HMRC - OT05317 - Crude Oils And Products - Category 1 Oil Basis Of Values Calculations

The Basis for Calculating Values of Category 1 Oils

OTA75\Sch3\para2(1) \* specifies that a daily market value needs to be determined.

OTA75\Sch3\para2(2) \*\* sets out the conditions under which these values must be calculated. These conditions form a “Hypothetical contract” under which oil of the kind in question might reasonably have been expected to be sold, the price derived from that contract being the market value of the oil.

The terms of the hypothetical contract are:

The market value of any particular quantity of Category 1 oil of any kind is the price for which that quantity of oil of that kind might reasonably have been expected to be sold under a contract of sale that meets the following conditions-

the contract is for the sale of the oil at arm’s length to a willing buyer;

the contract is for delivery of a single standard cargo of the oil;

the contract specifies a period of three days within which loading of the oil is to take place and that period includes the notional delivery day for the actual oil;

the contract requires the oil to have been subjected to appropriate initial treatment before delivery;

the contract requires the oil to be delivered

\* in the case of oil extracted in the United Kingdom, at the place of extraction; or \* in the case of oil extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom or another country at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction.

The terms as to payment which are to be implied in the contract are those which are customarily contained in contracts for the sale at arm’s length of oil of the kind in question.

Price Reporting Agencies use contracts with such properties, as well as bids and offers that would lead to such contracts, when they prepare their price assessments.

Footnote:

as amended by FA2006\S146(3)

\*\* as amended by FA2006\S146(5)

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