BUDGET 2012: UPSTREAM OIL AND GAS TAXATION ("NORTH SEA TAX")

The Chancellor announced the introduction of a package of oil and gas measures. These include:

- a contractual approach to offer long term certainty on decommissioning relief;
- introducing a new field allowance targeted at the West of Shetland area;
- extending the amount and scope of the existing small field allowance; and
- introducing amendments to the field allowance legislation to allow the potential introduction of measures to support investment in "brown fields".

To ensure that these measures are as effective as possible, the Government is keen to maintain an ongoing dialogue with industry including engagement with individual companies as appropriate.

In detail, the following measures were announced on 21 March 2012:

Oil and gas decommissioning certainty

Following its commitment at Budget 2011 regarding greater certainty on decommissioning tax relief, the Government will introduce legislation in Finance Bill 2013 giving it statutory authority to sign contracts with companies operating in the UK and UK Continental Shelf, to provide assurance on the relief they will receive when decommissioning assets. The Government will consult further on the precise form and details of such contracts in the coming months.

Oil and gas field allowances

Following its commitment at Budget 2011, the Government will introduce a package of measures on field allowances for oil and gas production in the UK and UK Continental Shelf. The Government will:

- introduce a new £3 billion field allowance for particularly deep fields with sizeable reserves targeted at the West of Shetland[1] and will continue to work with industry to encourage further investment in the region (including by ensuring that the fiscal regime remains appropriate as other projects mature);
- increase the maximum field allowance for small fields to £150 million and increase the maximum size of field qualifying for the maximum allowance to 6.25 million tonnes, tapering to no allowance at 7 million tonnes;

1. Like the field allowances for other categories of field (small fields, ultra high pressure/high temperature fields, ultra heavy oil fields and remote deepwater gas fields) this will exempt a slice of production income from qualifying new fields from the Supplementary Charge. In all cases, the maximum annual allowance is one fifth of the total allowance.

- introduce legislation in Finance Bill 2012 giving the Government the power to introduce targeted measures to support investment in brown fields and will engage further with industry on how any such allowance could be structured to unlock investment while protecting Exchequer revenues; and

- continue to consider potential changes to the existing allowance for High Pressure/High Temperature fields.[2]

A new category of field qualifying for the field allowance will be introduced for large deepwater fields (such as are found only West of Shetland) with an allowance of £3 billion for fields in water deeper than 1,000 metres and with a central estimate of reserves at time of development consent of between 25 and 40 million tonnes (roughly between 180 and 285 million barrels of oil equivalent (boe)), with a linear taper to zero allowance at 55 million tonnes (roughly 390 million boe).

The amount of, and maximum qualifying size threshold for, the "small field allowance" will both be doubled – from a maximum allowance of £75 million to a maximum allowance of £150 million and from a size limit of 3.5 million tonnes (roughly 25 million boe), with a linear taper to zero allowance from 2.75 million tonnes (roughly 20 million boe), to 7 million tonnes (roughly 50 million boe), with a linear taper to zero allowance from 6.25 million tonnes (roughly 45 million boe).

Both of the above changes will be introduced by Statutory Instrument later in 2012 and will apply to fields first given development consent on or after Budget day.

Fair Fuel Stabiliser

As announced at Budget 2011, the Government will introduce a Fair Fuel Stabiliser. The trigger price is being set at £45/barrel (the sterling equivalent of $75/barrel).

Scope of the Supplementary Charge on North Sea oil and gas profits

As announced on 6 December 2011, and with effect from that date, the Government will introduce legislation in Finance Bill 2012 to ensure that the Supplementary Charge applies to ring fence chargeable gains and to confirm that the scope of the Supplementary Charge matches the scope of Ring Fence Corporation Tax.

Oil and gas decommissioning tax relief

As announced at Budget 2011, the Government will introduce legislation in Finance Bill 2012 restricting to 20% with effect from Budget day the rate of relief for decommissioning costs for Supplementary Charge purposes. Legislation will also broaden the scope of the extended loss carry back rules that apply to companies with ring fence trades so that they apply to losses arising from mineral extraction allowances in respect of decommissioning expenditure, consistent with the definition of decommissioning expenditure used in the restriction of relief.

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2. The Government is also willing to consider further evidence around other types of marginal project that might require additional fiscal support in the future.