HMRC - OT00010 - The Taxation Of The UK Oil Industry: An Overview: Background

Over the last 40 years the UK has developed into one of the world’s major oil production countries. Successive administrations have developed a fiscal regime which encourages companies to explore for and develop the nation’s oil and gas reserves whilst aiming to ensure that an appropriate share of the benefits accrues to the UK economy as a whole. Although the North Sea is a relatively high cost production area, its high quality crude oil, political stability, and proximity to major European consumer markets have allowed it to play a major role in world oil and gas activity.

The development of the North Sea has coincided with a range of substantial technological developments within the oil industry, including 3D and 4D seismic, deep water and horizontal drilling, and the more sophisticated use of IT to process and interpret data. Also of importance has been the development and use of floating production facilities, enhanced oil recovery techniques and the increased use of sub-sea technology and tie-backs. These have enabled the exploitation of comparatively small accumulations that would not have been commercially viable 25 or 30 years ago. But they cannot hide the declining production profiles of both oil and gas from the North Sea, from their peaks in 1999 and 2000, respectively.

The structure of the oil industry in the North Sea is also changing. Once dominated by the oil majors, there has in recent years been a steady divestment of North Sea assets by these groups and the increasing involvement of comparatively smaller oil companies.

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