OUR POWER

Demand Briefing Paper

94% of 1092 offshore workers surveyed support this demand

REORGANISE THE TAX SYSTEM FOR PUBLIC GOOD

SUMMARY

Companies extracting oil and gas from the UK Continental Shelf benefit from lower tax rates compared to almost any other country in the world, leading to record profits, dividends for shareholders and bonuses for bosses. In the meantime, worker pay is stagnating or falling, and energy bills for the public are skyrocketing, while the UK public has paid taxes to the oil companies in recent years. We need to rewrite the tax regime in the interest of the UK public to ensure companies pay their fair share.

CONTEXT

The UK's lax tax regime for oil and gas means that oil and gas companies extracting on the UK Continental Shelf walk off with the highest proportion of revenue of any country in the world. In 2021, Rystad Energy estimated the UK Government would take less than half of Norway's (40%, compared to almost 80%).[1] In 2019, the UK Government took less than a tenth of what the Norwegian government took in taxes per barrel of oil (a mere $1.72 compared to $21.35).[2]

Norway's taxation and ownership approach to its oil and gas extraction has resulted in the country's sovereign wealth fund worth over one trillion dollars. The UK has extracted more oil and gas than Norway (48.6 billion barrels of oil equivalent up until 2016, as opposed to 43 billion), yet has no comparable fund.[3]

In recent years, tax income from many North Sea oil companies has been negative - i.e. the UK public paid the companies. This is because oil and gas companies can claim back tax paid in previous years and decades, to cover around 40% of the costs of decommissioning rigs and infrastructure. As a result, between 2015 and 2020, large oil and gas companies received £3.2 billion in payments, while the UK public remained subject to austerity.[4] During those years, Exxon was paid £360m on its North Sea operations, BP £490m, and Shell £400m.[5]

> “About the profits and windfall taxes...we have to tell companies they either put money into infrastructure, communities and the workforce, or otherwise it gets taken by the government in tax. Take your pick, the tax [then] goes into the welfare fund.”
>
> – Cameron, Data Engineer

1 https://geoexpro.com/2021/01/the-uk-offers-operators-best-profit-conditions-to-develop-big-offshore-fields

2 https://priceofoil.org/2021/05/11/uk-needs-to-act-on-oil-and-gas

3 https://scote3.files.wordpress.com/2020/02/northsea_neoliberal_experiment_final.pdf

4 https://priceofoil.org/2021/05/11/uk-needs-to-act-on-oil-and-gas

5 https://news.sky.com/story/revealed-some-of-the-worlds-biggest-oil-companies-are-paying-negative-tax-in-the-uk-12380442

This briefing paper forms part of a collection of resources on **Our Power: Offshore workers' demands for a just transition**. A full report detailing the 10 demands created by offshore workers is available to read online and contains technical information, costs and a complete series of recommendations for decision makers.

A methodology paper is also available for more information on how the demands were created.

To protect their anonymity, all the names of workers quoted have been changed.

OUR POWER

Demand Briefing Paper

REORGANISE THE TAX SYSTEM FOR PUBLIC GOOD

Negative tax payments are expected to increase over the next twenty years, as ageing fields mean greater decommissioning costs. The UK Government's Oil and Gas Authority estimated the total bill at £48bn, with HMRC estimating that the cost to the public exchequer would be £19.9bn.[6] The principle of Polluter Pays should see the long-term burden of paying for decommissioning oil and gas infrastructure borne by the companies responsible, rather than transferred to the taxpayer.

Since 2022, soaring wholesale gas prices are causing extraordinary profit levels. In response, then Chancellor Rishi Sunak introduced a temporary Energy Profits Levy of 25%. But even after this, the initial UK tax rate still lags behind the global average for offshore oil and gas production.[7] The levy is also accompanied by a massive investment subsidy. The new allowance means oil and gas companies will now receive a total 91% tax relief on investments, with the majority of it available immediately at the point of investment. This means that investing £100 in the North Sea now will cost companies only £8.75, with the remainder £91.25 paid by the public. The Institute for Fiscal Studies argued that the new super-deduction means that: "a massively loss-making investment could still be profitable after tax. It is hard to see why the government should provide such huge tax subsidies and thereby incentivise even economically unviable projects."[8]

Beyond oil and gas producing companies, massive profits have been forecast for electricity generators as well. The UK Treasury has estimated that oil and gas extracting companies and electricity generators could make £170 billion in excess profits over the next two years. These are in addition to profits based on price projections prior to Russia's invasion of Ukraine.[9] Renewable energy infrastructure that is financed through the Renewables Obligation as well as nuclear power plants are amongst the energy projects making these excess profits. This highlights both the failure of the UK's tax system to address excess taxes, and that lessons need to be learnt from the failures of oil and gas for the electricity generation sector as well.

Corporations should be prevented from profiteering from crisis situations - especially when at the expense of the general public. When unforeseen conditions lead to oil and gas and other energy companies making excess profits, then these windfall profits should be taxed at a higher level than normal, so that a significant proportion of the profits can be redirected either to immediate-term redistributive interventions, or to structural solutions to solve the crisis. Rather than temporary windfall taxes that are subject to lobbying and political conditions, this should be a permanent tax on excess profits, that kicks in when corporations make extraordinary and unforeseen profits above a certain level due to a crisis situation.

The UK's future decarbonised energy system must learn from the failure to appropriately tax North Sea oil and gas, and not replicate a system where public resources are exploited with limited public gain. Norway has long had a resource rent tax for hydropower - this is levied on large hydropower plants in addition to corporation tax.[10] In 2022, the Norwegian Government announced plans to increase the hydropower resource rent tax from 37% to 45%, and to introduce a similar resource rent tax on wind energy generation.[11]

6 https://www.nstauthority.co.uk/media/8038/estimates-of-the-remaining-exchequer-cost-of-decommissioning-uk-upstream-oil-and-gas-infrastructure-march-2022-accessible.pdf

7 https://upliftuk.org/wp-content/uploads/2022/06/Uplift-Brief_Subsidies-and-the-Energy-Profits-Levy_June22.pdf

8 https://ifs.org.uk/articles/ifs-response-government-cost-living-support-package

9 https://www.reuters.com/business/energy/uk-gas-electricity-industry-may-make-170-bln-pounds-excess-profits-bbg-2022-08-30

10 https://energifaktanorge.no/en/regulation-of-the-energy-sector/skattlegging-av-kraftsektoren

11 https://www.reuters.com/markets/europe/norway-hike-taxes-by-3-billion-power-firms-fish-farms-2022-09-28

OUR POWER

Demand Briefing Paper

REORGANISE THE TAX SYSTEM FOR PUBLIC GOOD

PATHWAY

The UK needs to rewrite its North Sea oil and gas tax rules to create a fair tax system that serves the public.

THE UK GOVERNMENT SHOULD:

- Prepare to robustly oppose claims made by oil and gas companies for compensation. Because the UK has not signed Production Sharing Agreements, it has some protection. But companies will potentially attempt to bring claims through the Energy Charter Treaty tribunal process.[12]

- Exit the Energy Charter Treaty to reduce the potential for oil and gas corporations to sue the UK Government over improvements to the tax code or policies to improve climate action, as well as supporting a coordinated withdrawal alongside EU countries to protect against a sunset clause that allows for countries to be sued for 20 years after exiting.

THE SCOTTISH GOVERNMENT SHOULD:

- Proactively call for stronger taxation of North Sea oil and gas, and end its support for a low tax and high-subsidy approach to extraction.

- Seek to build up a sovereign wealth fund modelled on that of Norway, beginning with profits from a public energy generator company.

THE UK GOVERNMENT'S TREASURY DEPARTMENT SHOULD:

- Identify and implement changes to the tax code covering North Sea oil extraction, with the specific aim of attaining the same level of government take per barrel as Norway does. The measures in need of review include: the current permanent measures of ring-fenced corporation tax, the supplementary charge, any Investment Allowances, and zero-rated petroleum revenue tax.

- Change the rules on instruments governing decommissioning costs (including Transferable Tax Histories and Decommissioning Relief Deeds), so that these costs are covered by the oil and gas companies responsible, and do not lead to negative tax payments. Existing Decommissioning Relief Deeds should be cancelled.

- Introduce a permanent "Energy Excess Profits Tax", to prevent excessive profiteering at the expense of the public by oil and gas and other energy corporations during crisis situations. This additional tax should be triggered when an exceptional circumstance arises that leads to unforeseen high profits, and should finance redistributive and crisis response measures. Examples of crises should include pandemics and wars, where these affect energy corporation profit levels. This tax can be at least partially modelled on the Excess Profit Duty that helped pay for the UK's participation in World War One.[13]

12 https://www.globaljustice.org.uk/news/uk-fossil-fuel-company-wins-over-210m-payout-from-secretive-tribunal-over-oil-drilling-ban

13 https://www.ft.com/content/0179860f-818f-42b3-9ac6-1c292b44eeb3

OUR POWER

Demand Briefing Paper

REORGANISE THE TAX SYSTEM FOR PUBLIC GOOD

COSTS

There will be some costs in robustly challenging claims made by oil and gas companies for compensation due to changed fiscal conditions. However, these will be negligible in comparison to the greater tax revenues.

The benefits of bringing the UK tax system in line with Norway are dramatic. These are best illustrated through the additional public income the UK would have received if the fiscal regime has been equivalent to Norway's.

Since 1990, Norway has had higher fiscal income per barrel of oil every single year - often several times that of the UK.[14] From 1970 until 2014, the UK generated an average of $11 per barrel of oil equivalent - a fraction of Norway's £29.8 per barrel of oil equivalent. The additional $18.8 that Norway received was a combination of $9.1 in additional tax and $9.8 due to state equity ownership and dividends from Statoil.

Over the years, this added up to $727 billion in income that the UK missed out on by not implementing a similar tax and ownership regime.[15]

While the UK has missed out on most of this windfall, mirroring Norway's regime could lead to billions of pounds of public income during the coming years of managed phase out, and could set us in good stead as we build up a renewables industry.

14 https://transitioneconomics.net/the-uk-north-sea-as-a-global-experiment-in-resource-extraction

15 https://resourcegovernance.org/blog/did-uk-miss-out-%C2%A3400-billion-worth-oil-revenue

16 https://scote3.files.wordpress.com/2020/02/northsea_neoliberal_experiment_final.pdf

17 https://www.offshore-technology.com/news/norway-restructure-taxation-oil-gas

18 https://www.reuters.com/markets/europe/norway-hike-taxes-by-3-billion-power-firms-fish-farms-2022-09-28

19 https://www.theguardian.com/world/2022/oct/21/france-becomes-latest-country-to-leave-controversial-energy-charter-treaty

20 https://www.euractiv.com/section/energy/news/netherlands-follows-spain-in-quitting-energy-charter-treaty

HAS THIS BEEN DONE ELSEWHERE?

There is much precedent for states rewriting the rules of oil and gas taxation to increase the government take, when existing rules favour oil and gas corporations at the expense of the public.[16] This is in addition to the many temporary windfall taxes introduced in Europe in response to the 2022 gas price crisis.

For example, in 2021, Norway decided to overhaul its petroleum tax system by abolishing certain incentives, and phasing out the reimbursement system for exploration costs introduced during the Covid pandemic.[17]

And in September 2022, the Norwegian government announced that it was increasing the resource rent tax on hydropower, and introducing a resource rent tax on aquaculture and wind power. The Norwegian Finance Ministry explained that "Energy producers and the aquaculture industry make billions of crowns on our common resources. The government is now proposing that more of the value created should go back to society."[18]

Several European governments have recently announced their intentions to exit the Energy Charter Treaty, including France,[19] Spain and the Netherlands.[20]

OUR POWER

Demand Briefing Paper

REORGANISE THE TAX SYSTEM FOR PUBLIC GOOD

CASE STUDY

Pseudonym: .... **Cameron**

Age: **31**

Job Title: .... **Data Engineer**

Location: ....**Aberdeenshire**

When I started in 2013, just before the oil crash, the wages were poor anyway, but you knew you wouldn't be in that job long and you'd work your way up the ladder and make better wages. Then in 2014 all the companies started making cutbacks, trying to make us as cheap as humanly possible. It got to the point where in 2015-16 they were having to shift all the pay bands up incrementally because otherwise the lowest paid would have fallen below minimum wage legislation.

The UK system is in the toilet. We're hearing now that the likes of Shell and BP are making huge record profits, and for the guys down the line it's just not filtering down. It feels like corruption of the highest order. I don't see how they can be paying people less in 2022 than in 2014. It's obscene.

The same people who are responsible for it have benefited from it - the bosses. Though ultimately is it their fault? If the game's there to be played, it's going to be played. It's the fault of the way the tax system is set up. It's those that set the tax laws and allow for the loopholes to exist that are to blame. That's why the demand has to come from those at the bottom and those that are affected by it, it's never going to be changed by the people that benefit from it now, it has to come from those that miss out. We need to just reset the whole thing and start again.

If this taxation shift doesn't happen then when oil and gas starts to dry up there'll be nothing left for communities. From Elgin to Fife, all down the east coast, across the border in towns and cities that were left behind at the end of the coal industry, ex-ship builders from Liverpool, ex-industrial towns, ex-fishing towns - loads of these people work offshore now. It will be felt nationwide.