic but stretching targets for future production levels. (Paragraph 26)**

As the Committee recognises, the scope of future UKCS activity is bounded by the geological inheritance. Within the scope defined by that potential, the key to securing full economic recovery is the right level of investment, which in turn is strongly determined by global oil prices. Government has no scope to influence these key determinants of investment, but seeks to keep the regulatory framework flexible and responsive so that the geological potential is fully explored over time, investment can be maintained at the highest level consistent with the actual evolution of oil prices, and economic recovery consequently maximised. Very stretching production targets were agreed by the then Oil and Gas Task Force (now PILOT) for the UKCS nearly 10 years ago. Whilst they proved a useful marker for progress during the intervening period, the usefulness of such aspirational targets is ultimately limited by the extent to which individuals or organisations can reasonably be regarded as accountable for their delivery. For this reason Government considers it timely to explore within PILOT the options for a more effective performance framework which could be used to measure progress against a longer term horizon, say 2015 or 2020 if possible, and which would focus on more accountable measures, or a basket of measures.

**4. We are very concerned at the bleak prospects for investment in the oil and gas industry. If the industry's worst case scenario is realised in 2010, 50,000 jobs could be lost and production could fall by millions of barrels. The Government must do what it can to facilitate investment, and the success of the steps announced in the recent budget must be judged by whether they help stop the downward slide in capital investment. (Paragraph 30)**

Although there has been a marked fall in exploration expenditures, appraisal and development expenditure has held up quite well in the first half of 2009. The most recent survey of companies' investment intentions however indicated that a substantial fall, of perhaps 20%, was likely in 2010. That survey is now many months out of date and a new survey is expected later this autumn. While oil prices are, as noted above, the single most important factor in determining levels of investment, the fiscal regime is clearly also significant, and is discussed further below.

**5. We welcome the Government's recognition of the difficulties faced by oil and gas companies in accessing affordable lending and the fact that DECC, through BERR and HM Treasury, is engaging with banks to ensure that the UK continental shelf "is at the forefront of the minds of the banks". However, given the problems oil and gas**

**companies are having in achieving affordable borrowing, it does not seem that such engagement is having any conspicuous success. DECC Ministers should set out, with their Treasury and BERR counterparts, what steps the Government is taking specifically to help oil and gas companies access affordable credit from banks and keep under review the availability of such credit. (Paragraph 36)**

The Government has introduced a range of general measures to support the financial sector and encourage lending to businesses, including the recapitalisation of the banks and the introduction of the Asset Protection Scheme. These measures are supporting access to finance for all sectors of the economy, including the oil and gas sector. To date, the difficulties reported by oil and gas companies do not seem to differ significantly from those encountered by other sectors, but the situation is kept under review and the Government will consider the case for more specific measures in the light of emerging information.

**6. Smaller companies in particular are having difficulties accessing the infrastructure they require in order to produce oil and gas because in some cases of unrealistic demands by the infrastructure's owners. The industry's voluntary Code of Practice is not working well in this respect and, while we are not yet convinced of the case for a comprehensive statutory "common carrier" system of access, we do think that Government has to take a more active part in ensuring the successful outcome of negotiations about access arrangements. DECC and the industry should make it a priority to strengthen the voluntary arrangements so that they do not hamper the ability of companies to operate. If a voluntary code cannot be made to work more effectively serious consideration should be given to introducing a common carrier system. (Paragraph 44)**

Negotiations for third party access to upstream oil and gas infrastructure are underpinned by legislation that enables the prospective third party to request the Secretary of State to require access to be provided, and to set terms and conditions in the event that agreement cannot be reached with the infrastructure owner. This legislation was first introduced in 1975 and has been extended and enhanced since then, most recently in the Energy Act 2008. Although the Department has assisted informally in resolving a number of disputes over the years, no formal requests to the Secretary of State to set terms and conditions have to date been made. The voluntary Infrastructure Code of Practice, developed jointly by the industry and DECC, seeks to provide a process by which the parties to a negotiation can find a mutually beneficial outcome without recourse to the legislation. However, it is known that there are concerns about the operation of this voluntary code, and there are suggestions that it does not always achieve its objective of providing access on fair and reasonable terms where risks taken are reflected by rewards.

Much work has been carried out by DECC and the industry over the last two years, both to strengthen the voluntary arrangements and to provide more clarity about the approach that DECC would take, in the event that a request were made under the legislation to set terms and conditions. This activity has included the development of guidance to support the voluntary code, the holding of more than a dozen seminars to raise awareness and encourage compliance with the voluntary code amongst commercial negotiators, and the holding of senior manager meetings to seek to unlock negotiations that have stalled. DECC

is also carrying out increased monitoring of individual infrastructure access negotiations. The Energy Minister wrote to all field operators and infrastructure owners in January 2009 with five challenges to seek improved commercial performance, and DECC officials are currently following up on these challenges with each company.

A number of infrastructure systems already have several third party users and these systems normally have standard terms and conditions that enable rapid negotiations to take place. However, for infrastructure systems with few or no existing third parties, it can take time for terms and conditions to be formulated for a new user. This is exacerbated by uncertainties over ageing infrastructure with increasing operational costs and declining production. As the UKCS matures, some of the newer fields contain 'sour' or 'off-spec' hydrocarbons that need additional services to be provided by infrastructure owners, and this can introduce further complexity. The voluntary code encourages infrastructure owners to be as ready as possible for third party business, and recent surveys have indicated that this preparedness is much improved across the industry.

In summary, the Department is working with the industry, through improving guidance to provide clarity on DECC's approach to setting terms and conditions if so requested, and through other initiatives, to strengthen the voluntary arrangements and address the concerns that have been raised.

**7. The oil and gas industry operating in the UKCS faces high costs, low prices, lack of affordable credit and a global recession. The Government cannot unilaterally solve these problems. But that makes it imperative that where it can make a difference – in facilitating credit from banks for example and, even more crucially, in establishing a fair and sustainable fiscal regime – it does so. (Paragraph 50)**

In the last few months, there has been an apparent easing of the financing climate, with a number of project finance deals and equity fundraising. Nevertheless, the Government agrees that current market conditions are overall more difficult for the industry, and more challenging for investment on the UKCS, than have been experienced for many years. It is seeking to assist or to mitigate the issues wherever it has practical leverage to do so.

**8. We welcome the introduction of the field allowance in so far as it acknowledges that the tax burden on companies operating in the UKCS needs to be altered in order to stimulate vital investment. However, we are very concerned that the allowance seems to be flawed in a number of fundamental ways. The main problem is that it does not incentivise incremental investment in existing sites. Furthermore, we are concerned that: it is likely to be ineffective in encouraging investment west of Shetland; the criteria for qualifying for the allowance are so stringent (especially with regard to HPHT) that its effect will be minimal; and its modest scale is such that it will not provide a significant incentive for investment even in new fields. We share the concerns of witnesses that the allowance will not stimulate the production of the 2 billion extra barrels of oil hoped for by the Chancellor. (Paragraph 71)**

**9. The Government should review the operation of the allowance in its first year of operation and be prepared to extend its scope and widen the qualifying criteria in light of that review. In any event, we think there is a very strong case for widening the allowance so as to provide a meaningful incentive for investment west of Shetland and**

**to encourage HPHT opportunities. Furthermore, much of the UKCS remaining reserves are in fields which are not new but which will not be further exploited unless the fiscal regime makes incremental investments more attractive. This is especially the case in PRT-paying fields where the overall tax rate is 75%. (Paragraph 72)**

The new field allowance introduced by Finance Act 2009 was the outcome of extensive consultation with a wide range of stakeholders, including a large number of oil and gas companies. The categories of field chosen for the allowance were those that face the most significant challenges to their commerciality, such that tax may prevent them being brought into production. The value of and criteria for the allowance were based upon evidence submitted by the companies, as well as analysis carried out by the Government and by independent commentators.

In setting the values and criteria for the field allowance, it was at all times necessary to balance the benefit to the UK in terms of increased production of oil and gas with the deadweight cost to the taxpayer of awarding the incentive to fields that would have gone ahead without it. The Government believes that the field allowance as currently formulated achieves this balance, on the evidence presented thus far. A number of independent commentators have agreed with this assessment, including Charles Westwood, from industry consultants Hannon Westwood, who said that “the Government has judged it quite correctly in making an intelligent and measured response to issues raised by the industry.”

However, the Government will continue to review the effectiveness of the field allowance, and will be willing to consider further evidence that stakeholders are able to present that supports different levels or different qualifying criteria for the allowance.

The field allowance is not designed to address situations where the fiscal regime is impacting on incremental activity in existing fields. There is, at present, no clear way of incentivising incremental projects that would not otherwise go ahead without also giving support to projects that would go ahead in the absence of an incentive. Consequently, such an incentive would have a high deadweight cost to the taxpayer. However, the Government is willing to hear industry’s case for an incentive for investment in existing fields, and their views on how such an incentive might be delivered.

**10. We note the Government’s reasons for pressing ahead with a value or field allowance, rather than options which appear to have the benefit of being less complex and of incentivising a wider range of production, such as an across-the board capital uplift or a reduction in (or the removal of) the supplementary charge. We recommend that in reviewing the operation of the field allowance and assessing its effectiveness in increasing investment the Government be prepared to reconsider the merits of these bolder moves. It should calculate and set out the predicted effects on production and tax revenues of a capital uplift or a reduction in supplementary charge alongside the effects on investment in the industry. We recognise that the nation should receive a return in the form of both economic production and tax revenues from the UKCS. (Paragraph 73)**

In preparing the measures announced at Budget 2009, the Government considered a range of possible mechanisms for supporting investment in the North Sea. The Government will continue to keep these mechanisms under review.

However, the Government designed the field allowance to be targeted on those fields that most need support, thus ensuring the allowance provides value for money to the taxpayer. Across the board mechanisms would carry a much greater cost to the taxpayer, as they would also be available to those projects that would be brought into production without an incentive. As the Committee has recognised, the Government must always ensure that the taxpayer is receiving a fair return from the UK's national oil and gas resources.

As mentioned in the Committee's report, greater detail on the Government's reasons for rejecting various alternative mechanisms for providing an incentive can be found in the consultation document "Supporting Investment", published alongside PBR 2008. The document can be accessed online at: [http://www.hm-treasury.gov.uk/prebud\\_pbr08\\_northsea.htm](http://www.hm-treasury.gov.uk/prebud_pbr08_northsea.htm). Among other points, the document notes that, although it had initially been suggested that the cost to the taxpayer of across-the-board incentives might be offset by the resultant increase in production, further analysis suggested that this would not be the case.

**11. The Government was right to listen to the concerns of the industry regarding specific issues relating to the chargeable gains regime, the re-use of North Sea infrastructure for non-ring-fenced purposes and the operation of the Petroleum Revenue Tax. The changes announced in the Budget regarding these areas are modest but welcome. (Paragraph 76)**

The wider Budget 2009 package will serve to underpin investment in the North Sea, by creating certainty and stability for companies who are seeking to invest. The Government is willing to have further discussions with industry on any remaining issues arising from the changes in these areas, to ensure that, where possible, barriers to investment are removed.

**12. We note the case presented to us by industry representatives for accelerating the payment of accrued but unrelieved tax allowances to smaller companies and their argument that the lack of equity and debt financing makes this particularly desirable. We urge the Government to estimate the costs and potential benefits of this proposal as a means of tackling the impact of the credit crisis on investment in the UKCS. (Paragraph 79)**

As noted in the Committee's report, oil and gas producers in the North Sea already have access to the "Ring Fence Expenditure Supplement" (RFES). This facility allows companies with insufficient income to cover their costs to uplift the value of their unrelieved expenditure by 6 per cent a year for a maximum of 6 years. When such a company comes into profit the expenditure can then be offset against its profits. The RFES is designed to support new entrants to the North Sea.

The Government recognises that access to finance has been a problem for firms in all sectors of the economy in recent months. In the run-up to Budget 2009, the Government received representations in support of a scheme aimed specifically at the oil and gas industry, of the type outlined by the Committee. However, the Government has introduced

a range of general measures to support the financial sector and encourage lending to businesses, including the recapitalisation of the banks and the introduction of the Asset Protection Scheme. These measures are supporting access to finance for all sectors of the economy, including for the oil and gas sector.

**13. We would be surprised if industry representatives did not call for a more congenial tax regime. However, it does seem to us that concern that the Government's fiscal reforms do not go far enough are genuine and legitimate. The quadruple whammy faced by the industry – of high costs, low prices, lack of affordable credit and a global recession – make this a difficult time. We are not convinced that the field allowance and other measures announced in Budget 2009 – albeit welcome – are sufficient to create the competitive environment needed by the industry nor that they will provide a strong enough incentive to exploit fully remaining resources. We note and welcome the Government's commitment to further engagement and hope that, should the measures so far announced prove to be inadequate, more wide-ranging and generous reforms of the fiscal regime will be forthcoming. A key part of the UK's energy security strategy and the prospects of the 350,000 people who work in or with the UK oil and gas industry depend on it. (Paragraph 82)**

The Government fully recognises the importance of the UK's oil and gas industry, both to ensuring that the UK has a secure energy supply and in the wider context of the jobs and investment that the industry contributes to the UK economy.

As with all taxes, the Government will keep the North Sea fiscal regime under review, and will monitor the impact of the package of changes introduced at Budget 2009 on activity in the North Sea. There are also a number of specific issues arising from the Budget 2009 package that stakeholders wish to discuss, and these discussions will be taken forward over the coming months. If there is a case for further change to the regime, in order to meet the objective of maximising economic production from the North Sea, then the Government will be prepared to act.

**14. We understand the Government's argument for not wanting to interfere in a heavyhanded way in the establishment of a common carrier arrangement for oil and gas west of Shetland. But two things are clear: west of Shetland resources offer enormous potential – possibly a fifth of our remaining oil and gas resources; and putting in place a shared infrastructure to exploit those resources is expensive and complex. The Government should continue its dialogue with industry and agree a timescale for the establishment of such a shared infrastructure and the arrangements governing its use. If progress does not meet that timescale the Government should be prepared to take a more active role, probably through regulation but not precluding assistance with funding. The UK must appreciate the importance of the resources west of Shetland. (Paragraph 91)**

We agree with the Committee's stress on the importance of the West of Shetland area for future UKCS activity and production. Earlier discussions in a Government-industry task force led to an industry managed, open process conducted in the autumn of 2008 to establish the extent of third party interest in new gas infrastructure. This showed a potential requirement for some 18 million cubic metres a day of capacity, (equivalent to some 5% of UK annual average gas demand), involving ten licensees in three licence groups.

The Laggan/Tormore partners, headed by Total, now consider that there is a commercially viable development option for the Laggan and Tormore gas fields and are taking forward engineering studies for an onshore gathering hub at the Sullom Voe terminal, with a new pipeline linking to the UK mainland at St Fergus through the existing Frigg UK pipeline. Commercial discussions are now taking place between all the parties potentially interested in participating in the new pipeline. An investment decision by the Laggan/Tormore partners is expected early next year. The Government is keeping closely in touch with developments and remains ready to take further steps to facilitate development if appropriate.

Exploration work continues in the West of Shetland area, with a number of exploration and appraisal wells due to spud over the next 12 months. A further significant discovery, close to Laggan/Tormore, has recently been reported.

**15. We support the call by industry for all fields west of Shetland to be eligible for the field allowance. This is appropriate given the difficulties inherent in exploiting the resources there. In fact, we believe it would be only of modest assistance and recommend that the Government consult with the industry on further options for incentivising production west of Shetland. (Paragraph 94)**

It is first important to note that fields West of Shetland will be eligible for the field allowance on the same basis as fields elsewhere on the UKCS – if they qualify under either the small field, ultra heavy oil or ultra HPHT criteria then they will be eligible for the appropriate field allowance.

However, designing a field allowance targeted specifically at the geographical area West of Shetland is challenging because of the heterogeneity of the fields on that part of the UKCS. While the Government recognises that some fields West of Shetland do face significant challenges, others have successfully been brought into production, and there is a continuing appetite for exploration in the area. As mentioned in the Committee's report, the recent joint industry-Government task force, which brought forward plans for investment in infrastructure West of Shetland, may facilitate the development of more fields in the province. Consequently, any tax incentive applied across the entire West of Shetland would have a significant deadweight cost to the taxpayer, as it could be claimed by a number of fields that would be brought into production even without a tax incentive.

For this reason the Government does not, at this stage, see a case for a general incentive for all fields West of Shetland. However, the Government remains willing to listen to representations from industry on the tax treatment of the West of Shetland area, and will review the position in the light of any new evidence that emerges.

**16. The oil and gas industry is subject to an array of environmental regulations and its track record of adhering to them is impressive. There are concerns, however, about the potential effect of intensive activity west of Shetland. The Government should instigate and fund a comprehensive survey of the marine environment and its wildlife west of Shetland; more generally it should work with the industry to facilitate a systematic and ongoing plan of surveys of marine wildlife to fill the gaps left by earlier surveys of the UKCS area. (Paragraph 104)**

The area West of Shetland was extensively surveyed by the Atlantic Frontier Environmental Network (AFEN) some years ago. The AFEN network included operators, DTI, the Scottish Executive and JNCC. In 1996, 20,000 square kilometres of seabed lying to the West of the Shetland Isles was mapped and sampled. A further survey was carried out in 1998, covering an additional 10,000 square kilometres of seabed. This was one of the largest and most comprehensive marine survey programmes ever performed for the offshore oil and gas industry. This work has been updated and extended by subsequent work within the Strategic Environmental Assessment (SEA) framework. DECC (then DTI) co-funded marine surveys of areas such as the Hatton bank and Rockall, which are of particular environmental interest. Between 1999 and 2009, the entire UKCS has been subject to environmental assessment in accordance with SEA requirements. Ongoing SEA work will seek to ensure that appropriate environmental data for all areas around the UK is kept up to date. In addition, work is ongoing to address gaps in relation to information about marine wildlife identified by previous surveys. Full details can be found on the SEA website (<http://www.offshore-sea.org.uk/>)

**17. We note the concern raised with us that some companies commit to adhere to environmental best practice but then do not do so once licenses are issued. In the absence of specific evidence that this has happened we are not in a position to judge whether this is a widespread problem, or even a sporadic one. We encourage those with concerns about where this might have happened to raise them with DECC and we would expect such claims to be investigated fully. (Paragraph 105)**

As the Committee recognises, no evidence was put forward to support the suggestion that the information provided within the Environmental Statement is given solely for the purposes of gaining consent and that it does not reflect the reality of what will be implemented.

The necessity for change will occasionally arise in relation to some projects, but where there are changes, the Statutory Nature Conservation Bodies (SNCBs) are consulted and have an opportunity to comment and changes cannot be made without the approval of the regulator (DECC).

DECC have however written to the SNCBs about this matter and should any examples be put forward, they will be fully investigated.

**18. We welcome the Government's initiative in the area of carbon capture and storage, a technology that may offer a major opportunity to use existing infrastructure and skills in the North Sea with beneficial outcomes. We look forward to the outcomes of the study into CCS commissioned jointly with the Norwegian government. We are also pleased to note that issues raised with us about the licensing regime for CCS are being addressed and we recommend that DECC maintains close dialogue with industry to ensure that the regime works and that the UK can benefit from the potential offered by North Sea CCS. (Paragraph 113)**

The Government is pressing forward with the necessary measures to put in place the right legal and regulatory framework to support CCS. The Energy Act 2008 provides one of the first legal regimes anywhere in the world specifically designed to permit the safe storage of carbon dioxide underground. Following informal discussions with the Carbon Capture

and Storage Association and other stakeholders, a consultation has recently been launched (25 September) on the detailed regulations necessary to license such developments and to implement the EU Directive on geological storage of carbon dioxide. And the Energy Technologies Institute, which has support from Government and industry, has recently launched a research project aiming to provide a comprehensive assessment of national storage capacity.

**19. We note the industry’s argument that the tax treatment of decommissioning securities is problematic and hampering investment. We look forward to the outcome of the consultation the Government is undertaking on this matter and may return to it if it is not resolved satisfactorily. (Paragraph 117)**

The Government appreciates the importance of companies’ decommissioning obligations to their investment decisions in the North Sea. The tax regime around decommissioning obviously forms part of these decisions. It is for this reason that, at Budget 2009, the Government introduced reforms to the regime to ensure companies can access decommissioning tax relief following “change of use” projects, and PRT decommissioning relief where the production licence for a field has expired.

However, the Government recognises that the industry is keen to discuss further changes to the tax regime for decommissioning, particularly in relation to decommissioning security agreements, and these discussions are currently ongoing. The Government will consider the points made by stakeholders, and will be prepared to act if further changes are appropriate.

**20. We would welcome the Government’s assessment of the export potential of the industry that has developed to support the UKCS and an indication of how it plans to build on this potential. (Paragraph 118)**

Forty years of development in the challenging environment of the North Sea has enabled the UK to build up strong capabilities across the oil and gas sector. These strengths include project management, major contracting, design engineering, asset and operational management, design and manufacturing of advanced equipment, research and development, training and education, and professional and financial services.

Developing the export capacity of the UK oil and gas supply industry has long been a policy objective for Government. One of the original PILOT targets set in 2000 was to grow the export value by 50% in the five years to 2005. This has in the event been exceeded, with estimated revenue of around £3 billion in that year. Current estimates put oil and gas exports at over £5 billion. With the UKCS recognised as one of the most hostile development environments in the world, active innovation has been required to develop and perfect technologies which are now in demand in nearly every other hydrocarbon producing province in the world.

Many UK companies, with encouragement from Government, have grasped the opportunity of global growth and internationalised. One of the best examples of this is the Wood Group, an Aberdeen company. Some 40 years ago the Wood Group diversified its activities, which were rooted in the fishing industry, into the then emerging oil and gas sector and is now operating in 50 countries, generating substantial job opportunities, income and wealth. While it is still an important supplier of services to the UKCS, over 80% of income and profit is now derived from international activity.

UK based companies have been highly successful in the global oil and gas supply market and UKTI figures now put the UK share at some 5-8%. UK companies are particularly prominent in the subsea market, where their expertise is much sought after and where opportunities are set to grow for the foreseeable future. The global subsea market is expected to nearly double in the next five years and UK-based companies are well placed to build on their market share.

Recognising the potential of the subsea sector, DECC prompted the establishment of Subsea UK – a trade association wholly focused on the subsea sector. The Committee will have seen in visiting Subsea UK that this organisation has been a real success and in the space of only a few years has grown to have a membership of over 200 companies. It is now wholly self funding and doing an outstanding job of promoting its members on an international platform.

The Government Department primarily responsible for promoting UK companies in international markets is UK Trade and Investment (UKTI) which is currently targeting areas of the world with the highest growth and export potential – these include Brazil, West Africa, Australia and the Middle East. With an in-house team of experts in this field and a track record of delivery, UKTI are held in high regard by industry.

UKTI's Energy Team significantly assisted 1200 companies in global markets during 2008/09 and expect to maintain this level of support into the future. The oil and gas supply chain will be promoted extensively through the UK Energy Excellence Marketing Strategy, which highlights leading-edge UK capacities across the energy sector, including biomass, fuel cells, geothermal, nuclear, hydroelectric, solar, tidal, wave and wind, as well as hydrocarbons. The Strategy's aim is to provide a single compelling voice across the world, positioning the UK as a destination of choice for energy trade and investment.

There will inevitably be challenges as governments in charge of oil and gas developments around the world seek high levels of local industry content and are likely to offer incentives for companies to locate in-country. However, UK companies can offer a combination of competence, capability and capacity which together will give them the competitive edge to remain a world leader in the oil and gas sector. The frontier area for the UKCS is West of Shetland – one of the most challenging operating environments in the world. The opportunities which will arise from meeting the challenges of development in these conditions, together with new opportunities and technologies in such areas as wet renewables and carbon storage, should enable UK companies to retain a leading competitive position in a growing global market.