Offshore oil and gas industry

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This note provides a summary of the state of the offshore oil and gas industries and sets out some of the key challenges for the industry.

The UK offshore oil and gas industry is important to the economy. The industry directly supports around 350,000 jobs and also provides around £8 billion annually to the Treasury in taxation.

Production levels of oil and gas from the UK Continental Shelf (UKCS) are in decline. The remaining potential of the UKCS is dependent on the future levels of investment. Industry body Oil & Gas UK estimates that while 39.5 billion boe (barrels of oil equivalent) of oil and gas have so far been recovered from the UKCS, between 15 billion and 24 billion boe still remain. Of these 24 billion boe, current investment plans can deliver 5.25 billion boe from existing fields and ongoing investment and new projects account for another 5.9 billion boe.

The Deepwater Horizon oil spill in the Gulf of Mexico in April 2010 has focussed attention on offshore drilling activity in the UK. In response, the UK industry trade association established a new group of regulators and oil companies to examine the UK's strengths and weaknesses in responding to a similar incident. Its work has concluded that the UK regulatory regime promotes the right safety and environmental behaviours. The Government has announced that it will also undertake a review, which is due to report "later this year".

If offshore oil and gas production is to continue, the industry faces a number of other challenges, including:

- making sure that oil and gas companies have access to sufficient finance to invest in the infrastructure needed and the skills needed to support it;
- giving small companies economically viable access to third party infrastructure, so that so that smaller and under-developed fields can be further exploited; and
- making sure that the fiscal regime does not accelerate decommissioning and can make new investment economically viable.

Contents

1 State of the industry

The Department for Energy and Climate Change (DECC), website gives an overview of the state of the oil and gas industry:

- UK oil & gas currently supplies around 60% of UK energy needs;
- In 2009 the UK oil and gas industry produced an average of 2.5 million barrels of oil equivalent every day;
- In 2008 the UK ranked 14th in list of major oil & gas producing countries;
- The UK oil and gas industry supports 350,000 jobs directly and indirectly (& another 100,000 involved in exporting goods / services);
- It also provides around £8 billion annually to the Treasury in taxation; and
- Although 40 billion barrels have been produced, there could still be another 20 billion, or more, still producible.[1]

[1] Department of Energy and Climate Change website, *Oil and Gas* [on 26 May 2011]

2 Statistics[2]

2.1 Volume and value of production

Ten year trends are set out below. While output volumes fell by almost half between 2009 and 2009, higher prices meant total income increased to 2008.

Summary statistics for UK oil and gas production

	Industry income[a] £ million	Tax revenue[b] £ million (financial years)	Oil production[c] Million tonnes	Gas production TWh
2000	25,486	4,457	126.2	1,260.2
2001	24,185	5,429	116.7	1,230.5
2002	24,118	5,117	115.9	1,204.7
2003	23,562	4,281	106.1	1,196.9
2004	23,397	5,172	95.4	1,120.4
2005	28,707	9,380	84.7	1,025.2
2006	32,689	8,921	76.6	929.8
2007	30,865	7,463	76.6	838.1
2008	39,733	12,990	71.7	809.6
2009	..	6,557	68.2	694.0
2010	..	9,196	..	..

(a) Sales of oil, gas, natural gas liquids and other income

(b) 2010-11 figures are forecast

(c) Includes natural gas liquids

Sources: DECC Oil & Gas directorate; Energy trends, DECC

The latest official projections show UK output of oil and gas falling by 20-30% between 2009 and 2015.[3]

The remaining potential of the UK Continental Shelf (UKCS) is dependent on the future levels of investment. Industry body Oil & Gas UK estimates that while 39.5 billion boe (barrels of oil equivalent) of oil and gas have so far been recovered from the UKCS, between 15 billion and 24 billion boe still remain. Of these 24 billion boe, current investment plans can deliver 5.25 billion boe from existing fields and ongoing investment and new projects account for another 5.9 billion boe.[4]

2.2 Employment

The best source of information on all employment connected to the industry, not just numbers directly employed is the Oil & Gas UK *Economic Report 2010*. It estimates total employment connected the industry at around 340,000 in 2010. This is said to be made up of 32,000 directly employed, 207,000 in the wider supply chain plus 100,000 supported across the wider economy by their expenditure. If estimated jobs connected with the supply chain's export business are included the total rises to 440,000. Section 6 of the report gives trends in these estimates and a geographical breakdown. The rest of the report gives information on other aspects of the industry's economic impact, including its overall contribution to GDP.

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2 By Paul Bolton, Social and General Statistics Section, x6969

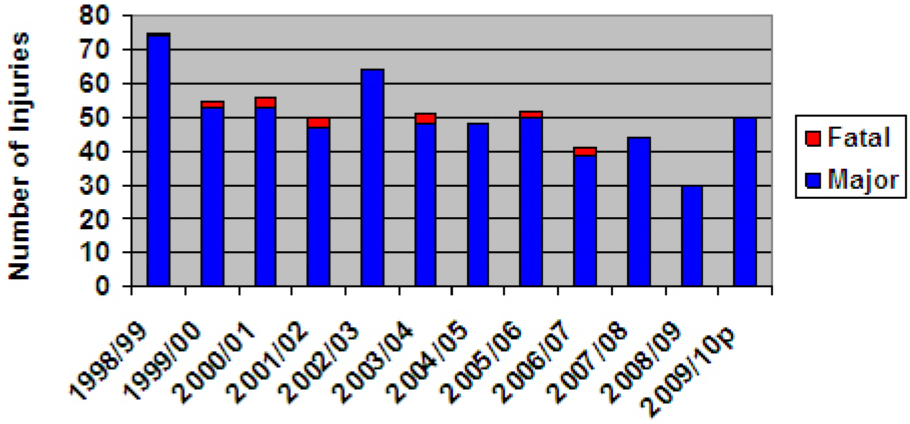
3 *UKCS Oil and Gas Production Projections*, DECC

4 Oil & Gas UK press release, *UK Oil and Gas Industry: "An Engine for Recovery*", 6 July 2010

Further statistical information about oil and gas infrastructure is available from the DECC Oil and Gas website.

2.3 Health and Safety

In the UK the HSE publishes an Offshore Statistics Bulletin. The latest bulletin, for 2009-10 sets out the number of fatal and major injuries to offshore workers:



The HSE's bulletin explains how the 2009/10 figures relate to previous years in terms of the rate of injury per number of workers:

- There were no reportable fatalities in 2009/10, compared with none during the previous two years.
- There were 50 major injuries reported during the period, a rise of twenty compared to 2008/09 (a particularly low year) and compares to an average of 42 major injuries over each of the previous five years.
- There were an estimated 26,598 offshore workers in 2009/10, a fall of 5.76% on the 2008/09 estimate of 28,224 workers. These figures were obtained from an industry-based data source[1].
- The combined fatal and major injury rate rose to 187.0 per 100,000 workers in 2009/10 compared to 106.3 in 2008/9 and 156.4 in 2007/08 and reverses the generally downward trend since 2002/03. The five-year average prior to 09/10 is 177.4[5]

It also sets out the main type of accident:

Types of accident

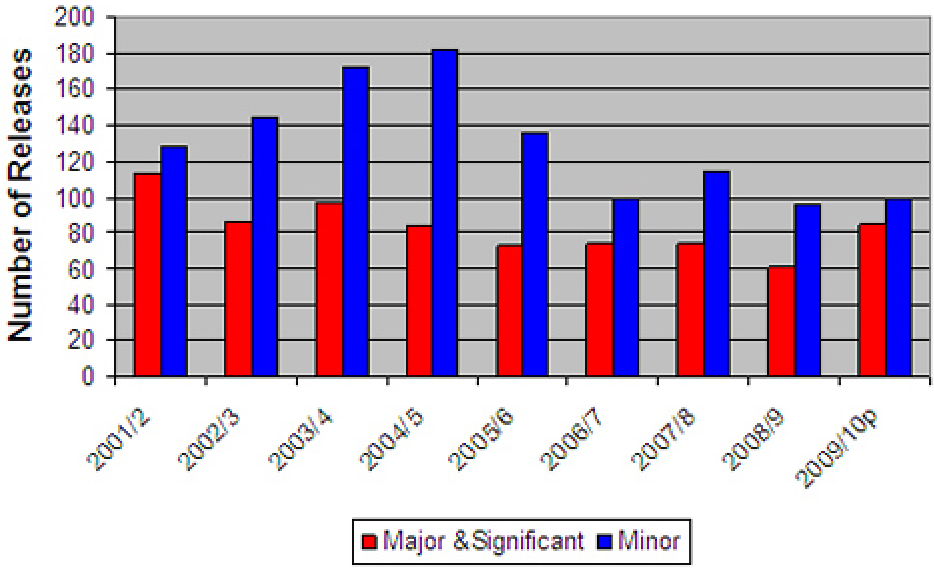
Based on provisional figures for 2009/2010:

- The main causes of major injuries were related to slips/trips/falls (26), being trapped or struck by moving objects (11), or injuries associated with lifts/pulls/pushes/handling of loads (5), accounting for 83% of the total;
- 11 major injuries were to the lower limb/foot/ankle and 26 to the upper limb

[5] HSE website, *Offshore safety statistics bulletin 2009/10* [on 26 May 2011]

- 27 major injuries (54%) were due to fracture.[6]

The bulletin also provides statistics on the number of offshore hydrocarbon releases (oil leaks):



The graph shows that there was an increase in the total number of major and significant hydrocarbon releases: 85 in 2009/10 compared to the previous year's total of 61. This compares to an annual average of 73 over the previous five years.

A report in the *Financial Times* following the release of these figures, on 24 August 2010, said that the HSE had "launched a programme of more intrusive investigations of oil spills in the wake of the new figures."[7]

3 Security of supply

The Government set out the importance of oil and gas to the UK in its latest Statutory Security of Supply report:

> **Security of supply outlook – Gas**
>
> 2.3.1 The outlook for security of gas supply is broadly benign in the near term. This does not mean that it is risk-free; there are risks, both in the short term, and towards the second half of the decade, when some uncertainties remain. UK annual gas demand is projected to trend downwards slightly in DECC UEP40 and National Grid's central case. There are however sensitivities around this leading to a wider potential range of outcomes, depending on factors such as relative fuel prices of gas and coal, the amount of gas fired generation in the electricity generation mix, and economic growth. Projections for peak demand show this remaining at current levels (500 mcm/d) in the Central case or trending downwards to around 450 mcm/d in the Gone Green 2009 scenario over the period 2010 to 2025.
>
> 2.3.2 While production from the UKCS is projected to continue to decline, GB has an increasingly large and diverse range of import sources on which to draw.

[6] HSE website, *Offshore safety statistics bulletin 2009/10* [on 26 May 2011]
[7] "Watchdog to move faster on oil spills" *Financial Times*, 24 August 2010

2.3.3 New import and storage capacity is identified at various stages of development and delivery. Should this come forward, the UK would continue to be well-served. In practice, it is noted, however, that projects might slip, and not all of this capacity might come forward.

2.4 Security of supply outlook – Oil

2.4.1 Oil products play an important role in the UK economy, providing around 33% of the primary energy used. We currently rely on oil for almost all of the UK's motorised transport needs. Transport accounted for almost 85% of energy consumption of oil products in the UK in 2009, amounting to 49.6 million tonnes of oil.

2.4.2 Over time, technology changes, including electric vehicles and the generation of more heat from renewables, together with Government energy efficiency policies such as seeking to encourage greater use of public transport, will reduce demand for oil in the long term. Significant reductions are not anticipated for the next 10-15 years.

2.4.3 Oil production in the UK peaked in 1999 and is now declining. Oil imports are forecast to increase through the 2025 timeframe. DECC continues to work with its international partners to improve the effectiveness of oil markets and encourage the necessary investment in both increasing oil supplies and reducing oil demand.[8]

4 Industry regulation

In the UK the Department of Energy and Climate Change (DECC) is responsible for licensing, exploration and regulation of oil and gas developments on the UK Continental Shelf (UKCS).[9] As energy is a reserved matter, this is regardless of which country the waters belong to in the UK.

DECC also regulates the environmental aspects of the industry which includes the issue of consents and permits, inspection, investigation and enforcement. The Health and Safety Executive (HSE) is responsible for regulating the risks to health and safety arising from work in the Offshore Industry on the UK Continental Shelf (UKCS). The design of every well, regardless of its location, water depth or reservoir characteristics, must go through a rigorous approval process by DECC and HSE, before being drilled.

Further information about oil and gas regulation in the UK is available:

- on the *regulation page* of the DECC oil and gas website [accessed on 26 May 2011];
- on the *offshore information sheets page* on the Health and Safety Executive website [on 26 May 2011];
- in an article on the Oil & Gas UK website, *Knowledge Centre* [accessed on 26 May 2011]; and
- in written evidence to the Energy and Climate Change select committee from the *Department of Energy and Climate Change, Health & Safety Executive, and Maritime and Coastguard Agency*, 6 January 2011.

8 DECC and Ofgem, *Statutory Security of Supply Report*, November 2010

9 For more information about the licensing system see the Department of Energy and Climate Change's *Oil and Gas website* [on 24 May 2011]

5 Industry challenges

5.1 Deepwater drilling

The Deepwater Horizon oil spill in the Gulf of Mexico in April 2010 has focussed attention on deepwater drilling activity in the UK. Environmental campaign groups such as Greenpeace have called for the Government to stop deepwater drilling in UK waters, such as in the West of Shetland, due to the harsh conditions in these waters and the potential environmental consequences of a leak. The Government has said that there is nothing to suggest there is a case for suspending the consideration of licence applications for deepwater drilling in UK waters, or for suspending drilling operations, pending the results of forthcoming reviews and investigations into deepwater drilling. It has announced a review, to be carried through by DECC, the Health and Safety Executive and the Marine Coast Guard Agency into the UK's offshore oil and gas regulatory regime, which is due to report "later this year".

In response to the Deepwater Horizon oil spill, the UK industry trade association, Oil and Gas UK, established a new group of regulators and oil companies to examine the UK's strengths and weaknesses in responding to a similar incident. As part of its work the Oil Spill Prevention and Response Advisory Group (OSPRAG) reviewed the offshore oil and gas regulatory regime. The technical review group has completed its review of the UK offshore oil and gas industry's practices in the following areas: well examination verification and primary well control, blow-out preventers (BOPs) and competency, behaviours and human factors. This work concluded that there was a high degree of confidence in the UK regulatory regime and that it drives the right safety and environmental behaviours.[10]

For further information about deepwater drilling in the UK and about the Government's response to the issues raised following the Gulf of Mexico incident, see House of Commons Library Standard Note, *Deepwater Drilling in the UK*, SN/SC/5981, 24 May 2011.

5.2 Finance and skills

A report in June 2009 from the House of Commons Energy and Climate Change select committee said that the oil and gas industry faced a "quadruple whammy" of challenges, which could lead to job losses and a fall in production:

> The oil and gas industry operating on the UK continental shelf currently faces a quadruple whammy of high costs, low prices, lack of affordable credit and a global recession. Unless the fiscal and regulatory regime is well designed and highly attractive then the likelihood is that the UK may not recover anything like as much of its reserve as would be desirable. So while we fully support the Government's objective of maximising the economic recovery of UK oil and gas resources, we also believe that within this framework Ministers need to articulate a strategy setting out how production levels are to be maintained.
>
> The difficulties currently faced by oil and gas companies in accessing affordable lending and the bleak prospects this heralds for investment in the oil and gas industry pose an issue of grave concern. If the industry's worst case scenario is realised in 2010, then 50,000 jobs could disappear and production would fall significantly. The success of the steps announced in the recent budget will be judged by whether they help stop the downward slide in capital investment and any consequent contraction.[11]

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[10] Oil & Gas UK website, *OSPRAG: key issues* [on 26 May 2011]

[11] House of Commons Energy and Climate Change Select Committee, *UK offshore oil and gas*, First Report of Session 2008–09, HC 341-I, 30 June 2009, p3

The June 2010 Budget left corporation tax for North Sea companies unchanged, at 30%. In July 2010 industry journal *Petroleum Economist* reported that “significant changes” would have to be made to the industry’s investment framework to stem the North Sea’s decline rate which it estimated to be approximately 6-7% per year. It suggested that eventually lower taxes would be needed.[12]

In the *Budget 2011* the Government announced that it would increase the taxation on the oil and gas production industry in order to fund a cut in fuel duty:

> 1.146 The Government will abolish the fuel duty escalator and replace it with a fair fuel stabiliser. When oil prices are high, as now, fuel duty will increase by inflation only. UK oil and gas production is more profitable at such times, so it is fair that companies should contribute more. The Supplementary Charge on oil and gas production will therefore increase to 32 per cent from midnight tonight.
>
> (...)
>
> 1.148 In future years, if the oil price falls below a set trigger price on a sustained basis, the Government will reduce the Supplementary Charge back towards 20 per cent on a staged and affordable basis while prices remain low. Fuel duty will increase by RPI plus 1 penny per litre in each such year. The Government believes that a trigger price of $75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil and gas companies, and motoring groups.
>
> 1.149 As the increased rate of Supplementary Charge will only apply when prices are high, the Government will restrict tax relief for decommissioning expenditure to the 20 per cent rate to avoid incentivising accelerated decommissioning. There will be no restrictions to decommissioning relief below this level over the course of this Parliament, and the Government will work with the industry with the aim of announcing further, longer-term certainty on decommissioning at Budget 2012. Recognising the importance of continued investment in the North Sea, including in marginal gas fields, the Government will also consider with the industry the case for introducing a new category of field that would qualify for field allowance.[13]

A briefing paper on the UK upstream oil and gas tax regime is available from the *DECC oil and gas website*. Further information about the changes made in the 2011 Budget is available in the House of Commons Library Standard Note, *North Sea oil taxation*, SN/BT/341, 28 April 2011.

The industry body, Oil & Gas UK, responded to the Budget announcement to warn that the increase in taxation may deter investment in the UK offshore industry:

> “Today’s move in the Budget runs counter to the Government’s stated desire to promote growth, jobs and exports – all of which this industry was delivering and will now find much more difficult to sustain. Importantly it will also most likely increase this country’s dependence on imported oil and gas and thus diminish its energy security.
>
> “At a time when we could see investment recovering following the last period of fiscal instability, this further shock will only damage investor confidence and make many question whether the UK is an appropriate destination for their investment. Many of our members will now be reappraising their investment decisions.

12 “UK leaves North Sea Tax Unchanged” *Petroleum Economist*, July 2010, p 30
13 HM Treasury, *Budget 2011*, 23 March 2011, p38

> "The UK offshore industry currently accounts for a third of total industrial investment in this country. This investment supports nearly half a million jobs, drives major technological advances and makes us a global leader in the export of oilfield goods and services. Last year, 60 percent of the UK's total energy requirements were met by oil and gas produced from our own reserves.
>
> "In summary, this change in the tax regime will decrease investment, increase imports and drive UK jobs to other areas of the world."[14]

A report on the BBC news website, from March 2011, indicated that some oil and gas companies were reviewing their investments in the UK offshore oil and gas industry, in response to the tax changes:

> Scottish Gas-owner Centrica is understood to be reviewing its current and future developments.
>
> Valiant Petroleum also said it has cancelled a project worth up to £93m.
>
> It comes after Norwegian company Statoil said on Tuesday that it has halted development of two new oil and gas fields worth up to £10bn.
>
> The Mariner field - being developed with Nautical Petroleum and Italy's ENI - and the Bressay field - owned jointly with Royal Dutch Shell - have combined reserves of 640 million barrels of oil.[15]

The Financial Times reported, in May 2011, that the tax increase could result in a loss of production from the UKCS, which could result in job losses and more expensive energy imports:

> The UK could lose out on the production of more than 1bn barrels of oil and gas, and capital investment worth £12bn as a result of the recent tax increase on North Sea production, new research warns.
>
> A survey of its members by Oil & Gas UK, the industry trade association, found that unless mitigating measures were put in place soon, at least 25 projects were unlikely to go ahead while the lives of at least 20 producing fields would be shortened by up to five years. In addition, investment over the next 10 years earmarked for projects considered likely to go ahead had fallen 30 per cent from £33bn to £23bn.
>
> "If these projects do not go ahead, over time the UK will lose out not only on the creation of around 15,000 jobs across the UK but also on oil and gas production equating to over a year's domestic supply," said Malcolm Webb, chief executive of Oil & Gas UK.
>
> "To fill that gap, energy imports worth £50bn will be required, increasing the cost of energy to the UK consumer, damaging the nation's security of energy supply and widening the trade gap," he added.[16]

5.3 Third party access to infrastructure

Upstream[17] oil and gas infrastructure, such as pipelines and offshore processing facilities, are typically built and owned by the field owner, often with spare capacity. The spare

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14 Oil & Gas UK, *Oil & Gas UK Responds to 2011 Budget Announcement*, 23 March 2011
15 BBC news website, *More oil firms to halt North Sea plans after tax hike*, 30 March 2011
16 "North Sea tax rise will cost £12bn, warns industry" *Financial Times*, 25 May 2011

capacity can be made available for use by third parties if they are able to negotiate a tariff. Field owners therefore have a large degree of power over the price of access to their often unique infrastructure in a particular location. The Government now seeks to make the process of facilitating access to infrastructure for third parties more simple in the *Energy Bill 2010-12*.

Under the current legislation (the *Petroleum Act 1998*, the *Pipelines Act 1962*, the *Gas Act 1995* and the *Energy Act 2008*), companies seeking access to infrastructure must apply in the first instance to the relevant owner of the infrastructure in question. If the parties are unable to agree satisfactory terms of access to that infrastructure, the applicant seeking access may make an application to the Secretary of State to resolve the dispute.[18]

An industry Offshore Infrastructure Code of Practice (ICOP), a non-statutory code, was introduced in January 1996. It aimed to streamline and facilitate the negotiation and administration of granting third party access to offshore pipelines and processing facilities and onshore terminals.[19] The Code has since been reviewed in consultation with industry and with the Government. A revised version was published by industry association Oil & Gas UK in August 2004, which was last updated in January 2009.[20] The principles set out in the ICOP are as follows:

Overarching Principles

- Parties uphold infrastructure safety and integrity and protect the environment
- Parties follow the Commercial Code of Practice

Principles of the Infrastructure Code of Practice

- Parties provide meaningful information to each other prior to and during commercial negotiations
- Parties support negotiated access in a timely manner
- Parties undertake to ultimately settle disputes with an automatic referral to the Secretary of State
- Parties resolve conflicts of interest
- Infrastructure owners provide transparent and non-discriminatory access
- Infrastructure owners provide tariffs and terms for unbundled services, where requested and practicable
- Parties seek to agree fair and reasonable tariffs and terms, where risks taken are reflected by rewards

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17 The term "upstream" generally refers to the process of finding and extracting oil and gas and bringing it to the surface. In contrast, "downstream" generally refers to the process of refining of oil, gas and petroleum to make them into useable products and to its subsequent distribution.

18 Oil and Gas UK and Department of Energy and Climate Change, *Code of Practice on Access to Upstream Oil and Gas Infrastructure on the UK Continental Shelf*, January 2009, annex A, A1

19 Department of Energy and Climate Change website, *Third party access to upstream oil and gas infrastructure* [on 4 May 2011]

20 Oil and Gas UK website, *Infrastructure Code of Practice* [on 4 May 2011]

- Parties publish key, agreed commercial provisions[21]

To accompany the ICOP, DECC has published guidance, *Guidance on Disputes over Third Party Access to Upstream Oil and Gas Infrastructure*, April 2009. It explains how the Secretary of State will determine applications made to require access to the infrastructure.

Problems with the current regime
Despite the legislation and the ICOP, a 2009 inquiry by the House of Commons Energy and Climate Change Select Committee highlighted the difficulty with smaller companies getting access to the infrastructure they require:

> 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.[22]

The then Labour Government responded to the Committee's report in October 2009. It said that it was working with industry to address the problems with access to infrastructure from third parties:

> 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 [UK continental shelf] 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.[23]

In the impact assessment to accompany the *Energy Bill 2010-12*, the Coalition Government called the existing legislation in this area "piecemeal" and "inconsistent". It also said that

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[21] Oil and Gas UK and Department of Energy and Climate Change, *Code of Practice on Access to Upstream Oil and Gas Infrastructure on the UK Continental Shelf*, January 2009

[22] House of Commons Energy and Climate Change Select Committee, *UK offshore oil and gas*, First Report of Session 2008–09, HC 341-I, 30 June 2009, p19

[23] House of Commons Energy and Climate Change Select 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, HC 1010, 19 October 2009, p3

there were uncertainties as to who was covered by it and that this could lead to some of the infrastructure being inefficiently used.[24]

The Government has said that access to infrastructure on fair and reasonable terms is "crucial" to maximising the economic recovery of the UK's oil and gas production. *The Energy Bill* therefore would re-enact and streamline the existing provisions for third party access to upstream oil and gas infrastructure and replace them with one set of requirements covering access to all relevant platforms, pipelines and terminals. It would also give the Secretary of State new powers to seek information about the progress of access negotiations, and where appropriate, for him to initiate a determination at his own discretion for example, if the Secretary of State had reasonable grounds to believe that there was no realistic prospect of the parties reaching an agreement.[25]

5.4 Decommissioning

Industry body Oil & Gas UK has highlighted accelerated decommissioning of old infrastructure as one of the main challenges for the offshore oil and gas industry:

> ***Decommissioning -*** much of the infrastructure in the North Sea is more than 25 years old and requires substantial ongoing investment if it is to remain technically and commercially viable. It is the industry's goal to prolong the life of existing infrastructure for as long as economically feasible so that it may be used to access reserves in nearby marginal fields and, possibly, subsequent re-use for activities such as carbon or natural gas storage. However, there are three issues which have the potential to accelerate the rate of decommissioning of UKCS infrastructure. These are:
>
> - Industry concerns about the fiscal risk regarding future access to tax relief on decommissioning costs.
> - The impact on investment of providing decommissioning security on a gross cost basis rather than a net-of-tax basis.
> - Phase III of the EU emissions trading scheme (EU ETS) which will significantly increase the costs of operating mature assets with declining production.
>
> All three factors increase the cost burden on industry and risk leading to the premature decommissioning of late-life assets and deterring the development of many new small fields which cannot accommodate such costs.[26]

The DECC Oil and Gas website has further information about the decommissioning process. Oil and Gas UK has set out what it would like to happen to support industry in this area:

- A fit-for-purpose fiscal and regulatory regime is required. As maturity advances in the UKCS, having the right fiscal and regulatory regime in place is essential: one that stimulates and does not hamper investment in new developments; that allows existing platforms and pipelines to be preserved and encourages the development of high risk, high cost areas such as west of Shetland.

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[24] Department of Energy and Climate Change, *Impact Assessment: Reform of the regime for resolving disputes over third party access to and for compulsory modifications of upstream petroleum infrastructure*, 1 December 2010, p6

[25] Department of Energy and Climate Change, *Impact Assessment: Reform of the regime for resolving disputes over third party access to and for compulsory modifications of upstream petroleum infrastructure*, 1 December 2010, p7

[26] Oil & Gas UK, *A policy framework for the UK's Offshore Oil and Gas Industry*, 2010, p6

- The fiscal regime needs to be greatly simplified and the tax rate reduced over time to incentivise exploration and promote investment in new and brownfield developments.

- There needs to be a strong focus on promoting investment in existing fields. Removing PRT from new investment in existing fields would extend production and delay decommissioning of many mature fields.

- Security for decommissioning costs should be allowed to be posted on a net-of-tax basis. This would release funds, needlessly locked up in banks, to be reinvested in the UKCS.[27]

[27] Oil & Gas UK, *A policy framework for the UK's Offshore Oil and Gas Industry*, 2010, p6