UNITED KINGDOM EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (UK EITI)

UK EITI Report for 2016

April 2018

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LIST OF ABBREVIATIONS	
AP	Accounting Period
APRT	Advance Petroleum Revenue Tax
BBL	Balgzand–Bacton Line
BEIS	Department for Business, Energy & Industrial Strategy
BGS	British Geological Survey
billion	one thousand million or 109
BIS	Department for Business, Innovation and Skills
BMAPA	British Marine Aggregate Producers Association
BO	Beneficial ownership
boe	barrel of oil equivalent
BOP	Balance of Payments
Brent	as applied to trading, the standard quality of oil in Europe and elsewhere comprising a blend of four North Sea crudes from the Brent, Ekofisk, Forties and Oseberg fields
CNS	Central North Sea
CPA (08)	Statistical Classification of Products by Activity in the European Economic Community
CT	Corporation Tax
DAERA	Department of Agriculture, Environment and Rural Affairs
DCLG	Department for Communities and Local Government
DECC	Department of Energy & Climate Change (now part of BEIS)
DfE	Department for the Economy
DRD	Decommissioning Relief Deed
DUKES	Digest of United Kingdom Energy Statistics
EITI	Extractive Industries Transparency Initiative
EU	European Union
FA	Finance Act
FYAs	First Year Allowances
GB	Great Britain
GDP	Gross Domestic Product
GPA	Group Payment Arrangement
GVA	Gross Value Added
HM	Her Majesty's
HMRC	Her Majesty's Revenue & Customs
IA	Independent Administrator
ISRS	International Standard on Related Services
IUK	Zeebrugge–Bacton Interconnector
LNG	Liquefied Natural Gas
LPA	Local Planning Authority
MEA	Mineral Extraction Allowance
MMO	Marine Management Organisation
MPA	Mineral Planning Authority
MPL	Mineral Prospecting Licence
MSG	UK EITI Multi-Stakeholder Group
mtoe	million tonnes of oil equivalent
NAO	National Audit Office
NBP	National Balancing Point
NIEA	Northern Ireland Environment Agency
NPPF	National Planning Policy Framework

LIST OF ABBREVIATIONS	
NRW	Natural Resources Wales
NYM	North York Moors
OBR	Office for Budget Responsibility
OGA	Oil and Gas Authority
ONS	Office for National Statistics
PEDL	Petroleum Exploration and Development Licence
PEP	Politically Exposed Person
PMA	Plant and Machinery Allowances
PRT	Petroleum Revenue Tax
PSC	People with Significant Control
QIP	Quarterly Instalment Payment
RDA	Research and Development Allowance
RFCT	Ring Fence Corporation Tax
RFES	Ring Fence Expenditure Supplement
SC	Supplementary Charge
SEPA	Scottish Environment Protection Agency
SoS	Secretary of State
SPD	Supplementary Petroleum Duty
TCE	The Crown Estate
ToR	Terms of Reference
UCG	Underground Coal Gasification
UK	United Kingdom
UKCS	UK Continental Shelf
US	United States

FOREWORD

Foreword by Andrew Griffiths MP, Minister for Small Business, Consumers and Corporate Responsibility

In my capacity as Champion of the Extractive Industries Transparency Initiative (EITI) here in the UK, I am delighted to commend the third EITI Report.

The UK has been an active participant in the EITI process since 2013, achieving candidate country status in 2014. We were, however, instrumental in the establishment of the Initiative in 2003 and a succession of governments has continued to support its principles and aims since then. The commitment to the ongoing promotion of EITI was most recently reaffirmed in the UK's Anti-Corruption Strategy published in December 2017. Our active participation in the Initiative is part of the Government's determination to improve corporate responsibility across sectors, building trust and confidence that the UK is an attractive place to do business.

This Report is the culmination of a year's dedicated work on the part of those representatives of industry, civil society and public authorities who comprise the Multi-Stakeholder Group which guides and delivers the UK's participation in EITI. It is testament too to the enthusiasm with which extractives companies here in the UK have embraced the benefits of transparency, continuing to volunteer their time and information to enable the production of Reports which provide a comprehensive picture of this important industrial sector and its relationships with public bodies.

I take this opportunity to thank all who have contributed to this latest Report.

Andrew Griffiths

INTRODUCTION

Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) is a global standard to promote open and accountable management of natural resources. It seeks to strengthen government and company systems, inform public debate and enhance trust. In each implementing country, it is supported by a coalition of government, company and civil society organisations working together.

The EITI was first announced at the World Summit on Sustainable Development in Johannesburg in 2002 (the Earth Summit 2002) and was officially launched in London in 2003. EITI is currently being implemented in 51 countries around the world.

The EITI Standard sets out the requirements which countries need to meet in order to be recognised, first as EITI Candidates and subsequently as EITI Compliant country. The Standard is overseen by the International EITI Secretariat, which comprises members from governments, extractive companies and civil society organisations.[1]

EITI in the UK

The timeline of EITI in the UK is summarised in Table 1 below.[2]

Table 1. EITI Timeline in the UK

Date	Event
22 May 2013	The UK Prime Minister announced commitment to EITI.
9 July 2013	A Multi-Stakeholder Group (MSG) was formed to oversee EITI implementation in the UK.
9 October 2013	The MSG held its first meeting.
5 August 2014	The UK submitted its application to become an 'EITI Candidate' country to the EITI Board.
15 October 2014	The UK became an EITI candidate country.
15 April 2016	First UK EITI Report published. (Period covered: calendar year 2014 / Sectors covered: Oil, Gas, Mining and Quarrying.)
31 March 2017	Second UK EITI Report published. (Period covered: calendar year 2015 / Sectors covered: Oil, Gas, Mining and Quarrying.)
30 April 2018	Third UK EITI Report published. (Period covered: calendar year 2016 / Sectors covered: Oil, Gas, Mining and Quarrying.)
1 July 2018	UK Validation against the 2016 EITI Standard due to commence.

Objective

The purpose of this Report is to reconcile the data provided by companies operating in the extractive sector with the data provided by relevant Government Agencies.

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[1] Source: https://eiti.org/

[2] For more information, please refer to the UK EITI website at https://www.gov.uk/guidance/extractive-industries-transparency-initiative and the EITI website at https://eiti.org/united-kingdom

The overall objectives of the reconciliation exercise are to assist the UK in identifying the positive contribution that the extractive sector is making to the economic and social development of the country and to realise their potential through improved resource governance that encompasses and fully implements the principles and criteria of the EITI.

Outline of the Report

The report consists of five chapters presented as follows:

- Executive Summary;
- Information on the UK Extractive Industries;
- Approach and Methodology;
- Reconciliation Results; and
- IA's Recommendations to the MSG.

The report incorporates information collected up to 9 April 2018. Any information collected after this date has not been included in the report.

1. EXECUTIVE SUMMARY

The Extractive Industries Transparency Initiative (EITI) is a global standard of transparency that requires oil, gas and mining companies to disclose their payments to government agencies and for the reconciliation of these payments with government receipts from these companies. The initiative aims to encourage governments to be more transparent in publicising the benefits they receive from their country's natural resources. It also aims to improve public understanding of the industries involved and inform public debate over the management of a country's natural resources.

In May 2013, the UK Government publicly committed to implementing EITI and, in October 2014, the UK officially became an implementing country by gaining candidacy status.

EITI is a stakeholder-led initiative, overseen in each implementing country by a Multi-Stakeholder Group (MSG) comprising representatives from industry, civil society and government. The UK MSG is committed to transparency and implementing the EITI global standard. It is pleased to present this, the third UK EITI report for publication.

This report contains detailed information on payments received from extractive companies and repayments made to them by UK Government agencies in 2016. These relate to a range of revenue streams included within the scope of EITI. The report gives a breakdown of the total payments and repayments between the oil and gas and mining and quarrying sectors, by the different payment streams and by the Government agencies that received those payments. A total of 41 oil and gas companies and 17 mining and quarrying companies participated in compiling the report with continuing high industry participation. The MSG is grateful to all those companies which participated in the process this year and will continue to work towards full compliance in future years.

1.1. The extractive sector in the UK

The extractive industries comprise mining and quarrying including oil and gas. This is an important sector in the UK, contributing a gross value added (GVA) of £21.9 billion in 2016 to the UK economy. Notwithstanding the significant fall in oil prices which reached a trough in 2016, the oil and gas industry accounted for the great majority of the sector's GVA.

In 2016, the UK was the world's 22nd largest producer of oil and gas, supporting hundreds of thousands of jobs in Scotland and across the rest of the UK. According to latest ONS data, the sector was directly responsible for 35,500 jobs with many more supported in the industry's wider supply chain. The dramatic fall in the global oil price that started in mid 2014 continued into 2016, with the average price falling from $52/barrel in 2015 to $44/barrel in 2016. Although 2016 saw higher production and lower expenditure, profitability was lower and, overall, there was a net

repayment of tax to oil and gas companies. This is discussed in detail in the body of the report.

Mining and quarrying in the UK involves a diverse range of significant mineral deposits for construction, industrial and metal uses, as well as coal. Mining and quarrying are important regional and rural employers, with 8,500 jobs in quarrying and 6,900 in the operation of gravel and sand pits, mining of clays and kaolin in 2016.

1.2. Reconciled data

The two tables below summarise the reconciled extractive industry payments to and repayments by UK Government agencies in 2016. All material differences have been reconciled. The body of this report explains the methodology used to reach these figures, as well as the explanation for repayments and unreconciled figures.

Table 2. Detailed Extractive Industries Payments to/refunds from UK Government in 2016[1]

(in £ million)

Payment stream:	Petroleum Licence Fees	OGA Levy	PRT	RFCT & SC	Mainstream CT	Payments to TCE	Payments to TCE	Payments to CA	Total payments
Type of payee:	**Oil & Gas**	**Oil & Gas**	**Oil & Gas**	**Oil & Gas**	**Other Mining & Quarrying**	**Oil & Gas**	**Other Mining & Quarrying**	**Other Mining & Quarrying**	**All**
Recipient:	**OGA**	**OGA**	**HMRC**	**HMRC**	**HMRC**	**TCE**	**TCE**	**CA**	**All**
Total reported by government agencies	61.58	21.27	-782.29	241.32	37.22	2.53	22.32	0.44	-395.60
Total reported by government agencies for out-of-scope extractive companies*	7.75	1.27	0.00	0.13	4.44	0.00	0.11	0.44	14.15
Total reported by government agencies for in-scope extractive companies	53.83	19.99	-782.29	241.19	32.78	2.53	22.21	0.00	-409.76
Total reported by in-scope extractive companies	53.83	19.99	-782.29	241.20	32.78	2.53	22.22	0.00	-409.74
Net unreconciled difference**	0.00	0.00	0.00	-0.01	0.00	0.00	-0.01	0.00	-0.02

[1] Payments for petroleum licence fees and field-level petroleum revenue tax payments and applicable payments to TCE are included in the online disclosure of project level payments and repayments at https://www.gov.uk/government/publications/extractive-industries-transparency-initiative-payments-report-2016

Table 3. Extractive Industries Payments to/refunds from UK Government in 2016

(in £ million)

Type of payee:	Oil & Gas	Other Mining & Quarrying	All	All	All	All	All
Recipient:	**All**	**All**	**OGA**	**HMRC**	**TCE**	**CA**	**All**
Total reported by government agencies	-455.59	59.99	82.85	-503.75	24.85	0.44	-395.60
Total reported by government agencies for out-of-scope extractive companies*	9.16	4.99	9.02	4.58	0.11	0.44	14.15
Total reported by government agencies for in-scope extractive companies	-464.75	54.99	73.83	-508.33	24.75	0.00	-409.76
Total reported by in-scope extractive companies	-464.74	55.00	73.83	-508.32	24.76	0.00	-409.74
Net unreconciled difference**	-0.01	-0.01	0.00	-0.01	-0.01	0.00	-0.02

* Out-of-scope companies comprise those out of scope of the reconciliation because their payments were below the agreed materiality thresholds and those with material payments that declined to participate in the reconciliation process.

** All net unreconciled differences are below the materiality deviation agreed by the MSG.

1.3. Beneficial ownership

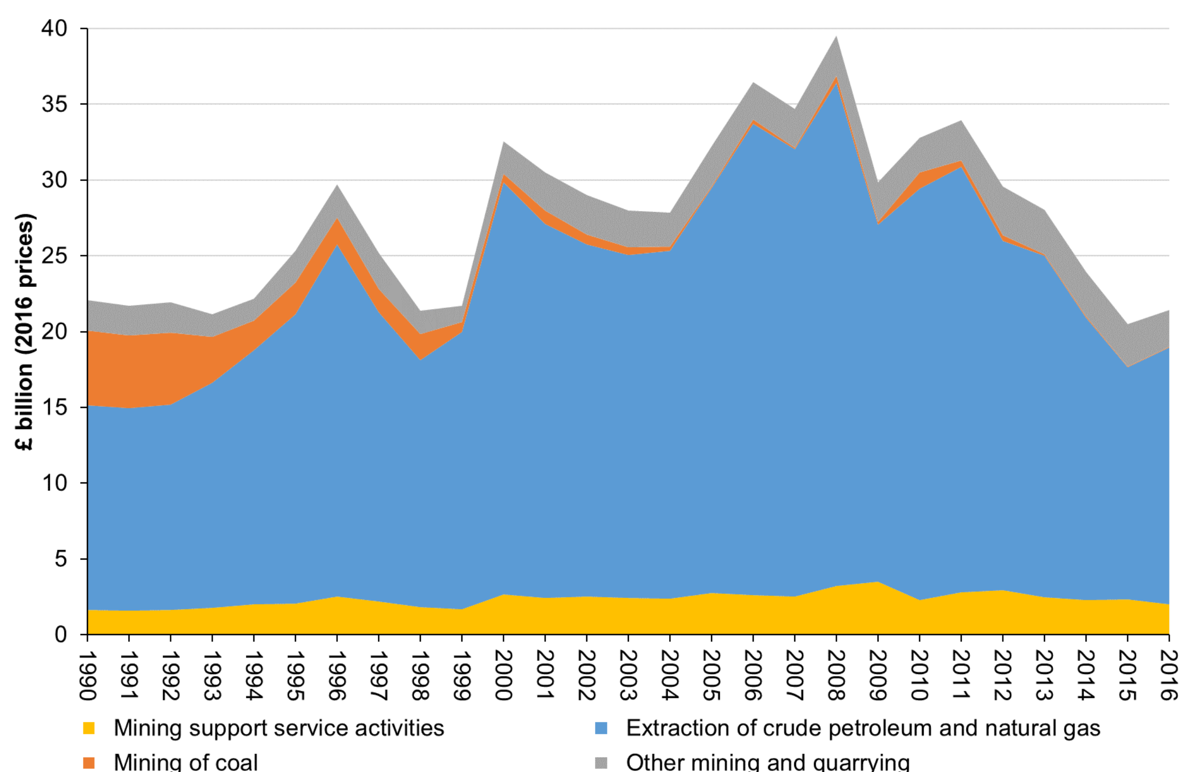
The report includes information on beneficial ownership in Section 3.6 and Annex 1 below. Contributions in this area have shown an increase from last year, with 15 private companies responding, 8 of which provided relevant information or links. This compared with only 6 of 15 private companies providing material beneficial ownership information for 2015.

2. INFORMATION ON THE UK EXTRACTIVE INDUSTRIES

2.1. The Extractive Industries in the UK

The extractive sector has made a sizeable contribution to the UK economy for many years, supporting substantial added value in downstream industries and related supply chains in addition to its direct output. As illustrated in Figure 1, below, by far the largest economic contribution comes from oil and gas production even though the value of that sector has more than halved in recent years. As with most of the other statistics reported in this document, data on GVA are provisional and are subject to revision which can result in large changes. The increase in GVA for oil and gas extraction in 2016 is out of line with other data (from BEIS on gross revenues from oil and gas production[1] and from ONS on the sector's gross operating surplus[2]) which show a decline. There is currently no UK state participation in the extractive industries although, for example, the government has recently funded acquisition and interpretation of seismic data through the OGA which is of benefit to industry.

Figure 1. Extractive Industry Gross Value Added (GVA)[3]



Source: ONS, UK GDP(O) low level aggregates, published 29 March 2018

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[1] Series on value of indigenous production of oil and gas in DUKES (BEIS, July 2017 - Value balance of traded energy (DUKES 1.4-1.6)).

[2] Series LRWX in the ONS quarterly publication on the profitability of UK companies (UKCS companies' gross operating surplus, https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/timeseries/lrwx/prof).

[3] https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates

In some of the summary information below, coal is grouped with oil and gas (where data are available for fossil fuels but not for other parts of the sector). However, for most of this chapter, oil and gas (Section 2.2) are treated separately from mining and quarrying, including coal (Section 2.3). In addition, it should be noted that the phrase “mining and quarrying” as used in UK national statistics embraces the whole UK extractive sector including oil and gas production as well as coal production. Mining support services are also included in this sector. Some of the data reported below include those activities while other data exclude them.

2.1.1. Value of the sector

Table 4 below shows GVA for the main components of the mining and quarrying sector as reported in UK national statistics. As just noted, this sector includes fossil fuel production, other mining and quarrying and mining support service activities, but excludes the value of products manufactured with extracted minerals. The table covers the years 2012–2016 and gives for each subsector its percentage share of total UK GVA in 2016. It also shows the whole sector’s GVA as a percentage of national gross domestic product (GDP) for each year.[1]

Table 4. Gross Value Added (GVA) (£ million)[2]

Year	Mining of coal and lignite	Extraction of crude petroleum and natural gas	Other mining and quarrying	Mining support service activities	Total mining and quarrying etc	Total GVA	Total GDP	Total
	(A)	(B)	(C)	(D)	(E) = (A)–(D)	(F)	(G)	(E) / (G)
2012	359	22,151	3,076	2,811	28,397	1,505,718	1,685,225	1.7%
2013	107	22,045	2,855	2,409	27,416	1,564,430	1,752,554	1.6%
2014	104	18,543	2,911	2,260	23,818	1,638,722	1,837,062	1.3%
2015	78	15,309	2,758	2,334	20,479	1,684,937	1,888,737	1.1%
2016	34	17,288	2,507	2,039	21,868	1,746,628	1,963,311	1.1%
%*	**0.0%**	**1.0%**	**0.1%**	**0.1%**	**1.3%**	**100.0%**		

* The percentages in this row are shares of total GVA for all industries in 2016

Source: ONS, UK GDP(O) low level aggregates, published 29 March 2018.

The following table gives a finer breakdown of the sector in 2016 to give a sense of the scale of activity in each subsector. Although the data in both this table and the one above are sourced from official Office of National Statistics (ONS) data, they are

[1] Generally, in this chapter, unlike in the ONS table and some other official sources, a terminological distinction is made between “oil and gas” and “[other] mining and quarrying”, the latter comprising the extraction of coal and of all non-hydrocarbon minerals. In this report, as in last year’s, we have included mining support service activities in the total for the sector when calculating its contribution to GDP.

[2] https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates; https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/unitedkingdomeconomicaccountsmainaggregates

not identical. Note that in value terms support service activities are almost entirely related to extraction of petroleum and natural gas.

Table 5. Mining and Quarrying (including Oil and Gas) – number of enterprises, GVA and employment costs in 2016[1]

SIC 07 Code	Description	Number of enterprises	Approximate gross value added at basic prices (aGVA)	Total employment costs
		Number	£ million	£ million
06	Extraction of crude petroleum and natural gas	140	8,128	2,420
09.1	Support activities for petroleum and natural gas extraction	240	1,304	1,685
08.11	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate	236	857	381
08.12	Operation of gravel and sand pits; mining of clays and kaolin	172	908	366
08.92	Extraction of peat	18	25	12
08.93	Extraction of salt	7	60	24
09.9	Support activities for other mining and quarrying	132	12	24
B	**Mining and quarrying**	**1,207**	**11,391**	**6,189**

Source: Annual Business Survey; Release Date 9 November 2017

2.1.2. Government revenues

UK Government accounts cover a financial year running from April–March rather than a calendar year, so some of the data on government revenues reported in this chapter are of necessity on a financial year basis. Where possible, calendar year data are (also) provided (as in Table 3. below). The data only relates to the oil and gas sector, not mining and quarrying. This is because oil and gas companies have a distinct tax regime (see section 2.2.7), whereas mining and quarrying companies pay mainstream corporation tax. This means the data for revenue from mining and quarrying companies cannot easily be separated out.

Table 6 includes estimates of the amounts of ring fence corporation tax (RFCT) plus supplementary charge (SC) paid annually in respect of UK upstream oil and gas production activities, i.e. the exploration and productions stage (described for simplicity as “offshore” CT), and of petroleum revenue tax (PRT). UK Government accounts are compiled on a financial year basis and the figures reported are consistent with annual totals on a cash basis reported in them.

In addition to the cash receipts series published by HMRC that is tabulated below, tax receipts are now also reported by the ONS on an accruals basis.[2] The accruals basis shows when the tax liability arises, i.e. it matches the taxes arising to taxable

[1] https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/uknonfinancialbusinesseconomy/2016provisionalresults

[2] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/improvementstoaccrualsmethodologyforcorporationtaxbankcorporationtaxsurchargeandthebanklevy/2017

income as it is earned. There is usually a timing difference between when the tax liability arises and when it is paid. Tax is usually paid after the liability arises so the tax cash payments in one time period may not match the tax liability for the same period. For example, a tax liability of £120 million may arise in one tax year (£120 million recorded on an accruals basis); this may be paid in three equal instalments, two in the same tax year (£80 million recorded that year on a cash basis) with one final instalment the next tax year (£40 million recorded in the next tax year on a cash basis). Over a longer timeframe, the same amounts are captured by these two different mechanisms of recording payments, but in the short term there will be a mismatch in amounts. This results in different series being published for corporation tax receipts/repayments. Table 6 below therefore also includes receipts on an accruals basis.

Table 6. UK Government Revenues from Upstream Oil and Gas[1]

Cash (HMRC)

£ million	Total Corporation Tax	Of which offshore	Petroleum Revenue Tax	Total Upstream Oil and Gas	Total HMRC receipts	Upstream Oil and Gas Share of Total (%)
Calendar Year						
2012	40,725	5,847	2,106	7,953	470,766	1.7%
2013	40,417	3,881	1,296	5,177	489,333	1.1%
2014	41,578	2,503	569	3,072	506,571	0.6%
2015	44,926	1,045	-553	492	528,282	0.1%
2016	46,825	428	-769	-341	554,997	-0.1%
Financial Year (April–March)						
2012-13	40,482	4,412	1,737	6,149	473,777	1.3%
2013-14	40,327	3,556	1,118	4,674	493,646	0.9%
2014-15	43,005	2,026	77	2,102	515,349	0.4%
2015-16	44,410	713	-562	151	533,686	0.0%
2016-17	49,534	338	-654	-316	569,336	-0.1%

Accruals (ONS)

£ million	Total Corporation Tax	Of which offshore	Petroleum Revenue Tax	Total Upstream Oil and Gas	Total Public Sector Taxes and NICS	Upstream Oil and Gas Share of Total (%)
Calendar Year						
2012	41,226	4,412	2,106	6,518	555,221	1.2%
2013	41,793	3,556	1,296	4,852	574,762	0.8%
2014	43,459	2,072	568	2,640	594,544	0.4%
2015	44,950	536	-552	-16	617,995	0.0%
2016	52,501	340	-768	-428	653,573	-0.1%
Financial Year (April–March)						
2012-13	41,821	4,214	1,737	5,951	557,949	1.1%
2013-14	41,642	3,310	1,118	4,428	580,777	0.8%
2014-15	44,067	1,544	77	1,621	601,975	0.3%
2015-16	45,593	410	-562	-152	625,356	0.0%
2016-17	54,528	613	-653	-40	667,318	0.0%

Source: HM Revenue & Customs (HMRC), Tax Receipts and National Insurance Contributions for the UK, and ONS (Public sector current receipts: Appendix D).

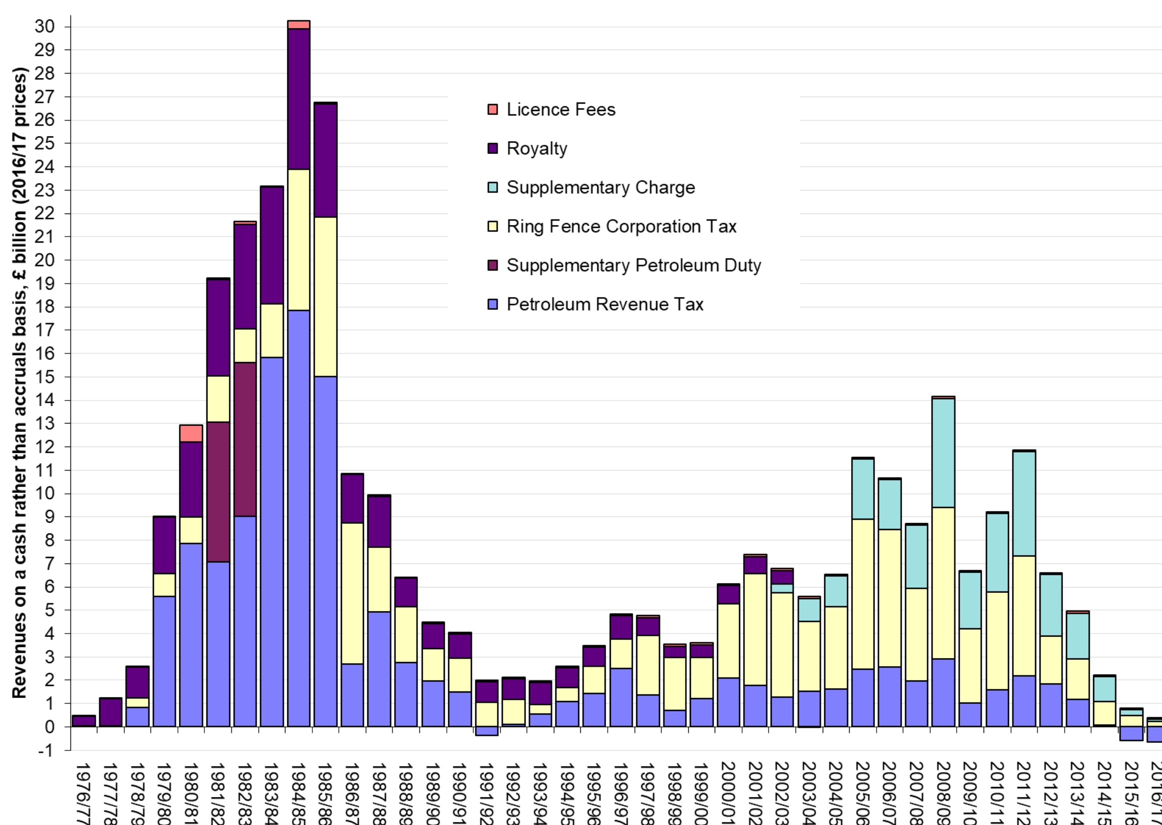
In addition to taxation, the extractive sector in the UK pays relatively small amounts to government by way of licence fees and other levies. These payments are summarised later in this report.

The level of government revenues from taxes on production of oil and gas is dependent on rates of taxation and adjusted profitability which is driven by a combination of production volumes, commodity prices and cost levels. Historical data

[1] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk; https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/appendixdpublicsectorcurrentreceipts

by financial year since 1976/77 on upstream oil and gas taxes, including petroleum licence fees, are shown in constant price terms in Figure 2.

Figure 2. Government Revenues from UK Oil and Gas Production[1]



Source: OGA

In 2016 (and 2016/17), taking RFCT/SC and PRT together, total cash payments exceeded total cash receipts. The overall totals reflect both the combination of RFCT/SC and PRT and of net payments and receipts by individual companies. The overall net repayment reflects the low level of oil (and gas) prices and companies' varying exposure across their portfolios to the four main phases of upstream activity (exploration, development, production and decommissioning). A few companies paid significant amounts, many paid nothing and some received significant repayments of tax paid in previous years. In future years, with the permanent zero-rating of PRT from the start of 2016, net PRT receipts will be negative, with the carry-back of largely decommissioning-related losses resulting in significant repayments of PRT paid in previous years. Net receipts from RFCT/SC exceeded the overall repayment of PRT in 2017 and latest official forecasts[2] are for continuing net receipts out at

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[1] Oil and Gas Authority (OGA), Government revenues from UK oil and gas production, https://www.ogauthority.co.uk/exploration-production/taxation/government-revenues-from-uk-oil-and-gas-production/

[2] OBR, Economic and Fiscal Outlook, March 2018, http://obr.uk/efo/economic-fiscal-outlook-march-2018/.

least until 2022/23, though the outcome after 2017/18 is sensitive to outturn oil (and gas) prices, production and expenditure. The overall totals reflect both the combination of RFCT/SC and PRT and the combination of net payments or receipts by individual companies.

Differences between reconciled EITI amounts and HMRC statistics

There are differences between the cash totals reported above for RFCT/SC and PRT, based on published HMRC statistics, and the post-reconciliation totals reported elsewhere in this report. These totals and the differences, which are explained below, are as follows:

Table 7. Differences between reconciled EITI amounts and HMRC statistics

(in £ million)	Reconciled total	Total above	Variance
RFCT & SC	241	428	187
PRT	-782	-769	14

The main reasons for the difference between the total of RFCT/SC reconciled for EITI and the total published in HMRC statistics are that HMRC statistics are provisional (prior to disaggregation and allocation between payments inside and outside the ring fence) and do not include interest, which is included within the scope of EITI.

When oil and gas companies make corporation tax payments they are not obliged to inform HMRC whether such payments relate to RFCT/SC or mainstream CT. Since 2014, to assist HMRC in relation to EITI reporting, many companies do report the split of payments as they are made to HMRC. Once the tax payment deadline has passed and all tax instalments have been received, HMRC's statistics team undertakes work to disaggregate these payments made for a group of companies and to re-allocate them into ring fence and non-ring fence payments. HMRC statistics are thus provisional and subject to change, often up to 18 months after the tax year has ended. For example, there was a significant upwards revision of the published RFCT/SC total for 2015 in May 2017 (original net total of £934 million revised upwards by £111 million to £1,045 million). This means that a direct comparison between reconciled totals for 2016 and the net totals currently published in HMRC statistics is of limited value.

For PRT, the discrepancy is primarily the result of timing differences between payments and repayments being made and the date that they are recorded on HMRC's systems.

Because corporation tax is levied on company level profits and companies can be engaged in both extractive and non-extractive activities, it is not possible to identify how much CT is paid by other extractive industries (i.e. those engaged in mining and quarrying). Estimates of the CT paid by the mining and quarrying sector are published annually by HM Revenue & Customs (HMRC) and include oil and gas and mining support service activities. They are on a liability basis for financial years

rather than a cash basis for calendar years; the latest published estimate relates to 2015-16.[1]

Income reported from fees for petroleum licences totalled £66,678 million in 2016/17 (£70.225 million in 2015/16).[2] During calendar year 2016, total licence fees actually received were £61,580 million. In 2016, the Coal Authority received £96,569 in licensing fees and £422,456 in rents, royalties and rights.[3] Government revenues received in 2016 by TCE for marine aggregate dredging licence and terrestrial minerals fees were £24.85 million.

For more information on the specific tax regimes for oil and gas, and mining and quarrying, respectively, see sub-sections 2.2.7 and 2.3.4.

Section 106[4] payments are made (in England, plus equivalent payments made elsewhere in the UK) to local authorities relating to the granting of planning permission for mining operations to cover, for example, local road and infrastructure improvements. These are the only payments currently mandated by Government that could possibly constitute social expenditure by extractive companies.

There are no non-monetary arrangements between extractive companies and the government in the UK.

Forecasts of UK Government oil and gas revenues are published by the independent Office for Budget Responsibility (OBR), covering the medium-term budget horizon (currently to 2022/23) and longer-term outlook (most recently to 2040/41).[5] The OBR also publishes details of its underlying forecasts of oil and gas production, prices and expenditure broken down between exploration and appraisal, development capital expenditure, operating costs and decommissioning costs.

For projections of future oil and gas production volumes, and the production outlook for coal and non-hydrocarbon minerals, see Sections 2.2 and 2.3 respectively.

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[1] HMRC August 2017, Corporation Tax Statistics, Table 11.7, https://www.gov.uk/government/collections/analyses-of-corporation-tax-receipts-and-liabilities

[2] Department of Energy and Climate Change (DECC), Annual report and accounts 2015–16, https://www.gov.uk/government/collections/decc-annual-reports-and-accounts; Oil and Gas Authority, Annual Report and Accounts 2016–17 https://www.ogauthority.co.uk/news-publications/publications/2017/oga-annual-report-and-accounts-2016-17/.

[3] Source: Coal Authority, email communication.

[4] Section 106 of the Town and Country Planning Act 1990.

[5] OBR, Economic and Fiscal Outlook, March 2018, http://obr.uk/efo/economic-fiscal-outlook-march-2018/; OBR, Fiscal Sustainability Report, June 2015, http://obr.uk/fsr/fiscal-sustainability-report-june-2015/

Total public sector current receipts (excluding public sector banks) in calendar year 2016 amounted to £711,956 million.[1] Net payments to extractive companies were £396 million (or 0.1%) of total receipts.

2.1.3. Exports

Table 8, below, includes ONS trade data for the mining and quarrying sector (including oil and gas) on the value of gross exports, gross imports and net imports. The UK both imports and exports all types of mining and quarrying production but is generally a net importer of each type.

Table 8. Value of Mining and Quarrying (including Oil and Gas) Exports and Imports[2]

	Gross Exports				
£ million BOP Basis	**2012**	**2013**	**2014**	**2015**	**2016**
Coal	72	94	69	57	54
Lignite	0	3	6	7	8
Coal & lignite	**72**	**97**	**75**	**64**	**62**
Crude petroleum	19,304	19,365	17,766	10,554	11,997
Natural gas	2,473	2,153	1,876	2,266	1,325
Crude petroleum & natural gas	**21,777**	**21,518**	**19,642**	**12,820**	**13,322**
Iron ores	7	5	3	3	1
Non-ferrous metal ores	15	134	113	125	154
Metal ores	**22**	**139**	**116**	**128**	**155**
Unworked stone, gravel, sand etc	260	289	312	275	294
Mining & quarrying products n.e.c	4,848	3,768	655	580	820
Other mining & quarrying product	**5,108**	**4,057**	**967**	**855**	**1,114**
Mining & quarrying	**26,979**	**25,811**	**20,800**	**13,867**	**14,653**
Total Goods	301,621	302,169	297,306	288,770	302,067
Total Trade	**501,055**	**519,913**	**518,925**	**517,161**	**554,581**

[1] Source: ONS, Public sector current receipts: Appendix D, 21 March 2018, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/appendixdpublicsectorcurrentreceipts

[2] Source: ONS, UK trade in goods, CPA (08), 14 December 2017, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/publicationtablesuktradecpa08; and ONS, UK trade, 8 December 2017. https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/ikbi/mret

	Gross Imports				
£ million BOP Basis	**2012**	**2013**	**2014**	**2015**	**2016**
Coal	2,973	2,894	2,262	1,230	632
Lignite	0	31	32	37	55
Coal & lignite	**2,973**	**2,925**	**2,294**	**1,267**	**687**
Crude petroleum	29,934	25,383	21,380	11,665	10,429
Natural gas	9,991	11,268	7,139	6,284	6,081
Crude petroleum & natural gas	**39,925**	**36,651**	**28,519**	**17,949**	**16,510**
Iron ores	776	1,084	898	491	426
Non-ferrous metal ores	541	1,062	916	888	1,017
Metal ores	**1,317**	**2,146**	**1,814**	**1,379**	**1,443**
Unworked stone, gravel, sand etc	231	888	939	918	1,036
Mining & quarrying products n.e.c	4,330	3,632	743	670	1,058
Other mining & quarrying product	**4,561**	**4,520**	**1,682**	**1,588**	**2,094**
Mining & quarrying	**48,776**	**46,242**	**34,309**	**22,183**	**20,734**
Total Goods	410,308	421,952	420,428	407,396	437,562
Total Trade	**534,419**	**555,280**	**555,756**	**549,531**	**595,415**

	Net Imports				
£ millon BOP Basis	**2012**	**2013**	**2014**	**2015**	**2016**
Coal	2,901	2,800	2,193	1,173	578
Lignite	0	28	26	30	47
Coal & lignite	**2,901**	**2,828**	**2,219**	**1,203**	**625**
Crude petroleum	10,630	6,018	3,614	1,111	-1,568
Natural gas	7,518	9,115	5,263	4,018	4,756
Crude petroleum & natural gas	**18,148**	**15,133**	**8,877**	**5,129**	**3,188**
Iron ores	769	1,079	895	488	425
Non-ferrous metal ores	526	928	803	763	863
Metal ores	**1,295**	**2,007**	**1,698**	**1,251**	**1,288**
Unworked stone, gravel, sand etc	-29	599	627	643	742
Mining & quarrying products n.e.c	-518	-136	88	90	238
Other mining & quarrying product	**-547**	**463**	**715**	**733**	**980**
Mining & quarrying	**21,797**	**20,431**	**13,509**	**8,316**	**6,081**
Total Goods	108,687	119,783	123,122	118,626	135,495
Total Trade	**33,364**	**35,367**	**36,831**	**32,370**	**40,834**

Source: ONS.

As shown in Table 8, above, the value of UK Exports of Goods and Services (Balance of Payments basis) in calendar year 2016 amounted to £554,581 million including £14,653 million (or 2.6%) from mining and quarrying.

Table 9, below, includes data published by BEIS on the volume and value of gross exports, gross imports and net imports of fossil fuels (coal, oil and gas).

Table 9. Volume and Value of Coal, Oil and Gas Exports and Imports[1]

	Volume of exports (mtoe)				Value of exports (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2012	0.368	33.837	12.384	46.221	55	16,435	2,715	19,150
2013	0.448	36.192	9.429	45.622	90	17,460	2,510	19,970
2014	0.319	33.774	10.998	44.772	55	14,625	2,000	16,625
2015	0.290	36.867	13.716	50.583	45	9,915	2,310	12,225
2016	0.333	38.180	10.048	48.228	50	8,375	1,350	9,725

	Volume of imports (mtoe)				Value of imports (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2012	29.061	66.090	48.725	114.815	3,315	31,270	10,045	41,315
2013	32.888	64.489	47.139	111.628	3,235	30,010	10,985	40,995
2014	27.581	58.676	42.041	100.718	2,260	24,335	7,635	31,970
2015	14.885	55.413	43.127	98.540	985	12,645	6,990	19,635
2016	5.747	53.380	45.980	99.359	565	11,675	6,300	17,975

	Volume of net exports (mtoe)				Value of net exports (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2012	-28.693	-32.253	-36.341	-68.594	-3,260	-14,835	-7,330	-22,165
2013	-32.440	-28.297	-37.710	-66.006	-3,145	-12,550	-8,475	-21,025
2014	-27.262	-24.902	-31.043	-55.945	-2,205	-9,710	-5,635	-15,345
2015	-14.596	-18.546	-29.411	-47.957	-940	-2,730	-4,680	-7,410
2016	-5.414	-15.200	-35.931	-51.131	-515	-3,300	-4,950	-8,250

Source: Digest of UK Energy Statistics 2017.

2.1.4. Employment

Table 10, below, gives estimates of the total UK workforce jobs directly supported by the UK mining and quarrying sector including its major sub-sectors. It also shows the estimates for 2016 as shares of the total workforce jobs for all industries. The extractive industries are typically capital- rather than labour-intensive and correspondingly represent a significantly smaller share of workforce jobs than of GVA.

[1] https://www.gov.uk/government/collections/digest-of-uk-energy-statistics-dukes

Table 10. Workforce jobs estimates[1]

(thousand)	Mining of coal and lignite; Extraction of crude petrol/gas [SIC (2007) Divisions 05-06]	Mining of metal ores; Other mining and quarrying [SIC (2007) Divisions 07-08]	Mining support service activities [SIC (2007) Division 09]	Total mining & quarrying etc [SIC (2007) Section B]	Total Industries [SIC (2007) Sections A-T]
2012	24	22	30	76	31,789
2013	22	18	30	70	32,168
2014	21	17	29	68	33,223
2015	20	21	30	71	33,766
2016	**18**	**21**	**25**	**64**	**34,384**
2016	**0.0%**	**0.1%**	**0.1%**	**0.2%**	**100.0%**

Source: ONS, UK labour market statistics: March 2018.

Table 11 shows estimates of extractive industry employment in Great Britain (GB) (i.e. the UK excluding Northern Ireland) at a finer level of disaggregation than is available for the workforce jobs estimates for the UK.

[1]https://www.ons.gov.uk/releases/uklabourmarketstatisticsmar2018

Table 11. Extractive Industry Employment in Great Britain and United Kingdom (in thousands)[1]

SIC 2007		2012	2013	2014	2015	2016
GB 05101	*Deep coal mines*	*3.9*	*2.2*	*1.6*	*0.9*	*-*
GB 05102	*Open cast coal working*	*2.9*	*2.4*	*1.3*	*1.1*	*1.1*
GB 05	**Mining of coal**	**6.9**	**4.6**	**2.9**	**2.0**	**1.1**
GB 06	**Extraction of crude petroleum and natural gas**	**15.6**	**15.5**	**16.6**	**15.7**	**15.1**
GB 08110	*Quarrying of ornamental and building stone; limestone; gypsum; chalk and slate*	*6.9*	*4.9*	*6.7*	*7.4*	*8.5*
GB 08120	*Operation of gravel and sand pits; mining of clays and kaolin*	*8.7*	*7.0*	*7.1*	*7.7*	*6.9*
GB 081	Quarrying of stone; sand and clay	15.5	12.0	13.8	15.1	15.4
GB 08930	*Extraction of salt*	*0.3*	*0.3*	*0.4*	*0.4*	*0.3*
GB 08990	*Other mining and quarrying n.e.c.*	*2.1*	*1.1*	*1.1*	*1.3*	*1.3*
GB 089	Mining and quarrying n.e.c.	3.9	2.4	2.7	3.2	2.5
GB 08	**Other mining and quarrying (other than mining of metal ores)**	**19.4**	**14.4**	**16.4**	**18.3**	**17.9**
GB 091	Support activities for petroleum and natural gas extraction	22.3	21.2	25.1	22.4	20.4
GB 099	Support activities for other mining and quarrying	0.6	0.4	0.3	0.4	0.4
GB 09	**Mining support service activities**	**22.9**	**21.6**	**25.4**	**22.9**	**20.8**
GB 05–09	**Total Extractive Industries**	**64.8**	**56.1**	**61.3**	**58.9**	**54.9**
GB 06, 09	*of which* Oil and Gas Extraction and Support Services	*37.9*	*36.7*	*41.7*	*38.1*	*35.5*
UK 05, 06	**Mining of coal and lignite; Extraction of crude petrol/gas**	**24**	**22**	**21**	**20**	**18**
UK 07, 08	**Mining of metal ores; Other mining and quarrying**	**22**	**18**	**17**	**21**	**21**
UK 09	**Mining support service activities**	**30**	**30**	**29**	**30**	**25**
UK 05–09	***Total Extractive Industries***	***76***	***70***	***68***	***71***	***64***

Note: Data for 2014 and 2015 come from the provisional rather than revised results.

Source: ONS, Business Register and Employment Survey (Table 2a).

All extractive employment shown in the tables above is in the private sector.

Extractive industry employment levels have fallen markedly from their historic peak decades ago, mainly due to the decline of the coal industry, but extractive-related activities still contribute significantly to local employment in a number of regions.

Further details of employment supported directly and indirectly by the oil and gas sector are given in Section 2.2 below.

2.1.5. Regional location of extractive industries

The broad geographic spread of employment in the UK extractive sector (including oil and gas and mining support service activities) is illustrated in Table 12, below. The concentration of employment in Scotland reflects the dominance of the Aberdeen area in terms of oil and gas-related activity. While the importance of the

[1] GB https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/industry235digitsicbusinessregisterandemploymentsurveybrestable2; UK https://www.ons.gov.uk/releases/uklabourmarketstatisticsmar2018

sector for the Scottish economy is no surprise, the relatively high share of activity in the East Midlands is noteworthy.

Table 12. Regional distribution of extractives activity[1]

	Gross Value Added (Income Approach)[1,2] at current basic prices (£ billion)					2016 shares of UK less Extra-Regio (Extra-Regio of UK)					
	Mining and quarrying including oil and gas								All Industries		
Region name	**2012**	**2013**	**2014**	**2015**	**2016**[3]	**Gross Value Added**	**Gross Trading Profits**	**Compensation of Employees**	**Gross Value Added**	**Gross Trading Profits**	**Compensation of Employees**
North East	0.31	0.31	0.32	0.25	0.25	4.5%	5.4%	3.8%	3.0%	2.6%	3.1%
North West	0.18	0.17	0.19	0.23	0.24	4.4%	6.0%	2.8%	9.6%	9.7%	9.8%
Yorkshire and The Humber	0.30	0.30	0.30	0.29	0.31	5.7%	5.5%	5.5%	6.7%	5.8%	7.1%
East Midlands	0.48	0.48	0.49	0.42	0.43	7.9%	8.3%	7.8%	5.9%	5.6%	6.1%
West Midlands	0.14	0.10	0.10	0.11	0.11	2.1%	2.1%	1.6%	7.4%	7.0%	7.8%
East of England	0.17	0.18	0.23	0.22	0.22	4.0%	5.1%	2.8%	8.7%	8.8%	8.5%
London	0.42	0.33	0.19	0.19	0.20	3.7%	3.9%	2.2%	22.9%	25.2%	21.9%
South East	0.45	0.45	0.40	0.31	0.34	6.1%	6.8%	5.5%	14.9%	15.5%	14.3%
South West	0.49	0.47	0.38	0.23	0.26	4.7%	4.4%	4.8%	7.5%	6.7%	7.6%
England	*2.94*	*2.78*	*2.60*	*2.24*	*2.35*	*43.1%*	*47.6%*	*36.7%*	*86.6%*	*87.0%*	*86.4%*
Wales	0.28	0.24	0.22	0.19	0.23	4.3%	4.8%	3.8%	3.5%	3.0%	3.6%
Scotland	3.24	2.58	2.58	2.61	2.72	50.0%	44.8%	56.9%	7.8%	7.9%	7.9%
Northern Ireland	0.11	0.12	0.12	0.13	0.14	2.6%	2.8%	2.5%	2.2%	2.2%	2.2%
Extra-Regio[4]	21.84	21.70	18.31	15.31	15.85	74.4%	84.2%	57.3%	1.0%	3.2%	0.6%
United Kingdom	**28.40**	**27.42**	**23.82**	**20.48**	**21.30**						
Share of GVA						**100.0%**	**65.7%**	**33.1%**	**100.0%**	**21.2%**	**55.5%**

[1] Estimates of workplace based GVA allocate incomes to the region in which the economic activity takes place.

[2] Components may not sum to totals as a result of rounding.

[3] Provisional.

[4] The GVA for Extra-Regio comprises compensation of employees, holding gains and gross trading profits which cannot be assigned to regions.

Source: ONS Regional gross value added (income approach), UK: 1997 to 2016 (20 December 2017).

Almost all UK oil and gas production comes from fields located offshore. Maps showing the location of oil and gas fields in GB and on the UK Continental Shelf (UKCS) are published online by the Oil and Gas Authority (OGA).[2] These maps also show which areas are under licence offshore and onshore in Great Britain. A map showing which areas are under licence in Northern Ireland is published by the Northern Ireland Department for the Economy (DfE)[3] but there is as yet no production there.

[1] https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach

[2] https://www.ogauthority.co.uk/data-centre/interactive-maps-and-tools/

[3] https://www.economy-ni.gov.uk/publications/petroleum-licence-map

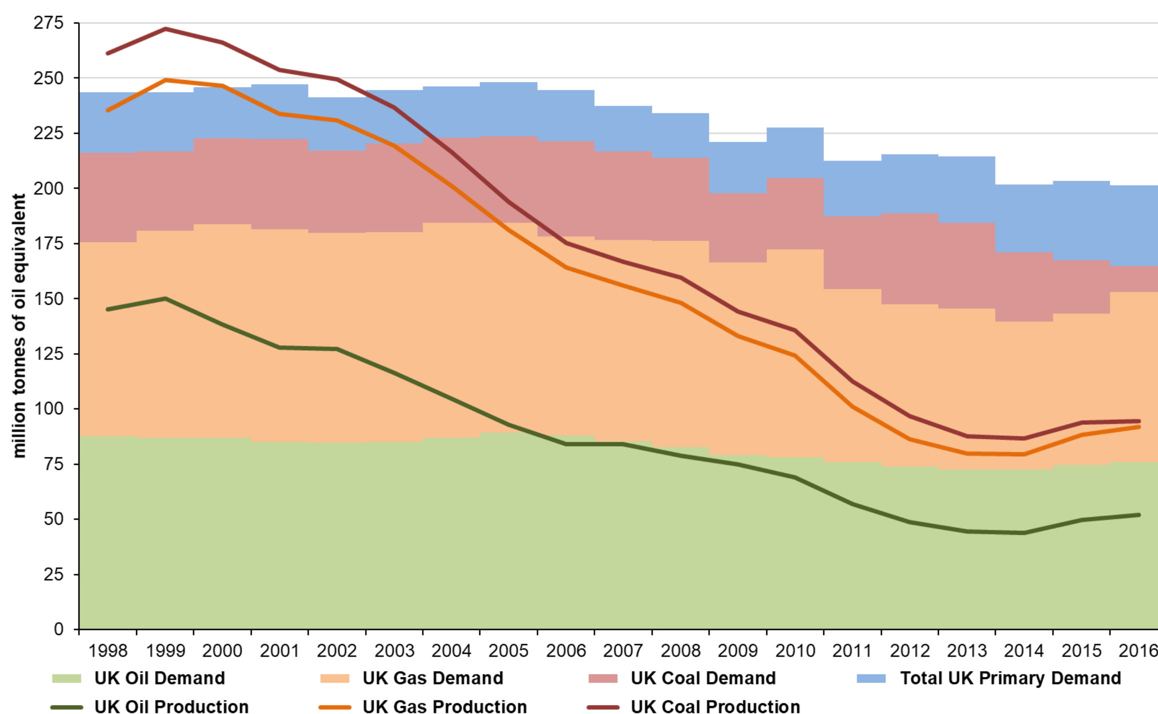
The majority of coal production comes from sites in Scotland, England and South Wales, as mapped by the Coal Authority.[1] The mining and quarrying of non-hydrocarbon minerals are widely distributed across the UK. There are no significant hard-rock aggregate deposits in the South and East of England, so these materials are transported for use in these regions from further afield in the Midlands and South West in particular.

For further details of the geographical location of UK oil, gas and minerals production, see Sections 2.2 and 2.3.

2.1.6. UK fossil fuel production and UK energy demand

UK production of fossil fuels has been, and continues to be, significant in terms of meeting UK energy demand. This is particularly true of oil and gas but, nowadays, much less so for coal. While the share of total demand represented by fossil fuels has been declining, they still account for more than four fifths of total primary energy demand and are forecast to account for more than two thirds of total primary energy demand even in 2035.[2] With higher UK production and historically low UK demand, in 2016 UK fossil fuel production was equivalent to almost half of total UK energy demand resulting in significant net imports of coal, oil and gas. This is illustrated in Figures 3, 4, 5 and 6 below.

Figure 3. UK fossil fuel production and primary energy demand[3]



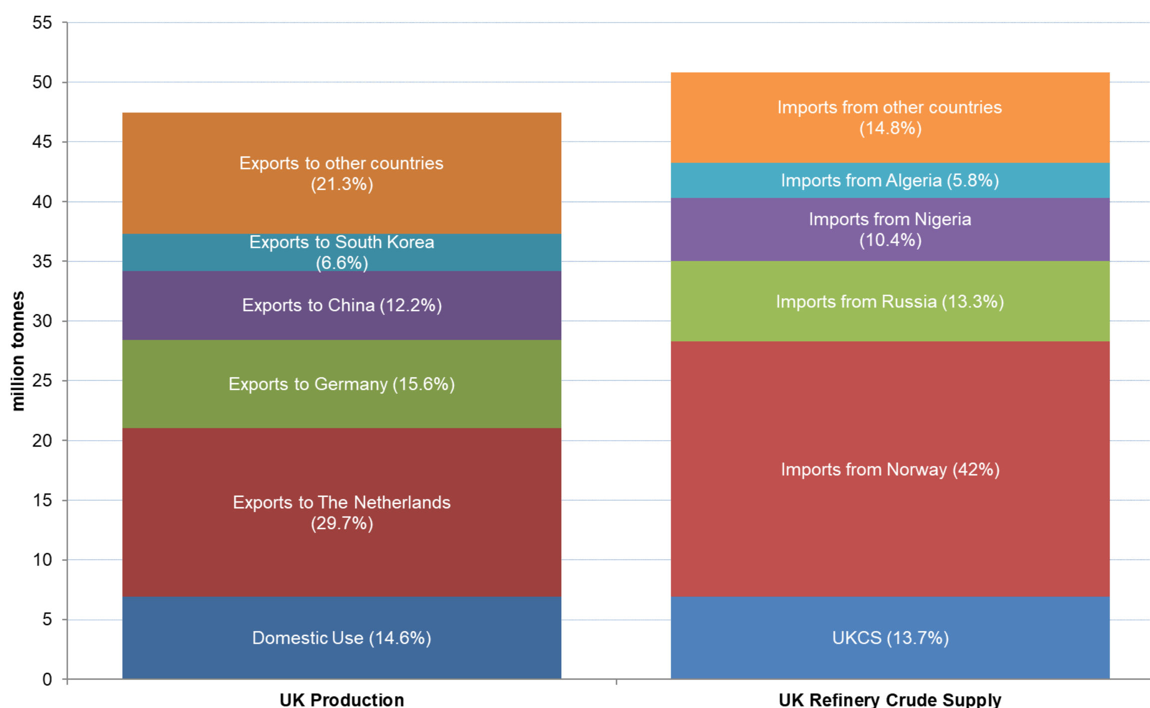
Source: Energy Trends Table 1.3, March 2018.

[1] Coal Authority, Interactive Map, http://mapapps2.bgs.ac.uk/coalauthority/home.html

[2] https://www.gov.uk/government/collections/energy-and-emissions-projections

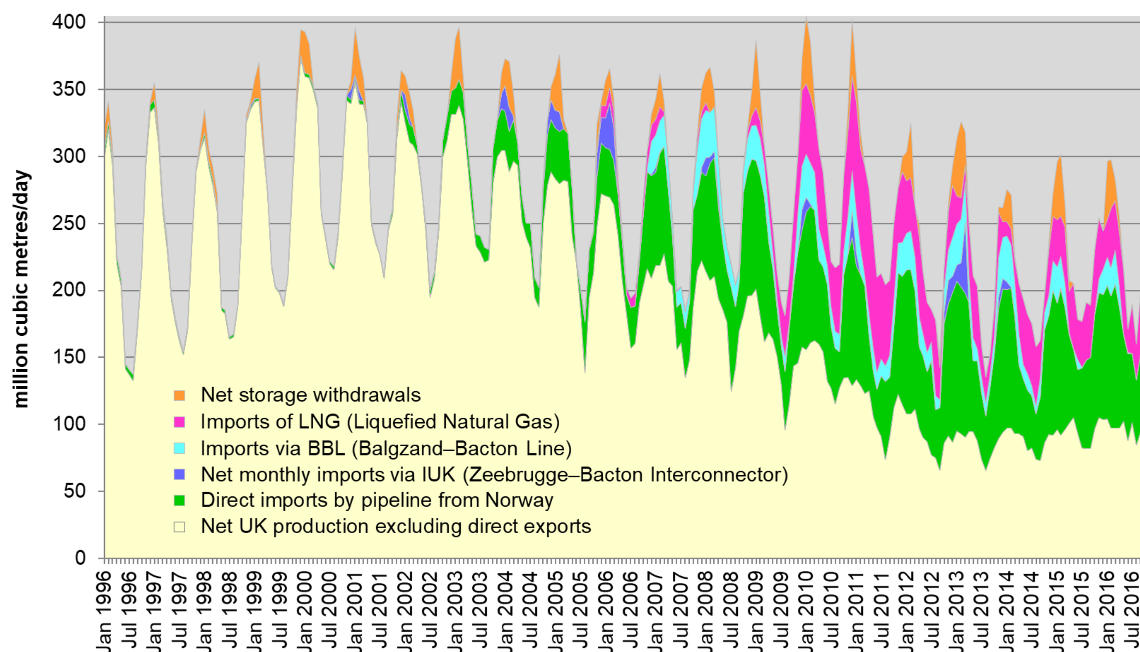
[3] https://www.gov.uk/government/statistics/total-energy-section-1-energy-trends

Figure 4. Destination of UK oil production and sources of UK oil supply, 2016[1]



Source: Digest of UK Energy Statistics (DUKES), July 2017 [principally Table G4].

Figure 5. UK monthly gas supply[2]



Source: Energy Trends Tables 4.2 and 4.3, March 2018.

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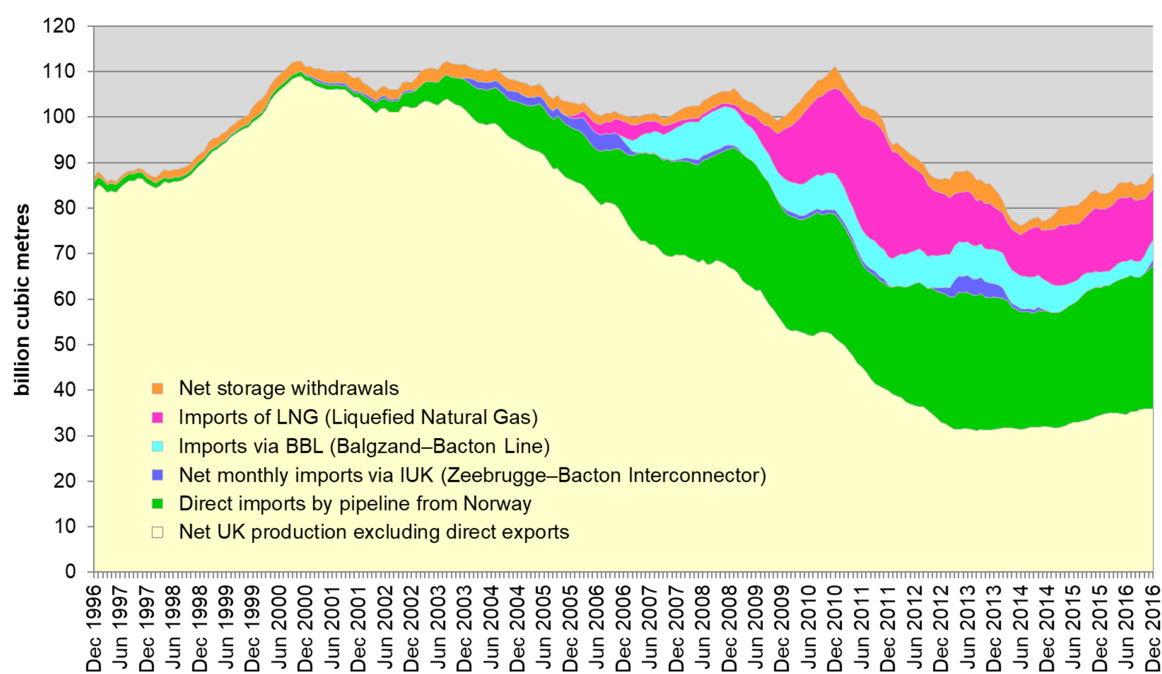
[1] https://www.gov.uk/government/collections/digest-of-uk-energy-statistics-dukes

[2] https://www.gov.uk/government/statistics/gas-section-4-energy-trends

Figure 6. Sources of UK gas supply on a rolling 12 month basis[1]



Source: Energy Trends Tables 4.2 and 4.3, March 2018.

[1] https://www.gov.uk/government/statistics/gas-section-4-energy-trends

2.2. Oil and Gas

2.2.1. Background and recent developments

The UK's oil and gas sector is dominated by production from offshore areas, which account for virtually all of UK output.[1] Production of natural gas began in 1967 with the West Sole field in the Southern North Sea. Offshore oil production began with the Argyll field in the Central North Sea (CNS) in 1975. At the start of the industry in the 1960s and 1970s production was dominated by a small number of very large fields, such as Inde, Leman, Forties, Brent, Ninian and Piper, and the development of key offshore infrastructure pipelines. UKCS production now comes from a large number (over 300) of predominantly small fields and others that are much more technically complex to produce from, both of which tend to increase unit development and production costs. By 2016, more than 43 billion barrels of oil equivalent (boe) have been recovered from the UK Continental Shelf (UKCS). The OGA estimates that a further 10 to 20 billion boe could still be recovered from the basin.[2]

2.2.2. Key Economic parameters

Oil and Gas prices

Boom and bust cycles are the norm in the energy markets. Throughout the years, the nominal price of oil has fluctuated significantly, reaching as low as $3 per barrel in the 1970s and as high as $143 per barrel in July 2008. The oil price is affected by many factors, all of which are global in nature, and reach from supply and demand fundamentals to the strength of the US Dollar (all oil is traded in US Dollar) and to geopolitical stability. Global demand for oil and gas has been steadily rising since the 1970s and has nearly doubled since then.[3] Strong economic growth particularly in fast-growing developing economies like China and India is a major contributor to increasing levels of demand.

The United States was, until 2010, the world's largest net importer of crude oil, which was a significant contributor to the steady increase in prices until then. Since 2011, the growth of US tight oil (often referred to as "US shale") has reduced the reliance of the United States on imports by over one third. Together with a slow-down in China's rapid economic growth and more efficient energy use overall, this caused prices to fall rapidly towards the end of 2015 and throughout 2016. During 2016,

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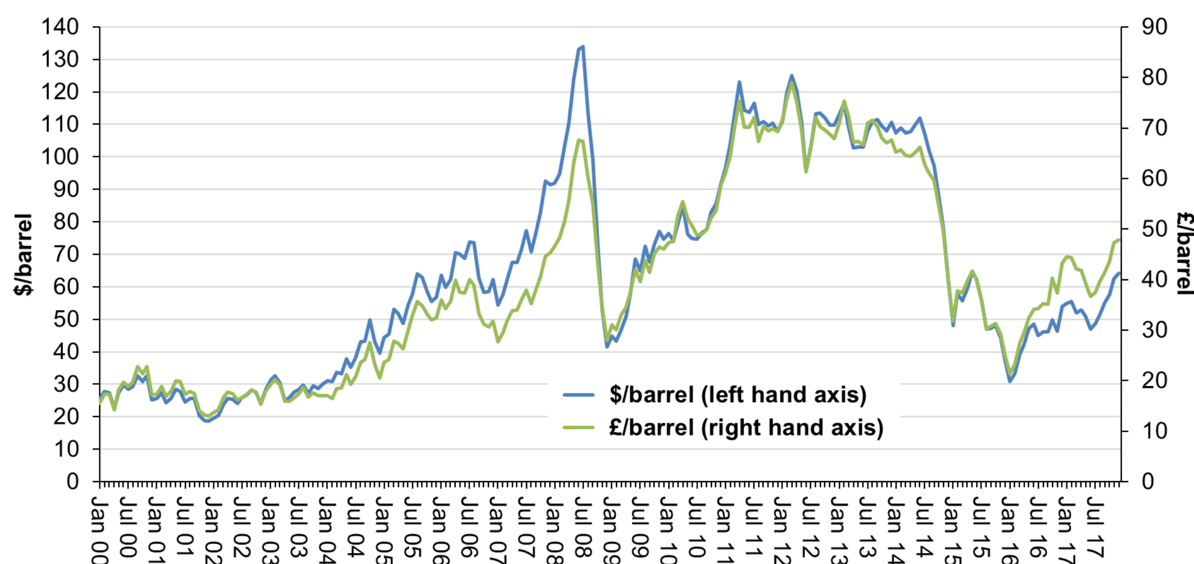
[1] Wytch Farm in Dorset, England, is the only substantial onshore field and is partly covered by a "seaward" licence; the drilling sites are onshore, but some of the wells extend under Poole Harbour. Wytch Farm is here treated as offshore.

[2] OGA, Reserves and Resources http://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/reserves-and-resources/

[3] The International Energy Agency publishes annual booklets of its most useful statistics, including the Key World Energy Statistics 2017. These show a steady increase of oil and gas consumption (and thus demand) since the 1970s.
http://www.iea.org/publications/freepublications/publication/KeyWorld2017.pdf, page 39f.

dated Brent oil price was at its lowest nominal level since 2004 at an average $44 per barrel, with a trough of $31 per barrel in January 2016.[1]

Figure 7. Brent Spot Price (nominal)[2]



Sources: World Bank and Bank of England.

Gas markets are still mostly regional in nature due to infrastructure, transportation and currency exchange limitations. Historically, gas prices in Europe (including the UK) were determined through long-term contracts, with prices adapted regularly according to contractual review clauses. Prices were often linked to oil and oil products, and thus were trailing oil price developments by about 4 to 6 months. Deregulation in the UK gas market since the 1990s resulted in the creation of the NBP (National Balancing Point), a virtual trading location of UK natural gas. Various European trading hubs have followed since, together with the interconnector in 1998, and the NBP is currently the second most liquid European gas trading point.[3] Gas prices available from these hubs show the regional effect on pricing (due to residual lack of interconnectedness), as well as a seasonality trend reflecting rising gas demand in winter.

In recent years, LNG (Liquefied Natural Gas) has become an increasingly important driver of European Gas market dynamics. The UK is currently a net importer of

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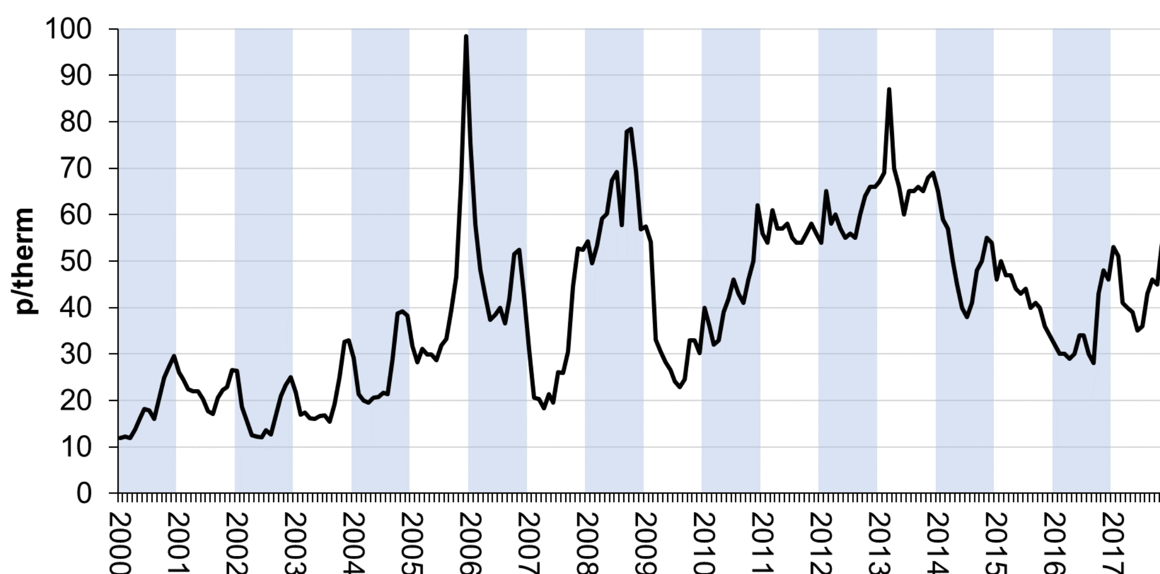
[1] A more detailed analysis of the supply imbalance and cyclical adjustments currently being experienced by the oil and gas industry, see BP's Statistical review of World Energy 2017: https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf.

[2] Monthly average dollar Brent oil price from World Bank Commodity Price Data (The Pink Sheet), http://www.worldbank.org/en/research/commodity-markets; monthly average £/$ exchange rate (series XUMAUSS) from http://www.bankofengland.co.uk/.

[3] TTF, the Dutch Transfer Facility, is the most liquid: https://www.theice.com/endex. See also the trading of NBP contracts on ICE: https://www.theice.com/products/910/UK-Natural-Gas-Futures

Natural Gas, and piped gas from Russia is the main competition to LNG in Europe. As such, Europe is seen as the market of last resort to absorb surplus LNG volumes from the current global gas supply surplus.[1] Gas prices across the globe reached new lows in early 2016 within weeks of the trough in oil prices (see above paragraphs), with NBP month-ahead prices reaching a low of 28 pence per therm in April 2016. The acute oversupply of gas in 2015 due to weaker import demand growth in Asia, additional LNG capacity added globally and 2015 having been the warmest year on record resulted in a significantly weakened price, which carried into 2016. An increase in the replacement of power generation by coal to power generation by gas, the temporary cessation of the Rough storage facility in the UK, continues uncertainly over LNG supply to the UK and the colder winter in 2016/17 has somewhat stabilised NBP prices at an average of 34.6 pence per therm for 2016 (down from the average month-ahead NBP price of 42.6 pence per therm for 2015).[2]

Figure 8. Gas Spot Price (nominal)



Source: OGA from various sources.

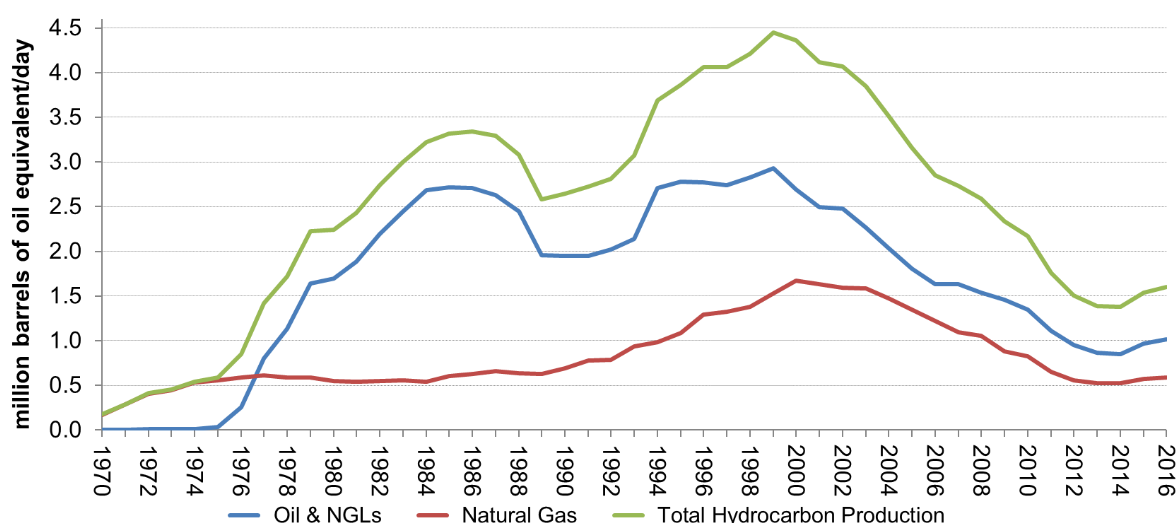
Production

Production on the UKCS is currently split roughly 60:40 between oil production and natural gas production (Figure 9).

[1]https://www.bp.com/en/global/corporate/energy-economics/energy-outlook/demand-by-fuel/natural-gas.html

[2] See also Oil & Gas UK's 2016 and 2017 Economic Reports; http://oilandgasuk.co.uk/wp-content/uploads/2017/09/Economic-Report-2017-Oil-Gas-UK.pdf

Figure 9. UK oil and net gas production[1]



Source: OGA.

Combined oil and gas production volumes from the UKCS peaked in 1999 at 4.6 million boe/day and have since declined to 1.6 million boe/day in 2016 – a consequence of natural reservoir decline in existing fields combined with fewer/smaller developments. Between 2014 and 2016, however, this trend was reversed and production on the UKCS has increased by 16% during that timeframe. The increase was due to improved performance of existing assets, as well as the addition of significant new capacity – nine new fields commenced production in 2016 (Laggan, Tormore, Conwy, Solan, Aviat, Cygnus, Alder, Crathes and Scolty).

Table 13. Volume and value of production of coal, oil and gas, 2012–2016

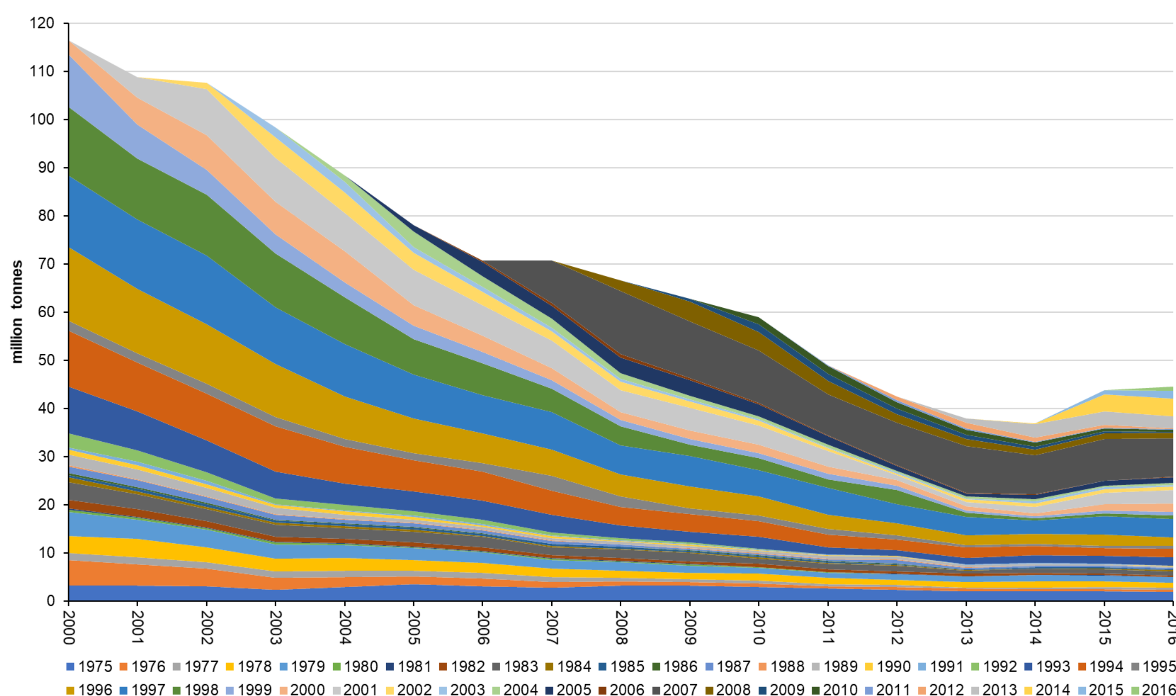
	Volume of indigenous production (mtoe)				Value of indigenous production (£ million)			
Year	**Coal**	**Oil**	**Natural Gas**	**Oil & Gas**	**Coal**	**Oil**	**Natural Gas**	**Oil & Gas**
2012	10.583	48.756	37.444	86.200	990	23,685	7,840	31,525
2013	7.973	44.468	35.331	79.799	500	21,330	7,755	29,085
2014	7.289	43.705	35.762	79.467	390	18,135	6,265	24,400
2015	5.384	49.544	38.847	88.391	255	12,985	6,440	19,425
2016	2.633	51.952	39.790	91.741	135	12,790	4,850	17,640

Source: Digest of UK Energy Statistics 2017.

Figure 10 illustrates the long-term decline and more recent growth in UK crude oil production since 2000.

[1] Source: OGA. Net natural gas production equals gross production less producers' own use i.e. the gas used in the course of production of oil and gas and therefore not available for sale to end users. The OGA publishes data relating to production of UK oil and gas, including production data for individual fields, production and expenditure projections and tables and charts on UKCS income and expenditure: https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/

Figure 10. UK crude oil production by start-up year of field[1]



Source: OGA Petroleum Production Reporting System.

The UK is still a significant oil and gas producer, being responsible for 1.1% of global output of oil and gas in 2016.[2]

Cost Environment

Total upstream expenditure peaked in 2014 at £27.8 billion and fell to £17.5 billion in 2016. The impact of the fall in oil and gas prices has put industry under immense pressure to reduce expenditure, both through readjusting budgets and rationalising expenditure. There has been a marked lack of new commitments entered into since 2015, which is perhaps the biggest threat to the long-term future of the basin. It also illustrates the extreme difficulty to investors to raise the further capital to invest in new projects in marginal return environment. The year 2016 saw development consent for only 2 new fields.

In Quarter 2 2016, the average net rate of return for UKCS companies fell to just 0.6%, improving slightly to 3.8% by Quarter 4.[3] Profitability of UKCS companies, as

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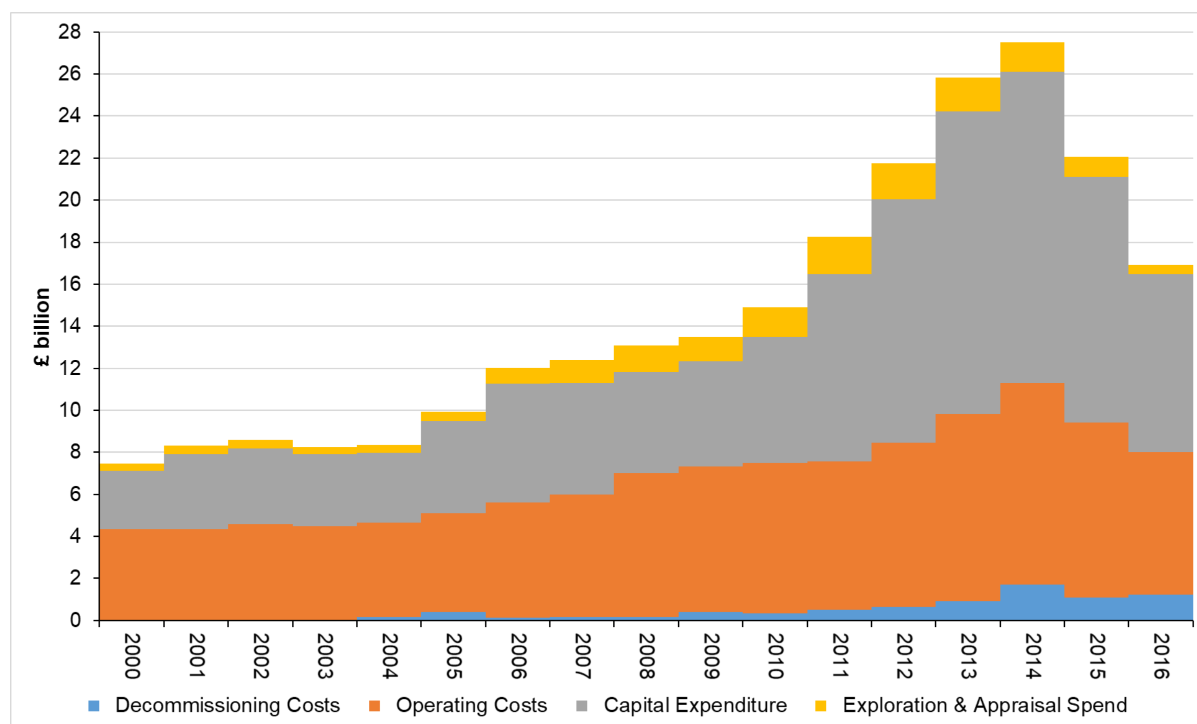
[1] Source: OGA, https://data-ogauthority.opendata.arcgis.com/pages/production

[2] BP, Statistical Review of World Energy 2017, https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf.

[3] ONS, Profitability of UK companies, January 2018, https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompanies; see also Oil & Gas UK's Economic Report 2017, https://oilandgasuk.co.uk/wp-content/uploads/2017/09/Economic-Report-2017-Oil-Gas-UK.pdf

measured by the ONS, has increased slightly but remains very low by historical standards. UKCS companies have historically experienced volatile profitability, due to oil price movements, cost environment and scale of discoveries made (i.e. profitability is falling in line with the increasing maturity of the basin).

Figure 11. Upstream oil and gas expenditure, 2000–2016[1]



Source: OGA.

2.2.3. Reserves and forecasts

Full details of the assumptions underpinning forthcoming years in the Budget cycle relating to projected production, commodity prices and revenue forecasts are provided by the independent OBR.[2]

Exploration activity in 2016 continued the all-time low trend since the start of offshore exploration in the mid-1960s. Only 14 offshore exploration wells (including sidetracks) were drilled in the year, compared to 13 in 2015. Discovered volumes are thought to have been around (150 million boe, an improvement on recent years, but still below the 10-year average).[3] Cumulative reserves produced to date are catching up with cumulative resources discovered to date (Figure 12) and the number of fields

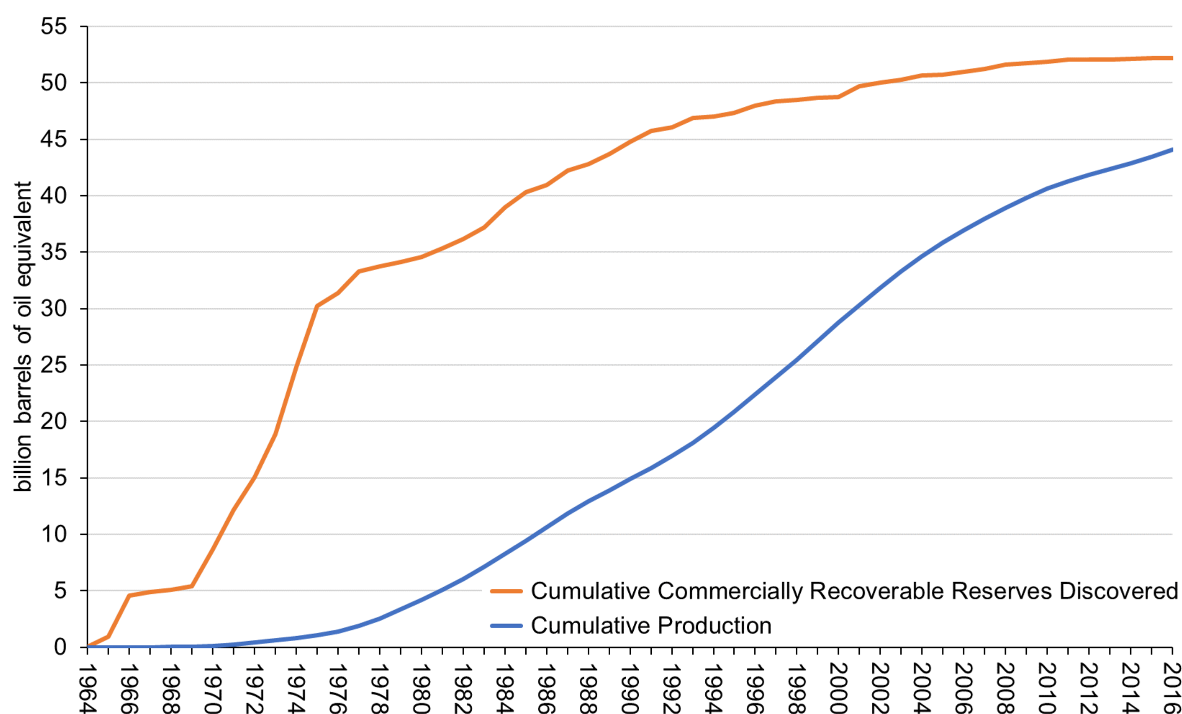
[1] https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/ukcs-income-and-expenditure/

[2] OBR, http://obr.uk/

[3] Oil & Gas UK, Activity Survey 2016, http://oilandgasuk.co.uk/wp-content/uploads/2016/01/Ross-Dornan-The-Activity-Survey-2016.pdf

discovered but not yet developed is dwindling – an important issue for the long-term future of the UKCS.

Figure 12. Recoverable UK oil and gas reserves discovered and produced[1]

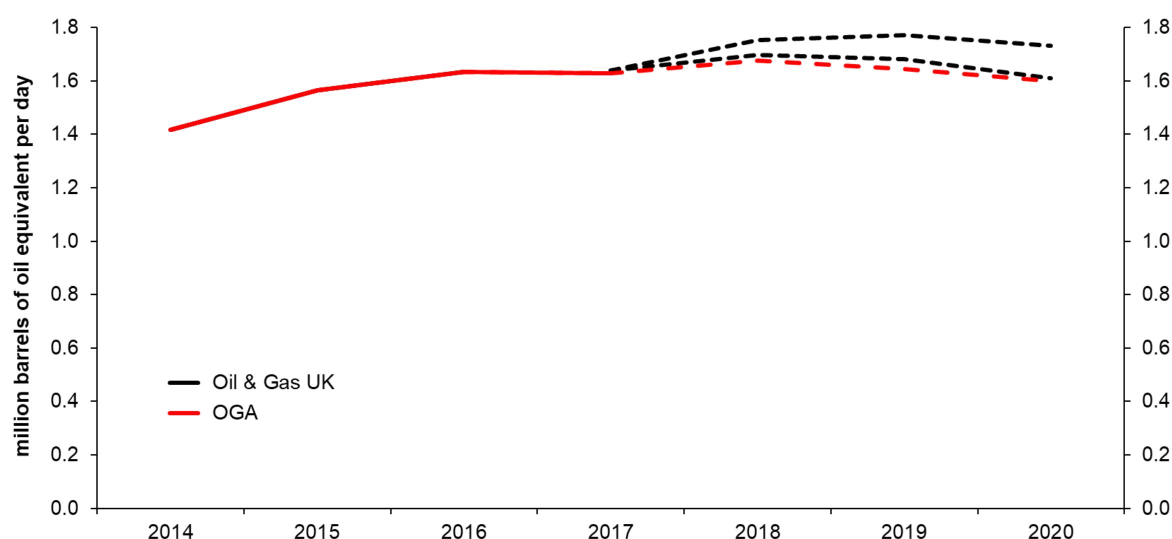


Source: Wood Mackenzie.

The path of future production is uncertain and, consequently, forecasts of future production rates vary. In early 2017, Oil & Gas UK predicted that production would continue to increase in the near term, with the start-up of some very large projects more than offsetting anticipated decline from existing fields. In early 2018, the OGA's central projection was for a small increase in production in 2018 followed by declining production (Figure 13).

[1] Data from Wood Mackenzie, Upstream Data Tool https://www.woodmac.com/research/products/upstream/upstream-data-tool/

Figure 13. Oil & Gas UK and OGA forecasts of future UK oil and gas production[1]



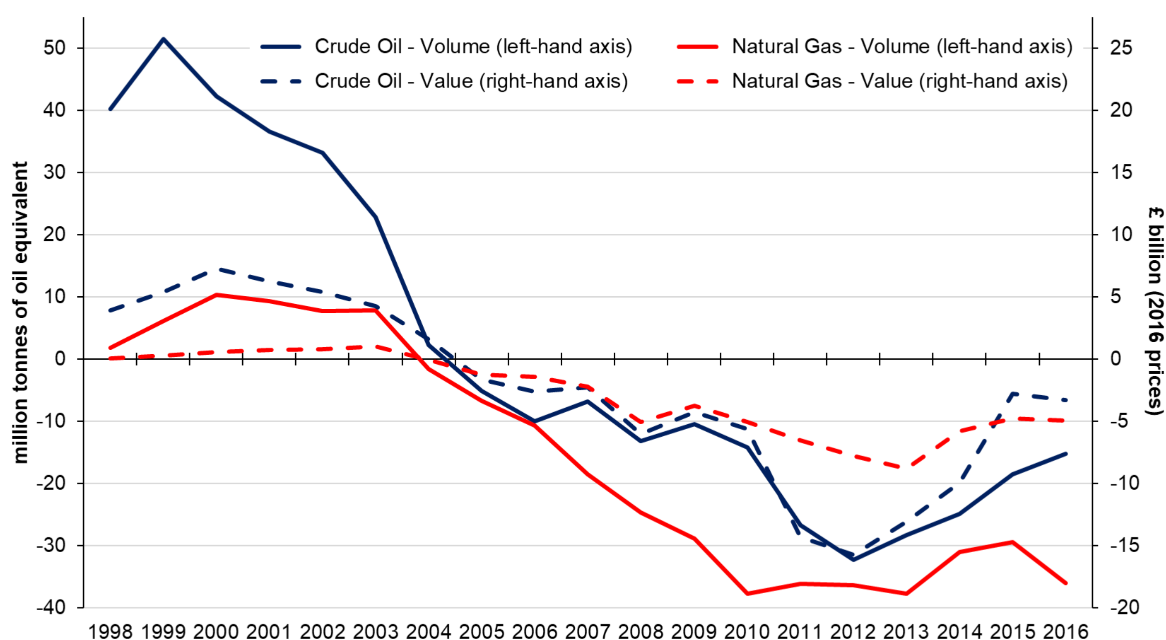
Sources: Oil & Gas UK and OGA.

2.2.4. Trade

Domestic production of oil and gas continues to supply around 50% of UK hydrocarbon consumption. For data on the volume and value of UK exports (and imports) of oil and natural gas, see Section 2.1. Net exports (imports) since 1998 are illustrated in Figure 14.

[1] Source: Oil & Gas UK, *Business Outlook 2018*, March 2018 http://oilandgasuk.co.uk/businessoutlook-2, OGA, Projections of UK Oil and Gas Production and Expenditure, February 2018, https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/production-projections/

Figure 14. Volume and value of net UK oil and gas exports (imports)[1]



Source: Digest of UK Energy Statistics 2017.

Oil and gas (whether domestically produced or imported) currently provide well over 70% of the UK's total primary energy needs and, despite policy objectives and measures supporting the use of alternative energy sources, the Department for Business, Energy and Industrial Strategy (BEIS)[2] expects this percentage to stay well over 70% at least until 2035 under existing policies.

2.2.5. Employment

In addition to direct employment in oil and gas companies there is a significant number of jobs in companies providing support activities. Official estimates for both are tabulated below; these are as reported in Table 11 in sub-section 2.1.4.

Table 14. Direct employment (Great Britain not United Kingdom) (in thousands)[3]

Thousands	2012	2013	2014	2015	2016
Oil and Gas Extraction	15.6	15.5	16.6	15.7	15.1
Support activities for petroleum and natural gas extraction	22.3	21.2	25.1	22.4	20.4
Oil and Gas Extraction and Support Services	**37.9**	**36.7**	**41.7**	**38.1**	**35.5**

Source: Business Register and Employment Survey (Table 2a).

[1] Source: https://www.gov.uk/government/collections/digest-of-uk-energy-statistics-dukes

[2] Department set up in July 2016 combining parts of the Department for Business, Innovation and Skills (BIS) with the Department of Energy and Climate Change (DECC).

[3] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/industry235digitsicbusinessregisterandemploymentsurveybrestable2

Additional information on employment in the UK oil and gas industry, including the UK supply chain, is published by Oil & Gas UK.[1] This information includes estimates of the indirect and induced jobs that depend on the UK's upstream oil and gas sector. Note that the direct employment estimates reported differ from the ONS estimates, especially for 2016.

Table 15. Total employment supported by the UK Upstream Oil and Gas Industry[2]

		2013	2014	2015	2016
Direct	(A)	36,600	41,300	37,300	29,500
Indirect	(B)	198,100	206,100	163,100	150,600
Induced		206,200	216,500	173,400	135,300
Total employment		**440,900**	**463,900**	**373,800**	**315,400**
Direct plus Indirect	(C) = (A) + (B)	234,700	247,400	200,400	180,100
Indirect % of Direct plus Indirect	(B) / (C)	84%	83%	81%	84%

where:
Direct – those employed by companies extracting oil and gas
Indirect – those who provide goods and services for an oil and gas company
Induced – local economy jobs that benefit from the sector e.g. hospitality

Source: Figure 1 in Workforce Report 2017 (Oil & Gas UK, October 2017).

2.2.6. Legal framework and licensing[3]

The Petroleum Act 1998[4] vests rights to oil and gas (petroleum) resources in Great Britain and on the UK Continental Shelf (UKCS) in the Crown. The Act gives the OGA (formerly the Secretary of State) powers to grant licences that confer exclusive rights to "search and bore for and get" petroleum. Each of these licences confers such rights over a limited area and for a limited period. There are separate licensing regimes for offshore (seaward) and onshore (landward) areas, with distinct licences in each.

Licences are generally awarded in periodic "rounds" subject to a requirement that the holder will make annual payments (known as "licence rental fees"). These payments are calculated on the basis of the area under licence and incorporate an escalating scale of pre-determined rates per square kilometre. This is to encourage licensee companies to relinquish acreage not undergoing productive activity, thus making it available for relicensing to other potential interested applicants. The vast majority of licence rental fees come from offshore licensing. Receipts of petroleum licences

[1] https://oilandgasuk.co.uk/product/workforce-report-2017/

[2] https://oilandgasuk.co.uk/product/workforce-report-2017/

[3] This sub-section draws on the material on Licensing and consents on the OGA's website at https://www.ogauthority.co.uk/licensing-consents/overview/ to which reference may be made for further details

[4] Petroleum Act 1998, www.legislation.gov.uk/ukpga/1998/17/contents

under the Petroleum Act 1998 are collected by the OGA (formerly DECC) for payment to the Consolidated Fund.

The Petroleum (Production) Act (Northern Ireland) 1964[1] vests the property in oil and gas in Northern Ireland, with certain exceptions, in the Department for the Economy (DfE).

Northern Ireland's offshore waters are subject to the same licensing regime as the rest of the continental shelf.

The OGA publishes oil and gas licences and licence reports.[2] The OGA also publishes offshore and onshore maps which are available for nil cost; these interactive maps allow users to find the co-ordinates of each licence and download at nil cost, individual licences.[3] The Northern Ireland DfE issues separate onshore licences independently of the OGA and publishes current licences and a map showing licence areas.[4]

Award and transfer of licences in Great Britain and on the UKCS

The OGA works to maximise economic recovery of the nation's petroleum resources. The government has essential pre-requisites for licence applicants, such as requiring the would-be licensee to have a fixed place of business within the UK.

Licences are awarded during regular competitive onshore and offshore licensing rounds once the OGA has been satisfied that the licensee has met the necessary technical and financial requirements.[5] This method of licensing aims to optimise recovery of the UK's remaining petroleum resources. The 29th Offshore Licensing Round and the 2016 Offshore Supplementary Round were started in 2016 but no offers were made until 2017.[6] Licences were offered in December 2015 following the 14th Onshore Licensing Round.[7] Out-of-round licence applications are possible but only in exceptional circumstances and there were no non-trivial deviations from the applicable legal and regulatory framework governing licence transfers during 2016.

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[1] Petroleum (Production) Act (Northern Ireland) 1964, http://www.legislation.gov.uk/apni/1964/28/contents

[2] OGA, https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/licence-data/

[3] https://www.ogauthority.co.uk/data-centre/interactive-maps-and-tools/

[4] DfE, Petroleum licensing, https://www.economy-ni.gov.uk/articles/petroleum-licensing

[5] OGA documentation of award rounds is available at https://www.ogauthority.co.uk/licensing-consents/licensing-rounds/

[6] https://www.ogauthority.co.uk/licensing-consents/licensing-rounds/offshore-licensing-rounds/#tabs.

[7] https://www.ogauthority.co.uk/licensing-consents/licensing-rounds/onshore-licensing-rounds/#tabs.

Licensing rounds are announced in the Official Journal of the European Union and assessed against a publicly announced set of criteria.[1]

Each licence takes the form of a deed, which binds the licensee (either a single company or several working together and bound under joint and several liability) to obey the licence conditions regardless of whether or not they are using the licence at any given moment. The OGA (and DECC previously) regulates the transfer of licence interests in order to enforce its policy objectives. A company that is party to a licence may wish to sell its interest or a part of it, to another company. It requires the OGA's permission to do so.[2]

Licence applications and interests attract fees and charges payable by the applicant or licensee. Each licence carries an annual charge, commonly called a rental. Rentals serve the double purpose of incentivising licensees to work their whole licensed areas and to surrender acreage they do not intend to exploit. Rentals are due every year on the licence anniversary and are charged at a variable rate on each square kilometre that the licence covers at that date. The rates are set out in the licence document at award. Payments are made to the OGA only by licence administrators (typically operators, who recoup the payments from the licensees in proportion to their interests in each licence) so the reconciled amounts reported in Table 4.1 do not reflect the extent in which payments to the OGA are spread between licensees.

Onshore licensing was devolved to the Scottish Government on 9 February 2018 and will be devolved to the Welsh Government on 1 October 2018. The Scottish Government has announced a moratorium on fracking in Scotland. However, the position is subject to the outcome of a Strategic Environmental Assessment, which is expected to conclude in Summer 2018. A planning review including extraction of unconventional oil and gas (including shale gas and coalbed methane) was announced by the Welsh Government in October 2017. The result of this planning review will need to be announced before further planning applications are submitted.

Licence conditions and types of licences

Each licence contains detailed terms and conditions, but not all regulation is contained in the licence. The Petroleum Act 1998 requires these conditions — called model clauses — to be published first in secondary legislation except in particular

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[1] See for example http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XG0620(01)&from=EN for the announcement of the 14th landward licensing round including the assessment criteria.

[2] See https://www.ogauthority.co.uk/licensing-consents/licensing-system/licence-assignments/ for further details. Details of current licences are available at https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/licence-data/.

cases.[1] In recent years, the model clauses have also been set out in full in the licence document.

Production licences are valid for a sequence of periods, or terms. These terms mirror the typical life cycle of a field: exploration, appraisal and production, and provide that each licence will expire automatically at the end of each term, unless the licensee has sufficiently progressed to warrant a move into the next term. The duration of each term depends on the type of the licence.

The OGA publishes additional information about the different types of licences, their normal duration and different phases of the licensing lifecycle.[2]

While landward licences confer the right to search for, bore and extract petroleum on areas under licence, they do not exempt the licensee from other legal or regulatory requirements, including a need to obtain access rights from landowners or planning permission from relevant local authorities, or to conform to health and safety regulations.

In Northern Ireland, there is only one type of petroleum licence, this has broadly similar terms and conditions to onshore Petroleum Exploration and Development Licences (PEDLs) in Great Britain but also some differences.[3]

2.2.7. The oil and gas tax regime

Introduction

As the UK's oil and gas industry has developed over the last 40 years, successive governments have developed a tax regime designed to ensure that the nation receives a fair share of the profits from the exploitation of its oil and gas reserves. At the same time, the regime aims to support maximising the economic recovery of the UK's remaining hydrocarbon resources.

In 2016, the fiscal regime which applied to oil and gas extractive activities comprised three separate taxes: Petroleum Revenue Tax (PRT), Ring Fence Corporation Tax (RFCT) and the Supplementary Charge (SC).

The tax regimes

Petroleum Revenue Tax (PRT)

PRT is a tax on oil and gas production from the UK and UKCS. It is a field-based tax, which means that the profits from individual oil fields are calculated and subjected to tax separately. Companies do not aggregate their profits from different fields and cannot normally set off losses from one field against profits from another. PRT was

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[1] Petroleum Licensing (Exploration and Production) (Landward Areas) Regulations 2014, http://www.legislation.gov.uk/uksi/2014/1686/contents/made

[2] OGA, https://www.ogauthority.co.uk/licensing-consents/overview/.

[3] https://www.economy-ni.gov.uk/articles/petroleum-licensing.

introduced by the Oil Taxation Act 1975 and was dis-applied in Finance Act 1993 for all fields given development consent on or after 16 March 1993. This means that fields that were given development consent after this date are not subject to PRT. The Chancellor announced at Budget 2016, that from 1 January 2016 the PRT rate would be permanently reduced to zero. However, it is important to note that PRT has not been abolished. Companies will still have to record and declare their profits and may be able to claim tax refunds for previously paid PRT where they make net losses after this date.

Some companies will still have made payments of PRT in 2016, despite it having been zero-rated. This is because the zero rating was not announced until the Budget in March, and so companies continued to make payments before then. Companies also still had to make payments in relation to prior periods when tax was still payable.

Advance PRT Payments
Advance Petroleum Revenue Tax (APRT) was a temporary tax payable for periods from 1 January 1983 to 31 December 1986. The change was in effect a means of accelerating PRT payments.

Although APRT is no longer chargeable, repayments may arise due to the carry back of losses to periods in which APRT paid was set against a PRT liability. For practical purposes APRT repayments are included within the PRT figures in this EITI report.

Ring Fence Corporation Tax (RFCT)
RFCT is a tax charged on the profits a company earns from carrying out oil and gas extraction activities in the UK and UKCS. This can include exploration, development and production activities. The profits chargeable to RFCT are calculated in the same way as for mainstream CT, but with some different rules relating to certain allowances, interest and transfer pricing. RFCT is charged at the company level, unlike PRT which was charged at the field level. This means that where a company has several different oil fields, it aggregates the profits from all those fields, and where any of the fields makes a loss, that loss can be set against profits from another field. The total profit across all fields in which a company operates is then charged to RFCT.

The ring fence separates the upstream UK oil and gas related activities of a company from any other activities of the company. It was introduced in the Oil Taxation Act 1975, and it means that if a company also carries on other activities which are not related to oil and gas extraction (this could include downstream oil and gas activity such as oil refining, or other completely separate activities), it will pay mainstream corporation tax (CT) on the profits of those other activities. Profits in the ring fence are taxed at 30%. This is higher than the main rate of CT for other activities which was 20% throughout 2016. If a company makes a loss on non-ring fence activities, it cannot set that loss against its ring fence profits (ring fence losses can be set against non-ring fence profits).

If a company makes a small profit (less than £300,000) on its ring fence activities, it pays tax at the small profits rate of 19% on those profits. If its profits are between £300,000 and £1,500,000 it can claim Marginal Relief, to remove the cliff-edge between 19% and 30% as soon as its profits are above £300,000.

Supplementary Charge (SC)
SC is an additional tax on a company's adjusted ring fence profits. It was introduced in 2002. Like RFCT it is charged at the company level. The starting point for calculating the SC is the company's profits subject to RFCT. These profits are then adjusted to remove any finance costs, which are not allowed as a deduction for SC purposes. The company may, however, be able to reduce its profits subject to the SC by virtue of certain allowances: the Investment Allowance and Cluster Area Allowance, and the Onshore Allowance, which are outlined below. The company's adjusted ring fence profits are then charged to SC. In 2016 the rate of SC was 10%.

Summary of rates for 2016

- PRT – 0%
- RFCT – 30%
- SC – 10%

Interaction
PRT was an allowable deduction in calculating profits subject to RFCT and SC. Equally, any refund of PRT is a taxable receipt for RFCT and SC purposes. RFCT and SC are charged on the same profit base, so neither is allowable as a deduction in calculating the profits chargeable to the other.

This means that the overall marginal tax rate in 2016 was 40%. An example of this is shown below:

Table 16. Illustrative tax calculation

	PRT or non-PRT liable field
Profit	£1,000
PRT at 0%	£0
Profits after PRT	£1,000
RFCT at 30%	£300
SC at 10%	£100
Total tax (PRT+RFCT+SC)	**(£400)**
Profit after tax	£600
Tax as a % of pre-tax profit	**40%**

There have been numerous changes to the tax rates for PRT, RFCT and SC. PRT peaked at 75%, was reduced to 50% by Finance Act 1993, and as noted above, was permanently zero-rated at Budget 2016. Mainstream CT rates have been reduced substantially since 2008, but the RFCT rate has remained at 30%, creating a differential between the two. SC has varied between 10% and 32% since its introduction.

Previously, there was also a royalty levied at 12.5% of the value of petroleum which was generally measured as “well head value”. This was abolished for new fields in phases starting in 1983 with abolition in its entirety with effect from the end of 2002 as it distorted investment incentives. In addition, a Supplementary Petroleum Duty (SPD) was in place in 1981 and 1982.

Allowances

There are various allowances that apply to reduce the amount of PRT, RFCT or SC that a company has to pay.

PRT allowances

A number of allowances used to be available under the PRT regime to prevent an excessive PRT burden falling on smaller, more economically marginal fields. Oil Allowance was the only one that was still relevant to years immediately prior to 2016. Oil Allowance ensures that many small fields are effectively free from PRT. The available amounts are converted each chargeable period into a “cash equivalent” which then reduces the liability to PRT.

RFCT allowances

Capital allowances

Capital allowances are a feature of business taxation in the UK and apply to the mainstream CT regime (as well as to income tax). For CT purposes, the general rule is that capital expenditure is not allowed as a deduction for tax purposes. This means that profits chargeable to CT cannot be reduced by depreciation or similar expenses. The capital allowance regime exists to provide some relief for capital expenditure incurred.

There are specific rules and rates of allowances available for companies carrying on a ring fence trade. These allowances mean that in practice, virtually all capital expenditure incurred by oil and gas companies for the purposes of their ring fence trades will qualify.

There are three types of allowance which are commonly relevant for companies carrying on a ring fence trade. Research and Development Allowance (RDA), Mineral Extraction Allowance (MEA) and Plant and Machinery Allowances (PMA). RDA and MEA are primarily relevant to companies incurring capital expenditure on exploring for, appraising and gaining access to oil and gas during the pre-production phase. PMAs are available on capital expenditure on items of plant or machinery used in the ring fence trade. Mostly these are 100% First Year Allowances (FYAs), which allow the full amount of the expenditure to be written off for tax purposes in the accounting period in which the expenditure is incurred.

Ring Fence Expenditure Supplement (RFES)

RFES is designed to assist companies which do not yet have sufficient RFCT profits against which to set their exploration, appraisal and development costs. The RFES

currently increases the value of unused expenditure carried forward from one accounting period to the next by a compound 10% a year for a maximum of 10 years (6 years prior to 2014). The company can elect which periods it wants to claim RFES for. They do not have to be consecutive years.

SC allowances

Cluster Area Allowance

Legislation in the Finance Act 2015 introduced a new Cluster Area Allowance, which aims to support large development projects in areas of high pressure and high temperature, encouraging exploration and appraisal in the surrounding area (or "cluster"). The allowance is generated by incurring capital expenditure, and certain types of operating and leasing expenditure within the cluster area. The value of the allowance is 62.5% of the capital expenditure incurred. Any allowance generated is carried forward year on year until it is activated. Allowance is activated by production income from the cluster area. Once the allowance has been activated it is set against profits subject to the SC, so that any such profits are only subject to RFCT at 30%. Cluster areas are determined as such by the OGA, and the only area determined by the end of 2015 was the Culzean Cluster Area in the CNS.

Onshore Allowance

The Onshore Allowance was introduced in Finance Act 2014 to provide support for the early development of onshore oil and gas projects which were economic but not commercially viable at the prevailing tax rates. The onshore allowance covers both conventional and unconventional hydrocarbons and replaces all existing field allowances for onshore projects. The allowance works in a similar way to Cluster Area Allowance: it is generated by capital expenditure, in an amount equal to 75% of that capital expenditure. Once the allowance is activated by production income in relation to an onshore site, the allowance is used to reduce the adjusted ring fence profits which are subject to SC.

Investment Allowance

The existing system of offshore field allowances was replaced by a single Investment Allowance in Finance Act 2015. Similarly to the Cluster Area and Onshore Allowances, the Investment Allowance is generated by capital expenditure, and certain types of operating and leasing expenditure incurred in relation to a qualifying oil field. The amount of allowance generated is equal to 62.5% of qualifying capital expenditure. Investment Allowance is activated by production income from the field, unlike Cluster Area Allowances, which can be activated by income from any field in a designated cluster. Once activated, it is used to reduce the adjusted ring fence profits chargeable to the SC.

Losses

Following a dramatic drop in the oil price during the second half of 2014 and 2015, the oil price remained relatively low by modern standards throughout 2016. As a result a number of companies were in a loss-making position, particularly because

the UKCS is a relatively high cost basin in which to operate. It is also a mature basin, with production having started in the late 1960s, so increasing numbers of fields are now in, or approaching, the decommissioning stage. Decommissioning costs can be substantial, which can also push companies into making a loss.

When a business makes a loss, it may be able to get relief for that loss through the tax system. Loss relief is not unique to the oil and gas regime: it is a feature of income tax, mainstream CT and other regimes too. Broadly, loss relief works by allowing a loss made in one period to be set off, in certain circumstances, against profits in the same or other periods.

PRT

PRT is a field-based tax, so loss relief is normally available only against profits from the same field. A loss can be carried back and set against profits of the field in previous periods, most recent period first, or carried forward to set against future profits, earliest period first. The loss is set against the profit before Oil Allowance. Only once, following cessation of production, all carry back and carry forward options are exhausted for that participator and there are no further profits against which the loss can be set, can the loss then be relieved against profits of earlier participators in the field. If there are still any unrelieved losses, they can be relieved against profits from another field.

Where a field has made an assessable profit, and paid tax in one period, and then has subsequently made a loss and the participator has chosen to carry the loss back, it could generate a repayment of tax.

RFCT

Where a company makes a loss for RFCT purposes, it can also choose how to treat that loss. The default position is that the loss is carried forward to set against future profits of the ring fence trade. However, the loss can also be set off against other (non-ring fence) profits arising in the year, or it can be carried back to set against the profits earned in previous years. Alternatively, where a company is part of a corporate group, it can surrender the loss to another company making a profit in the same period.

Under the normal rules, losses can be carried back only against profits arising in the previous year. However, these time limits are extended where the trade has ceased, in which case the loss may be carried back up to three years. For ring fence trades, this time limit may be extended further where the loss is incurred as a result of decommissioning expenditure. In such situations, the loss may be carried back to any period ending on or after 17 April 2002, regardless of whether trade has ceased.

SC

SC is calculated on the same basis as RFCT, but with adjustment for finance costs. However, there is no loss relief for SC per se. Rather, if a company makes a RFCT loss, and elects to carry it forward or backward, it will reduce the RFCT profits, and

therefore the profit subject to SC of the subsequent or previous period will also be reduced, potentially to nil.

Companies can generate a refund only where tax has already been paid. If a company has not paid tax in a previous year because it has not previously made a profit, it will not be able to carry the loss back, and will have to relieve it in one of the other ways outlined above.

Variations in tax payments and repayments

The amount of tax paid by a company can vary year on year for a number of reasons. Perhaps most obviously, changes in tax rates will affect the amount of tax paid. In recent years, the rates of PRT and SC have both dropped, reducing the amount payable under these taxes. The level of profits (or losses) made by a company will also vary year on year. Factors such as capital expenditure incurred both on decommissioning and on exploration and investment can reduce profits, and variations in the oil price will have a substantial impact on trading receipts. Equally, as explained above, while a company may make a profit in a year, if it has a loss to set against that profit, the amount of tax payable may fall, or indeed lead to a repayment of tax.

Companies are charged to PRT for chargeable periods of 6 months, running from 1 January to 30 June, and 1 July to 31 December. Companies' profits are charged to RFCT and SC for accounting periods (APs). APs normally last for one year, although they can sometimes be shorter. Different companies have different APs, although commonly calendar or financial years are used.

PRT payments

PRT instalments were due based on the previous chargeable period. From 2016, as the PRT rate is reduced to nil, PRT payments were only made to true up previous year's liabilities or instalments made prior to the announcement of PRT being zero-rated at the 2016 Budget.

RFCT/ SC payments

The rules for payment of RFCT and SC differ from the payment rules for mainstream CT. Companies paying RFCT and SC, which would otherwise make payments under the mainstream CT quarterly instalment payments (QIPs) regime, instead pay their RFCT/SC in three payments: 6 months and 13 days from the start of the AP, 3 months after the first payment, and 14 days from the end of the AP. This means the payments are due earlier than under mainstream CT rules. The three payments are necessity estimates and so may not be of equal amounts.

This report covers payments made in the 2016 calendar year. As a result of the payment regimes these relate only in part to the tax due for that year and in part to previous year(s).

Decommissioning
Decommissioning is an inherent cost of doing business in the UKCS. As a result, tax relief is given for decommissioning costs but not until they are incurred and the decommissioning is carried out. For accounting purposes a company is required to make an annual provision. However this cannot be deducted for tax purposes as the cash has yet to be spent, and the decommissioning has not actually happened).

If decommissioning expenditure produces an overall loss for a year then, as explained above, the loss may be carried back against previous ring fence profits of that company, as far as 2002 for RFCT and SC, and almost indefinitely against field profits for PRT. Based on 2016 tax rates, losses generated by decommissioning costs and carried back to be offset against previous profits will be relieved at 32% for SC and 30% for RFCT. In most cases, the effective rate of tax relief for PRT fields is a maximum to 75%. The amount of relief available is limited to the taxable profits of the relevant field/company and in economic terms, represents a repayment of tax that has been overpaid through the profitable life of the company or field.

An estimate of the likely cost to the Exchequer, based on current estimates of decommissioning costs is £24.2 billion.[1]

Decommissioning Relief Deeds (DRDs)
In 2013, following extensive discussions with industry, the government introduced legislation giving it the statutory authority to sign contracts (DRDs) with companies operating in the UKCS. The aim of the DRD is to provide certainty over the availability of decommissioning tax relief for the purposes of putting up security against the risk of default.

The DRD works by guaranteeing the tax relief due on decommissioning expenditure, based on the relief available at Finance Act 2013 (FA13). It allows a company to claim a payment from the Exchequer if, as a result of changes to the tax system, the relief available to the company on its decommissioning expenditure is less than that which would have been due under the rules as at FA13 (However, this does not apply if the relief is less due to changes in tax rates.) The DRD will also pay out to a company that picks up the decommissioning liabilities of another company that has defaulted under its Petroleum Act 1988 obligations – for example if the company becomes insolvent – to ensure that the company incurring the default expenditure is able to get relief. This provides industry with certainty over the availability of decommissioning tax relief in future years and has unlocked additional investment capital in the UKCS by allowing companies to provide security for their decommissioning liabilities on a post-tax basis.

[1] Page 171 of HMRC's 2016-17 Annual Accounts https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/635587/HMRC_Annual_Report_and_Accounts_2016-17_web_.pdf

Each year the Treasury reports to Parliament the number of Deeds it has entered into that year, the total number of DRDs in force, the number and amounts of any payments made under the Deeds and an estimate of the maximum amount liable to be paid[1].

Looking ahead

In December 2014, the government published *Driving Investment – a long-term plan to reform the oil and gas fiscal regime.*[2] The conclusion was that, although the fundamentals of the fiscal regime remained sound, significant change was needed within the ring fence in order to continue to attract investment. Some of the highlights from the plan are set out below:

Policy-making principles

Driving Investment established three principles for future policy-making, in order to balance the government's twin objectives of maximising economic recovery of its hydrocarbon resources and achieving a fair return for the nation on those resources. Firstly, the overall tax burden would need to fall as the basin matured and new projects became ever more marginal. Secondly, when making judgments about fiscal policy, the government would consider the wider economic benefits of oil and gas production, such as jobs, investment and exports, in addition to revenues. Finally, when judging what constitutes a fair return for the nation, the government would take account of the global competitiveness of commercial opportunities in the UK and UKCS and take account of both commodity prices and costs. The government reaffirmed its commitment to these principles at Autumn Statement 2016.[3]

Exploration - *Driving Investment* noted that exploration activity in the UKCS had been falling for some time. In 2016, the government announced £20 million funding for seismic surveys, in order to improve understanding of under-explored areas of the UKCS. The data from these surveys has been made available to industry and academia.[4]

Infrastructure - The government considered options for reforming the fiscal treatment of infrastructure and consulted with industry in 2015. The government announced at Budget 2016 that it would extend the investment and cluster area allowances to cover tariff income.

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[1] http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/commons/2018-03-27/HCWs590

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382785/PU1721_Driving_investment_-_a_plan_to_reform_the_oil_and_gas_fiscal_regime.pdf

[3] https://www.gov.uk/government/publications/autumn-statement-2016-documents/autumn-statement-2016

[4] A further £20 million for a second round of seismic surveys was announced at Budget 2016.

Decommissioning - At Budget 2016, the government provided certainty that companies will be able to access tax relief on their costs when they retain decommissioning liabilities for an asset after a sale, to encourage new entrants for late-life assets and the development of late-life business models. This was provided by an HMRC technical note,[1] published alongside the Budget. The government also announced it would build on the new decommissioning powers of the Oil and Gas Authority (OGA) by undertaking further work with the OGA and industry to reduce overall decommissioning costs, to deliver significant savings for industry and the Exchequer. If significant progress could be made, the government would explore whether decommissioning tax relief could better encourage transfers of late-life assets.

2.2.8. The OGA Levy

The OGA became an Executive Agency of DECC on 1 April 2015 and a Government-owned company on 1 October 2016. It is a not-for-profit company largely funded by fees for specific activities and by a per-licence levy, known as the OGA Levy, on offshore licence holders apportioned between in-production (89%) and pre-production (11%) licence holders. The OGA Levy was introduced with effect from 1 October 2015[2]. As reported in the OGA's accounts,[3] it raised £8.231 million in 2015/16 and £21,254 million in 2016/17; as reported elsewhere in this report, the net yield in calendar year 2016 was £21,268 million.

2.2.9. Payments to The Crown Estate (TCE)

Oil and gas companies make payments to TCE for pipeline easements.

2.2.10. Shale gas

Research by the BGS indicates that there are potentially large volumes of shale gas beneath the UK. Further exploration is required before the full extent of these resources is known and the amount of gas that is technically and commercially recoverable can be estimated.

UK licence and fiscal terms do not generally differentiate between conventional and unconventional hydrocarbon activities. For example, the Onshore Allowance (an allowance against the SC which ensures that otherwise economic developments are not uncommercial) is applicable to both new conventional oil and gas as well as to shale gas developments. As PEDLs do not grant automatic rights to operations such

[1] https://www.gov.uk/government/publications/oil-and-gas-companies-tax-relief-for-decommissioning-expenditure

[2] https://www.ogauthority.co.uk/regulatory-framework/legislative-context/industry-levy/

[3] OGA, Annual Report and Accounts 2016–17 https://www.ogauthority.co.uk/news-publications/publications/2017/oga-annual-report-and-accounts-2016-17/

as drilling or hydraulic fracturing, any company looking to develop shale will also need to obtain all necessary permissions, like planning and environmental permits.

In addition, a further range of measures specific to hydraulic fracturing and the shale industry have been put in place to ensure that exploration is safe and environmentally sound. The Infrastructure Act 2015 specifies thirteen conditions that need to be met before a hydraulic fracturing consent will be issued, including public notification and a scheme to provide financial or other benefit for the local area. The government has also put in place regulations which ensure that high-volume hydraulic fracturing cannot take place within 1,200 metres beneath the surface of National Parks, the Broads, Areas of Outstanding Natural Beauty, World Heritage Sites and areas that are most vulnerable to groundwater pollution.

A number of companies holding PEDLs in England are developing shale gas projects. North Yorkshire County Council has granted Third Energy permission to hydraulically fracture an existing vertical well at its Kirby Misperton site, to give an early indication of flow rates.[1] On 6 October 2016, the Secretary of State for Communities and Local Government published his decision on Cuadrilla's appeals relating to exploratory wells, hydraulic fracturing and monitoring works at Preston New Road and Roseacre Wood, Lancashire.[2] Nottinghamshire County Council has approved an application to drill an exploratory well at the Springs Road site.[3] The application did not include plans for hydraulic fracturing.

The government has announced that it will create a Shale Wealth Fund to ensure that communities which host shale sites can share the benefits of shale development. Funding for the Shale Wealth Fund will consist of up to 10% of tax revenues arising from shale gas production.[4] On 25 October 2016, the government opened a consultation seeking views on the delivery method and priorities of the Shale Wealth Fund.[5]

In the Autumn Statement 2016, it was announced that the Shale Wealth Fund will provide up to £1 billion of additional resources to local communities, over and above industry schemes and other sources of government funding. Local communities will benefit first and determine how the money is spent in their area.

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[1] https://www.northyorks.gov.uk/kirby-misperton-fracking-operations

[2] https://www.gov.uk/government/publications/recovered-appeals-cuadrilla-bowland-ltd-and-cuadrilla-elswick-ltd-refs-3134386-3130923-3134385-and-3130924-6-october-2016

[3] http://www.nottinghamshire.gov.uk/planning-and-environment/shale-gas-development/shale-gas-development/latest-news/councillors-approve-planning-application-for-county-s-first-exploratory-shale-gas-wells

[4]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544241/shale_wealth_fund_final_pdf-a.pdf

[5] https://www.gov.uk/government/consultations/shale-wealth-fund

2.3. Mining and Quarrying[1]

2.3.1. Production

The UK has relatively diverse and large deposits of minerals that have been historically mined. Key sectors include:

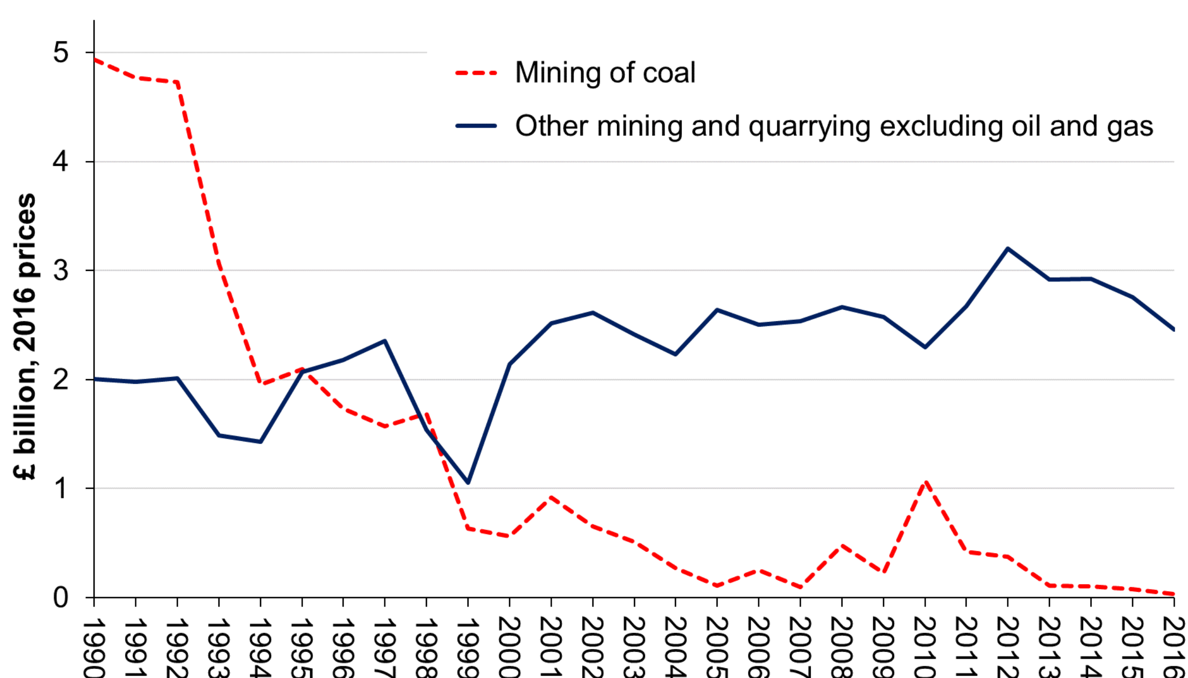
- energy minerals – coal;
- construction minerals – aggregates, brick clay and cement raw materials;
- industrial minerals – kaolin (china clay) and ball clay, silica sand, gypsum, potash, salt, industrial carbonates, fluorspar and barytes;
- metal minerals – tungsten, gold.

The largest bulk market for non-energy minerals is construction. Industrial minerals extracted and used in the UK range from those used primarily domestically (for example, silica sand and limestone for glassmaking, iron and steel manufacture) and minerals such as kaolin, ball clay and potash, which have significant international markets. Mineral production supports a wide variety of upstream, midstream and downstream industries.

In recent years, an increase has occurred in UK mining and quarrying non-coal production, while coal production volumes have consistently fallen for the past two decades. Output of non-coal mining and quarrying has grown substantially since 2010, although GVA fell in 2016 (Figure 15).

[1] Unless noted otherwise, in this section "mining and quarrying" includes coal but excludes oil and gas extraction.

Figure 15. GVA of UK mining and quarrying (excluding oil and gas) 1990–2016[1]



Source: ONS.

The UK Minerals Yearbook 2015 includes 2014 value-of-production data for individual minerals.[2] Production volumes for specific minerals are provided in sub-section 2.3.5 below.

2.3.2. Balance of trade

Although the UK has significant domestic supply of some minerals, it is a net importer of many minerals and mineral-based products, particularly metals, and in the long term has experienced a balance of trade deficit. UK mineral exports and imports have both increased in recent years. In 2014, the value of total UK exports of minerals and mineral products was £66.1 billion and imports £85.6 billion. Excluding hydrocarbons and coal, exports of other minerals and mineral products were valued at £32.7 billion and imports of other minerals and mineral products valued at £37.7 billion. Imports and exports of the largest minerals flow, aggregates, are relatively low, accounting for less than 5% of the market.[3]

Export data for specific minerals are provided in sub-section 2.3.5.

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[1] Source: ONS, UK GDP(O) low level aggregates, published 29 March 2018; https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates

[2] BGS, June 2016, United Kingdom Minerals Yearbook 2015, http://www.bgs.ac.uk/downloads/start.cfm?id=3094

[3] BGS, June 2016, United Kingdom Minerals Yearbook 2015, http://www.bgs.ac.uk/downloads/start.cfm?id=3094

2.3.3. Legal framework

Planning

Extraction of minerals is subject to the UK's mineral planning process.[1] The aim of mineral planning is to meet the social, economic and environmental cost, while protecting conservation or heritage areas. Mineral working is not a permanent use of land, and extraction sites are usually restored for beneficial after-use.

Mineral planning policy is devolved and set out in the National Planning Policy Framework (England),[2] Planning Policy Wales[3] and National Planning Framework for Scotland 3.[4] In Northern Ireland, policy and guidance are provided through documents such as the Strategic Planning Policy Statement for Northern Ireland,[5] which partly supersedes the Planning Strategy for Rural Northern Ireland.[6] In Northern Ireland since 1 April 2015 responsibility for planning is shared between the Department of the Environment[7] (from 8th May 2016 in respect of planning, the Department of Infrastructure)[8] and the eleven local councils.[9] Exploration for and extraction of metalliferous and industrial minerals are licensed by the Department for the Economy in Northern Ireland under the Mineral Development (Northern Ireland) Act 1969.[10]The UK framework is supported by technical documents providing guidance on particular issues of mineral planning. The focus of the mineral planning process is on whether the development itself is an acceptable use of the land.[11]

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[1] See BGS, Planning, https://www.bgs.ac.uk/mineralsuk/planning/home.html

[2] Department for Communities and Local Government (DCLG), 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

[3] Welsh Government, 2001, http://gov.wales/topics/planning/policy/minerals/?lang=en

[4] Scottish Government, 2015, http://www.gov.scot/Publications/2014/06/3539

[5] http://www.planningni.gov.uk/index/policy/spps.htm

[6] Northern Ireland Department of the Environment, 1993, http://www.planningni.gov.uk/index/policy/rural_strategy.htm

[7] Departments Act (Northern Ireland) 2016 http://www.legislation.gov.uk/nia/2016/5/contents; The Departments (2016 Act) (Commencement) Order (Northern Ireland) 2016 http://www.legislation.gov.uk/nisr/2016/89/made; The Departments (Transfer of Functions) Order (Northern Ireland) 2016 http://www.legislation.gov.uk/nisr/2016/76/contents/made

[8] https://www.infrastructure-ni.gov.uk/; Department of Infrastructure planning page, https://www.infrastructure-ni.gov.uk/topics/planning

[9] https://www.communities-ni.gov.uk/publications/local-government-maps

[10] https://www.legislation.gov.uk/apni/1969/35

[11] For environmental issues that may be considered during the planning process, see DCLG, Assessing environmental impacts from minerals extraction, http://planningguidance.planningportal.gov.uk/blog/guidance/minerals/assessing-environmental-impacts-from-minerals-extraction/

Mineral planning and decisions on planning applications are a responsibility of a local authority body designated as the Mineral Planning Authority (MPA). In Wales, Scotland and some parts of England MPAs are Unitary Authorities. In Wales, National Parks are responsible for minerals planning. In most of England MPAs are the County Councils or National Parks. In Northern Ireland, the Minerals Unit, part of the Planning Service of the Department of the Environment, was responsible for minerals planning until 1 April 2015.[1]

MPAs have four areas of planning responsibility:

- planning to guide future developments;
- safeguarding mineral resources;
- managing developments by deciding on planning applications; and
- monitoring and enforcement of existing planning permissions.

Some minerals permissions last for many years, and there may be a need for periodic reviews of the planning conditions attached to that permission. MPAs control mineral developments under the orders established under the Town and Country Planning Act 1990 (Section 97, Part II of Schedule 5, and Schedule 9).[2]

Minerals extraction may only take place if the operator has the agreement of the landowner and has obtained both a planning permission from the MPA and any other permits and approvals. The latter may include:

- permits relating to surface water, groundwater and mining waste, issued by the Environment Agency (under UK legislation related to the EU Water Framework Directive and Mining Waste Directive);
- where appropriate, European Protected Species Licences, issued by Natural England;
- where appropriate heritage asset consents issued by Historic England;
- licences for exploration and extraction of coal, or agreements to enter into or pass through a coal seam to extract any other mineral, need to be granted by the Coal Authority;

[1] The functions of the Department's Strategic Planning Division Minerals Unit in Northern Ireland transferred to each of the 11 councils on 1 April 2015. Under the two-tier planning system, councils will be the determining planning authority for the vast majority of planning application, including mineral applications. Applications of regional significance will be submitted directly to the Department of the Environment. However, from 2016, applications in respect of planning should be submitted to the Department of Infrastructure under the provision set out in section 26 of the Planning Act (Northern Ireland) 2011.

[2] For more information see DCLG, Minerals planning orders, http://planningguidance.planningportal.gov.uk/blog/guidance/minerals/minerals-planning-orders/

- licences for exploration and extraction of minerals managed by TCE need to be obtained from the latter.[1]

Additional consents, such as relating to diverting and reinstating rights of way or temporary road orders, may need to be obtained. Additional rights of way and land use may need to be secured from landowners. Active mining and quarrying operations are also regulated by the Health and Safety Executive.

Marine plans are being developed by each of the UK marine planning authorities in accordance with the requirements of the Marine and Coastal Access Act 2009 and the UK Marine Policy Statement. Each marine plan will set out policy to support public authorities determining licensing applications including those for marine minerals and oil and gas extraction.[2]

A marine plan:

- sets out priorities and directions for future development within the plan area;
- informs sustainable use of marine resources;
- helps marine users understand the best locations for their activities, including where new developments may be appropriate.

Relevant public authorities must take their decisions in accordance with the relevant marine planning documents, i.e. the UK Marine Policy Statement and any marine plan prepared and adopted by the marine planning authority.

Information about mineral planning and environmental permitting within the UK's devolved administrations is available as follows:

- Scottish Government, Guide to the Planning System in Scotland.[3]
- Northern Ireland Environment Agency (NIEA) and Scottish Environment Protection Agency (SEPA), NetRegs: Environmental Guidance for Your Business in Northern Ireland and Scotland.[4]
- Northern Ireland Planning Service, Minerals Planning.[5]
- Welsh Government, Planning.[6]

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[1] The Crown Estate (http://www.thecrownestate.co.uk) is an incorporated public body that manages the monarch's property portfolio.

[2] http://www.gov.wales/topics/environmentcountryside/marineandfisheries/marine-planning/?lang=en; https://www.gov.uk/government/collections/marine-planning-in-england; http://www.gov.scot/topics/marine/seamanagement; https://www.daera-ni.gov.uk/articles/marine-plan-northern-ireland

[3] http://www.gov.scot/Publications/2009/08/11133705/1

[4] http://www.netregs.org.uk/environmental-topics/useful-links/mining-and-quarrying/

[5] http://www.planningni.gov.uk/advice_special_studies_minerals

[6] http://gov.wales/topics/planning/?lang=en

- Natural Resources Wales, Mining waste.[1]

2.3.4. Licensing, fiscal regime and revenue streams

Mineral ownership and licensing

With the exception of oil, gas, coal, gold and silver, mineral rights in Great Britain[2] vest in landowners rather than the state. It follows that there is no single, national licensing system for the exploration and extraction of such privately owned minerals. While planning permissions and environmental permits are generally required for such purposes, these are not licences.

Where mineral rights belong to a private landowner, permission for exploration must be received from the landowner. As TCE and (in GB) the Forestry Commission manage land on behalf of The Crown, they also issue exploration and extraction licences for mineral deposits under their management and grant access right permits (wayleaves). In some cases, mineral rights can be managed by a private agent on behalf of a public body (TCE and Forestry Commission Scotland).

Coal Authority

The Coal Authority is a regulatory executive non-departmental public body, established in 1994 following privatisation of the industry and sponsored by BEIS.[3] The Authority owns, on behalf of the State, the majority of unworked coal and abandoned underground coal mine workings in GB and regulates and grants licences for working of coal and underground coal gasification (UCG), together with agreements to enter its coal estate for other processes such as coal bed methane extraction.

The Coal Authority holds an offline public registry of licences and does not publish licences online. Information about coal licences can be requested by post and email.[4] The Authority provides online coal mining data including on licence areas and known areas of activity.[5]

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[1] https://naturalresources.wales/permits-and-permissions/waste/waste-permits/mining-waste/?lang=en

[2] BGS, Legislation & policy: mineral ownership, https://www.bgs.ac.uk/mineralsuk/planning/legislation/mineralOwnership.html

[3] See https://www.gov.uk/government/organisations/the-coal-authority

[4] Contact details at https://www.gov.uk/government/organisations/the-coal-authority Information about coal licences (including Licensee details) can be viewed free of charge from the Coal Authority offices, but there is a charge if a copy is requested. Discussions are ongoing to set up an on-line electronic register.

[5] Coal Authority, https://www.gov.uk/government/collections/coal-mining-data

Coal Authority revenue streams include:[1]

- fees for statutory licences, either operating or conditional (where the licensee is yet to secure planning permission) for surface and underground coal mining operations and UCG;
- fees for licences for coal exploration;
- production-related rents under coal leases which transfer the property interest in the coal to the licensee when holding an operating licence;
- fees and royalties for digging and carrying away coal during non-coal-related development (Incidental Coal Agreement);
- fees for agreements to access or pass through the Authority's coal estate for processes such as coal bed methane and abandoned mine methane extraction, mine water heat recovery and deep energy exploitation (e.g. geothermal, shale gas);
- payments for coal rights under options for lease (granted with conditional licences) and rights for pillars of support in coal.

In 2015 the Authority received £238,000 for its licensing activities. This includes grant fees, application fees and annual fees. The amount remitted to BEIS in respect of rents, royalties and rights for its coal amounted to £863,000.

At the end of March 2017, 10 surface mines were in operation under licences held by 9 companies, and 3 underground mines were in operation under licences held by 3 companies. In addition, there were 13 UCG licences held by 2 companies, but all were conditional licences and none was operational.

Northern Ireland

With certain exceptions, mineral rights in Northern Ireland are vested in the Department for the Economy (DfE).[2] The DfE publishes a description of the process for the award of Mineral Prospecting Licences (MPLs) and consults publicly on applications.[3] Applications are accepted on a "first come, first served" basis, although there is provision for a competitive process where there is more than one interest in an area. In 2015/16 there were two applications for mineral exploration licences and DfE did not grant any exploration licences.

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[1] Coal Authority, https://www.gov.uk/government/organisations/the-coal-authority/about/about-our-services

[2] Mineral Development (Northern Ireland) Act 1969, http://www.legislation.gov.uk/apni/1969/35/contents

[3] DfE, Mineral Licences - Guidance for Applicants, Minerals licensing, https://www.economy-ni.gov.uk/articles/minerals-licensing

The Crown Estate: marine licences

TCE manages the seabed to the 12-nautical mile territorial limit and non-energy mineral rights out to 200 nautical miles.[1] TCE typically awards, through a market-based tendering process, commercial agreements to companies to explore for or extract marine aggregate minerals, and it collects royalties for minerals extracted. All licensed application and exploration/option marine aggregate area details are published online and are available at no charge. TCE does not disclose contracts and agreements relating to minerals where they contain commercially confidential information.

Such rights and options can only be exercised once the necessary regulatory consent (marine licence) is obtained under the Marine and Coastal Access Act 2009 from the national regulator – the Marine Management Organisation (MMO) in England, Natural Resources Wales (NRW), Marine Scotland or in Northern Ireland the Department of Agriculture, Environment and Rural Affairs (DAERA) – according to location.[2] All regulators are required to keep a public register of marine licences they have issued.[3] Applications for marine licences must be publicised to allow anyone who is interested a chance to object.[4]

Revenue streams for marine aggregates comprise:

- marine licence payments of fees and relevant charges to the relevant regulator;
- rent and production royalty payments to TCE.[5]

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[1] http://www.thecrownestate.co.uk/

[2] British Marine Aggregate Producers Association (BMAPA), Licensing and regulation, http://www.bmapa.org/regulation_and_management/licensing_and_regulation.php; the MMO is an executive non-departmental public body sponsored by the Department for Environment, Food & Rural Affairs: see https://www.gov.uk/government/organisations/marine-management-organisation

[3] England: https://marinelicensing.marinemanagement.org.uk/mmo/fox/live/MMO_PUBLIC_REGISTER; Wales: https://naturalresources.wales/media/4986/applications-received-and-determined-july-2015.pdf; Scotland: http://www.gov.scot/Topics/marine/Licensing/marine/register; Northern Ireland: the functions and services delivered by Department of the Environment have been transferred to new Northern Ireland departments. A register of licensing information is available for inspection at all reasonable times by members of the public free of charge. Contact Marine Strategy and Licensing Branch or the Northern Ireland Environment Agency (NIEA), Marine Dredging. https://www.daera-ni.gov.uk/northern-ireland-environment-agency

[4] UK Environmental Law Association, Marine Licensing, http://www.environmentlaw.org.uk/rte.asp?id=275

[5] Royalty rates vary between licences and are commercially confidential. Companies also pay "dead rent", a standard minimum annual fee payable to TCE if no dredging has occurred within the past 12 months.

TCE manages mineral rights to potash mined from beneath the UK seabed. Currently only one operating mine pays royalties for potash mined offshore (Boulby, operated by Cleveland Potash); there is also a lease (York Potash) on which planning approval has been granted but extraction has yet to start. Fees and royalties received by TCE are negotiated directly. Rock salt is a by-product of potash mining at Boulby, with arrangements analogous to those for potash (royalty fees to TCE for minerals mined from the offshore section of the mine) in place.

The Crown Estate: terrestrial minerals

TCE has also granted mineral leases across the UK for land based mineral extraction operations, including sand, gravel, hard rock, dimension stone and slate. It charges royalties for minerals extracted. Lease conditions and royalty payment provisions are negotiated on an open market and case-by-case basis. TCE also manages the right to gold and silver ("Mines Royal"),[1] but there is no significant gold or silver production in the UK. However in Northern Ireland under the Mineral Development (Northern Ireland) Act 1969[2] with certain exceptions (exceptions which includes gold and silver) all mineral rights are vested in the Department for the Economy (DfE). Since 1970 the mineral rights specified in the 1969 Act are held in public ownership.

Local Planning Authorities (planning obligations payments)

Planning obligations are agreements made between a planning applicant (including the freehold owner of land where the operator only has a minerals lease) and a Local Planning Authority (LPA) under section 106 of the Town and Country Planning Act 1990 in England and Wales, section 75 of the Town and Country Planning (Scotland) Act 1997 (as amended by the Planning etc. (Scotland) Act 2006) in Scotland and Article 40 of the Planning (Northern Ireland) Order 1991[3]. Planning obligation payments are site-specific and negotiated case by case. They may comprise:

- monetary payments to LPAs; or
- "in-kind" infrastructure provisions: mainly off-site provisions, (on-site provisions within the boundary of a planning permission are theoretically possible but more likely to be included in planning conditions rather than under planning obligations).

The difference between off- and on-site "in-kind" infrastructure provisions can be understood as between provisions that benefit the local community and those used by the extractive company itself. Only monetary payments and off-site provisions are in scope for the UK EITI.

[1] With an exception of a few places in Scotland, where mineral rights were transferred historically.

[2] http://www.legislation.gov.uk/apni/1969/35/contents

[3] http://www.legislation.gov.uk/nisi/1991/1220/contents

Planning obligations can be short term, such as obligations to carry out works before the extraction can take place, or long term, such as obligations to restore or provide after-care of extraction sites.

Obligations are recorded in online planning registries kept by LPAs, but payments owed or made are not always recorded, and no central registry of such planning obligations or relevant payments exists.

Fiscal regime

Mining and quarrying companies pay corporation tax on their profits at the standard rate, unlike profits from oil and gas extraction, which are subject to Ring Fence CT regime. Profits from upstream and downstream activities are not separated, and such companies pay a single amount of CT on the profits arising from all their activities. It is therefore not possible to say how much of the taxes paid by the companies whose tax payments are reported here related to their extractive activities nor what the total of such taxes was (and therefore what proportion of the total is covered by this report).

Companies based in the UK have to pay CT on all their taxable profits, wherever in the world those profits originate, although double taxation relief is available where appropriate to avoid the same profits being taxed twice. Companies not based in the UK, but with branches operating in the UK, have to pay CT on taxable profits arising from their UK activities. CT payments by mining and quarrying companies are included in the scope of the UK EITI. The figures reported are for total CT and include tax on both upstream and downstream activities.

There are several other payment streams, such as the Aggregates Levy, which involve payments from extractive companies to the Exchequer. These are outside the scope of EITI as they are indirect taxes not direct taxes. They are documented by the ONS in its annual publications on environmental accounts and environmental taxes.[1]

2.3.5. Mineral subsectors

Coal

The majority of coal output comes from surface mining (opencast) sites in Scotland, North East England and South Wales. At the end of March 2016 there were 21 operating surface mines and no operating commercial-scale underground mines. UK coal production peaked in 1913 and has been contracting, with fluctuations, since

[1] http://www.ons.gov.uk/economy/environmentalaccounts/bulletins/ukenvironmentalaccounts/2016; https://www.ons.gov.uk/economy/environmentalaccounts/datasets/ukenvironmentalaccountsenvironmentaltaxes; see also HMRC guidance, Environmental taxes, reliefs and schemes for businesses, https://www.gov.uk/green-taxes-and-reliefs/overview, and, in particular, Excise Notice AGL1: Aggregates Levy, https://www.gov.uk/government/publications/excise-notice-agl1-aggregates-levy/excise-notice-agl1-aggregates-levy

the mid-twentieth century, with the sharpest decline in the 1990s. Electricity-generating power stations currently account for most of the UK's coal consumption. Output in 2016 was 4.12 million tonnes (4.1 million from opencast mines, 22 thousand from deep mines).[1] For data on value of production (GVA) and coal exports, see Section 2.1.

Construction minerals

Construction minerals include aggregates, brick clay and cement raw materials. Supply of aggregates includes crushed rock, sand and gravel (land-won and marine-dredged) with significant contributions from recycled and secondary materials. Brick clay is an essential raw material for the manufacture of bricks; limestone and chalk are the primary materials for the production of cement.

The aggregates industry produces crushed rock, sand and gravel. According to the Mineral Products Association, in 2016 the industry produced 169 million tonnes of primary aggregates (in addition to 64 million tonnes of recycled and secondary aggregates), 13 million tonnes of cementitious products and 1 million tonnes of dimension stone for construction uses in GB. In addition, 18 million tonnes of rock and 4 million tonnes of industrial sand for non-construction use in GB, and 5 million tonnes of clay, were extracted in 2014 for brick manufacture.[2] The BGS does not record statistics on the value of production of construction minerals. Aggregates are the largest element of the supply chain of the construction industry, and fluctuations in construction have a large impact on demand and production. The market declined steeply following the 2008 economic crisis, but increased after 2012 and rose by 4% in 2016 There is evidence of a long-term decline in reserves of land-based sand and gravel, which could constrain supply if production continues to be greater than the approval of new reserves.[3]

Most (64% of) UK primary aggregates production in 2015 took place in England, 15% in Scotland, 11% in Northern Ireland and 9% in Wales.[4] In 2015, 932 sq km (less than 0.1% of the total area of UK seabed) were licensed for dredging by TCE,

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[1] BEIS, August 2016, Historical coal data: coal production, availability and consumption 1853 to 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/548008/Coal_since_1853.xls; see also BEIS September 2016, Coal in 2015, Energy Trends special feature article, https://www.gov.uk/government/publications/energy-trends-september-2016-special-feature-article-coal-in-2015; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669750/Energy_Trends_December_2017.pdf

[2] Mineral Products Association, The mineral products industry at a glance – key facts, 2016, http://www.mineralproducts.org/documents/Mineral_Products_Industry_At_A_Glance_2016.pdf,

[3] UK Minerals Forum, The future of our minerals: A summary report, November 2014, http://www.british-aggregates.co.uk/documentation/doc136_UKMineralsForumFINAL07112014(1).pdf

[4] Mineral Products Association, The mineral products industry at a glance, http://www.mineralproducts.org/documents/Mineral_Products_Industry_At_A_Glance_2016.pdf

57% of this off the east and south coasts of England from where the majority of aggregates are supplied to the construction market in London and the South East. The area dredged in the year, however, was significantly lower – 83 sq km, within which 90% of extraction effort (defined by hours dredged) occurred in an area of 32 sq km.[1]

The UK is a net exporter of aggregates, although both imports and exports represent less than 5% of UK markets. Because transport costs are a very significant factor for aggregates, most markets are local or regional, with relatively little international trade. Historically, the UK has been self-sufficient in the supply of primary aggregates due to significant geological resources and adequate reserves with planning permissions. Exports of UK aggregates were valued at £77.3 million in 2014, compared with imports worth £39.4 million.[2]

Industrial minerals

Industrial minerals include a number of raw materials used in specialised processes, with notable production in the UK of the following.[3]

Kaolin - Kaolin, also known as china clay, is a commercial clay with specialist applications in paper production, ceramics, cosmetics and other industries. UK deposits of kaolin are concentrated in Cornwall and Devon and world-class in terms of size and quality.[4]

Production peaked in 1988 at 2.8 million tonnes but since then has declined to 940 thousand tonnes in 2016, 90% of which was exported, mostly to Europe.

Ball clay - Ball clay, another major industrial mineral, is produced in Devon and Dorset mainly for the manufacture of white ware ceramics. Production levels peaked between 2005 and 2008 at more than 1 million tonnes. In 2016, production was estimated at 753,000 tonnes.

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[1] British Marine Aggregate Producers Association, Sustainable development report 2016, http://www.mineralproducts.org/documents/BMAPA_SD_Report_final_Feb17.pdf

[2] BIS, Monthly Bulletin of Building Materials and Components, https://www.gov.uk/government/collections/building-materials-and-components-monthly-statistics-2012

[3] Sources of data in this sub-section include: BGS, UK Minerals Yearbook 2015 https://www.bgs.ac.uk/downloads/start.cfm?id=3094; BGS, Mineral Planning Factsheets, https://www.bgs.ac.uk/mineralsuk/planning/mineralPlanningFactsheets.html; BGS, UK mineral statistics, https://www.bgs.ac.uk/mineralsuk/statistics/UKStatistics.html; UK Minerals Forum, Trends in UK Production of Minerals, http://www.ukmineralsforum.org.uk/downloads/Trends%20in%20UK%20Production%20of%20Minerals_08012014.pdf

[4] BGS, Mineral Planning Factsheet, Kaolin, https://www.bgs.ac.uk/downloads/start.cfm?id=1362

Potash - Yorkshire has one of the largest proven world deposits of potassium-rich minerals. There is one potash mine in the UK, at Boulby, Yorkshire, and in June 2015 a planning application was approved for another mine in the North York Moors (NYM) National Park. Ninety per cent of potash mined in the UK is used for agricultural fertiliser production. Small quantities are also used in the pharmaceutical and chemical industries. Production of potash reached its record high of 1.04 million tonnes (refined potassium chloride) in 2003 but then declined. Current production (2016) is reported to be 432 thousand tonnes.[1]

The Boulby mine, which produces salt in conjunction with potash, directly employs about 1,000 people, half of whom work underground.[2] The mine that is to be established in the NYM National Park is expected to employ between 1,000 and 2,000 people and could make the UK a major world exporter of potash.[3]

Salt - England accounts for 95% of UK salt production, 80% of which takes place in Cheshire; the Boulby potash mine in Yorkshire is another large centre. About 70% of salt is extracted through solution mining, the rest mined as rock. County Antrim is the main area of salt production in Northern Ireland. Rock salt is primarily used for de-icing roads and in agriculture. Brine salt is chiefly used in chemical industrial processes that require chlorine. An estimated 4.50 million tonnes of salt were produced in the UK in 2016.

Silica sands contain a high proportion of silica and their properties make them essential for glass making and a wide range of other industrial and horticultural applications. UK production has declined from approaching 7 million tonnes in 1974 to 3.9 million tonnes in 2014. Exports totalled 93,800 tonnes worth £5 million in 2014, with imports of 139,800 tonnes worth £15.6 million. Hydraulic fracturing for shale gas/oil could offer a significant new market.

Gypsum - Natural gypsum is used in plaster, plasterboard and cement making and has historically been mainly extracted by mining in the UK. The amount extracted in the UK has declined appreciably because of the use of desulphogypsum derived from flue gas desulphurisation at coal-fired power stations. In 2016 the UK produced an estimated 1.2 million tonnes.

Industrial and agricultural carbonates are important in iron and steel making, sugar refining and glass making, as fillers in various products, to reduce soil acidity in agriculture, and for flue gas desulphurisation in coal fired power generation. Total

[1] Company information.

[2] BGS Mineral Planning Factsheet, Potash, https://www.bgs.ac.uk/downloads/start.cfm?id=1367

[3] Company information; H. Pidd, "North York Moors potash mine gets £1.7bn go-ahead", Guardian, 30 June 2015, https://www.theguardian.com/environment/2015/jun/30/north-york-moors-potash-mine-gets-17bn-go-ahead

industrial carbonates production peaked at around 11.5 million tonnes in the late 1990s but was around 9 million tonnes in 2014.

Fluorspar is the most important and only UK source of the element fluorine, most of which is used in the manufacture of hydrofluoric acid. It is extracted from the Southern Pennine ore field in the Peak District National Park. In 2016, 12,000 tonnes were extracted.

Barytes is principally used as a weighting agent in drilling fluids used in hydrocarbon exploration, to which its fortunes have been linked. The major source comes from the Foss mine near Aberfeldy in Scotland. Production in 2016 was 56,000 tonnes.

The above data are sourced from the BGS "World Mineral Production"[1] publication and cover extraction from 2012–2016.

Metal minerals

Tungsten (wolfram) is an essential element in a range of industrial processes, valued for its high melting point, density and extreme strength. England hosts the world's fourth largest known tungsten deposit – the Drakelands Mine near Plympton, Devon. This has been estimated to contain 318,800 tonnes of tungsten metal, or about 10% of the world's known reserves, as well as an estimated 43,700 tonnes of tin. Production at Drakelands, historically known as Hemerdon mine, began in 2015 after a 70-year break, operated by Australian company Wolf Minerals. This is the first significant new metal mine to open in the UK for 45 years. Production will take the form of open-pit mining, and the company predicts producing 5,000 tonnes of tungsten concentrate and 1,000 of tin concentrate each year, mainly for export.[2]

2.3.6. Outlook

Coal

At the end of 2016 the UK had an estimated 61 million tonnes of coal reserves and resources at operating surface and underground mines together with those in the planning process. In addition, there were some 159 million tonnes of resources in projects at the pre-planning stage plus just under 3 billion tonnes of potential resources at identified projects developed to various stages in the past 30 years.[3]

Construction minerals

Following growth since 2012 construction activity has slowed down in 2017 and independent forecasts now suggest very modest growth between 2017 and 2019.

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[1] http://www.bgs.ac.uk/mineralsUK/statistics/worldStatistics.html

[2] BGS, Mineral profiles, Tungsten, http://www.bgs.ac.uk/downloads/start.cfm?id=1981; Wolf Minerals, Drakelands Mine, http://www.wolfminerals.com.au/irm/content/drakelands-mine.aspx?RID=324&RedirectCount=1

[3] Coal Authority, email communication.

Housebuilding remains positive but investment in commercial and industrial construction is expected to fall over the period. Plans for infrastructure investment in areas such as transport, energy and water are positive but there remains some uncertainty about the timing of some major infrastructure projects.

Longer-term construction-related demand will depend on a variety of factors. Projected UK population increases to 2030 and higher planned investment in infrastructure projects suggest a continuing underlying need for construction activity and minerals.

Although there may be a greater general focus on the use of recycled materials in aggregates markets, their use is already mature in domestic markets (in recent years recycled materials have made up an estimated 25% to 30% of the market in England, Wales and Scotland, over twice the European average). Therefore, demand for quarried and dredged aggregates is likely to remain significant. Geologically the UK has substantial resources of construction minerals, which will remain subject to planning approvals before they can be extracted.

Industrial and metal minerals

Future extraction trends for industrial minerals will depend on movements in UK and overseas markets and on the competitiveness of operating costs and the business environment in the UK. The recent opening of a globally significant tungsten mine in Devon and planning approval for a major new potash mine in the NYM illustrate the continuing importance of the UK as a mineral producer.

As of December 2016, the proven reserve was 1.438 million ounces of gold. The total resource is currently 4.4 million ounces of gold in all categories at Curraghinalt[1] in Northern Ireland. For both aggregates and industrial minerals, future extraction trends will be linked to economic growth. The National Planning Policy Framework (NPPF) states in paragraph 142 that “Minerals are essential to support sustainable economic growth and our quality of life. It is therefore important that there is a sufficient supply of material to provide the infrastructure, buildings, energy and goods that the country needs. However, since minerals are a finite natural resource, and can only be worked where they are found, it is important to make best use of them to secure their long-term conservation.”[2]

The NPPF also places an obligation on MPAs to plan for a steady and adequate supply of aggregates and industrial minerals.

[1] http://www.dalradian.com/curraghnalt-project/curraghinalt-deposit/default.aspx

[2] DCLG, NPPF, 2012, para 142, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

2.4. Revenue Allocations

The UK Government publishes full details of its income and expenditure (outturn figures, estimates and forecasts).[1] Budget forecasting is overseen by the independent Office for Budget Responsibility.[2] Government accounts are audited by the National Audit Office (NAO)[3] and scrutinised by the Public Accounts Committee.[4]

With very few exceptions, central government receipts are not hypothecated to specific items or types of expenditure. The only central government extractive revenues currently earmarked for specific UK programmes or geographic regions involve the allocation of a population-based share of income from seaward petroleum licences to the Northern Ireland Government, as required by section 2 of the Miscellaneous Financial Provisions Act 1968. The amount transferred in 2016/17 was £1,738,000 (£1,600,000 in 2015/16).[5]

In addition, as mentioned in sub-section 2.2.8, the OGA Levy part-funds the operation of the Oil and Gas Authority (OGA).[6] The rates of the Levy are set by statutory instrument so have to be approved by Parliament. Any excess of income over expenditure is repaid to levy-payers which can result in net refunds for some levy-payers in a calendar year. The OGA is a vested company with operational independence from Government. However, the Secretary of State (SoS) for Business, Energy and Industrial Strategy is the company's sole shareholder and is ultimately responsible to Parliament for the OGA; the OGA Board of Directors is accountable to the SoS. The Permanent Secretary of the Department for Business, Energy and Industrial Strategy (BEIS) is the Principal Accounting Officer for the OGA and is responsible to Parliament for any grant funding of the OGA; the OGA's Chief Executive is responsible to the Permanent Secretary. The OGA's Annual Report and Accounts are approved by the Board of Directors and the SoS.

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[1] See e.g. HM Treasury, Autumn Budget 2017, https://www.gov.uk/government/topical-events/autumn-budget-2017

[2] OBR, http://obr.uk/

[3] NAO, https://www.nao.org.uk/

[4] Public Accounts Committee, http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/

[5] OGA, Annual Report and Accounts 2016–17 https://www.ogauthority.co.uk/news-publications/publications/2017/oga-annual-report-and-accounts-2016-17/

[6] DECC, Funding the Oil and Gas Authority, https://www.gov.uk/government/consultations/funding-the-oil-and-gas-authority-consultation-on-levy-design; OGA, Annual Report and Accounts 2016–17, https://www.ogauthority.co.uk/news-publications/publications/2017/oga-annual-report-and-accounts-2016-17/

3. APPROACH AND METHODOLOGY

3.1. Payment Streams

In preparation for UK's first EITI report, the Multi-Stakeholder Group (MSG) considered which revenue streams should be included within the scope of the reconciliation. A sub-group of the MSG prepared a paper listing potential revenue streams which could be included within the scope. The government agencies and MSG representatives from the extractive companies gave presentations to add context to the discussion of this paper.

As a result, the MSG agreed that Ring Fence Corporation Tax, the Supplementary Charge, Petroleum Revenue Tax (PRT) and petroleum licence fees would be in scope for oil and gas companies for the UK EITI reconciliation exercise. It was also agreed that, for mining and quarrying companies, in addition to (mainstream) corporation tax, extractive-related payments to The Crown Estate (TCE) and the Coal Authority should be in scope. More detailed descriptions of the revenue streams can be found in the fiscal regime and revenue streams sub-sections in Chapter 2.

For the second report, which covered the year 2015, the MSG added further revenue streams to the scope, namely the new OGA Levy and payments to TCE made by oil and gas companies in respect of pipelines (previously only payments made to TCE by mining and quarrying companies had been within scope).

At the July 2017 MSG meeting, representatives agreed that, in relation to 2016, all payment streams from the second report should remain in-scope for reporting, together with Advance Petroleum Revenue Tax (APRT), which was to be combined with PRT for reporting purposes. Further details about these payments can be found below.

3.1.1. Oil and gas sector

The following revenue streams specific to UK oil and gas production are within scope for UK EITI:

- A combined total for Ring Fence Corporation Tax (RFCT) and the Supplementary Charge (SC);
- Petroleum Revenue Tax (PRT), including any Advance Petroleum Revenue Tax (APRT) repayments received (by field);
- Petroleum Licence Fees (by licence);
- the OGA Levy; and
- Payments to The Crown Estate in respect of pipelines operated by companies that are engaged in UK extractive activities.

The MSG decided that any interest or penalty payments should be included as an element of the payment (or repayment) with which they are associated.

Larger oil and gas companies pay mainstream CT, RFCT and SC in instalments “in-year” (based on estimates). A number of these instalments will consist of a single payment covering all three taxes, which are allocated only at a later date, too late to be included within the reconciliation. All three taxes are taxes on profits so can be treated as a single revenue stream for EITI purposes, but an additional complication arises because mainstream corporation tax paid by oil and gas producers is not related to their UK extractive activities and is therefore out of scope of the UK EITI so should not be reported.

Companies were allowed to confirm the split between in-scope and out-of-scope payments (respectively RFCT and SC and mainstream corporation tax) themselves, with reconciliation focusing on the total payments.

Accordingly, if the company/group has not tagged its RFCT/SC payments as distinct from its mainstream CT payments under the group payment arrangement (GPA) then they are to report the total payment made in the period. If tagging has been used, they are to report only the total tagged RFCT/SC payment.

The MSG decided that PRT should be reported at the project level (i.e.by field). However, in practice many companies pay the liability for a number of fields in one payment, covering numerous projects. To accommodate the MSG’s decision, HMRC agreed to provide a breakdown of the cash payments received by company and by field and to provide these data to the IA.

3.1.2. Mining and quarrying sector

The following revenue streams for the Mining and Quarrying sector are included within the scope for UK EITI:

- Corporation Tax;
- Payments to the Coal Authority;
- Payments to The Crown Estate (TCE); and
- Monetary payments to Local Planning Authorities as part of planning obligations.

As there is no central record of planning obligation payments, the MSG agreed these payments should be reported unilaterally by companies. Payments reported as having been made in 2016 amounted to £98,012.

The MSG decided that any interest or penalty payments should be included as an element of the payment with which they are associated.

3.1.3. Miscellaneous

For the avoidance of doubt, it is confirmed that the following categories of payment are not present in the context of the UK extractives sector:

- in-kind revenues;
- infrastructure provisions;
- barter arrangements;
- transportation payments.

3.2. Government Agencies

The Government Agencies required to report for UK EITI for 2016 were:

- Her Majesty's Revenue and Customs (HMRC);
- The Oil and Gas Authority (OGA);
- The Crown Estate (TCE); and
- The Coal Authority.

3.3. Materiality Threshold

The MSG took an early decision to shadow the Reports on Payments to Governments Regulations 2014 where practicable.[1] These regulations implement the 2013 EU Accounting Directive, which requires all EU large and publicly listed extractives companies to publish the payments they make to governments in all the countries where they operate.

For the UK EITI, in line with the above regulations, the materiality threshold is set at £86,000 and will apply to each revenue stream at group level. The threshold applies to the net total of payments and repayments – once the threshold has been reached in a revenue stream, then all individual payments within that stream will be included. This means that individual payments below £86,000 are included within the revenue stream total once the threshold has been reached.

3.4. Data Collection, Completeness and Reliability

3.4.1. Taxpayer confidentiality

Many countries have taxpayer confidentiality provisions within their legal frameworks. In the UK these provisions are set out in the Commissioners for Revenue and Customs Act 2005. The EITI Secretariat publishes guidance on how to address the issue of taxpayer confidentiality and this guidance was considered by both the MSG reconciliation sub-group and the full MSG. During the April 2014 MSG

[1] http://www.legislation.gov.uk/uksi/2014/3209/contents/made

meeting, representatives agreed to use a taxpayer waiver option with a preference for a standard waiver.

The majority of companies provided confidentiality waivers to the IA in advance of the first year's reconciliation conducted in 2015. The waivers were drafted to allow for their continued use in subsequent years and remain valid until withdrawn by the company. This means that new waivers are required only for companies that are participating in UK EITI for the first time.

3.4.2. Identification of in-scope companies

For 2016 payments, the MSG agreed on two different approaches for the identification of in-scope companies, the first relating to the oil and gas sector, the second relating to the mining and quarrying sector.

Oil and gas companies

HMRC provided the IA with a list of 42 oil and gas groups that had made material payments or received material repayments during 2016 relating to their upstream activities.

At the July 2017 MSG meeting, representatives agreed to include only these 42 companies making payments to HMRC in the reconciliation scope. With reconciliation of these companies' payments to the OGA, this was expected to provide 98% coverage of payments across the sector.[1]

Mining and quarrying companies

Oil and gas production apart, there is no specific tax regime for the minerals sector in the UK. This means that mining and quarrying companies pay mainstream corporation tax on all their profits with no requirement to identify separately the tax paid on their extractive activities. Therefore, HMRC was not able to provide the IA with a list of mining and quarrying companies that made material payments in 2016 for extractive activities, because the amounts paid to HMRC will often include a significant proportion of taxes on non-extractive activities.

For payments in 2016, the MSG agreed to retain the approach adopted for payments in 2015. That resulting in the following being asked to participate in the UK EITI:

- 17 companies that made material payments to TCE (as confirmed by TCE);
- 2 companies that made material payments to the Coal Authority (as confirmed by the Coal Authority); and
- 3 additional companies as being the largest companies operating in the aggregates sector.

[1] The final (actual) reconciliation coverage was 98.79%.

The mining and quarrying sub-group proposed this methodology at the July 2017 MSG meeting and this methodology was agreed. The list of 22 in-scope companies was provided to the IA and reporting templates and confidentiality waivers were sent to those mining and quarrying companies.

3.4.3. Collection of company payment data

The MSG developed instructions for reporting companies, including templates and guidelines, which can be found here: https://www.gov.uk/guidance/extractive-industries-transparency-initiative.

The reporting package included:

- Reporting template;
- EITI (Step-by-step) guide;
- Beneficial ownership guide; and
- Confidentiality waiver.

Reporting templates used in the reconciliation exercise are detailed in Annex 2 to this report.

The reporting template was sent electronically to all extractive companies by the end of August 2017. This included 64 companies in total: 42 oil and gas companies and 22 mining and quarrying companies. Extractive companies were asked to report directly to the IA using the email address ukeiti@moorestephens.com, to which they were also requested to direct any queries on the reconciliation exercise. Extractive companies were also encouraged to visit the UK EITI website for information and guidance on the EITI process.

3.4.4. Data reliability and credibility

At the September 2015 MSG meeting, representatives discussed whether to require additional assurance on the figures provided from both companies and government agencies. Papers about audit and accountancy requirements for companies (Companies Act and Overseas Companies Regulations) as well as on the statutory requirements for government agencies were discussed.

MSG representatives concluded that companies and government agencies are subject to robust regulatory requirements and that no additional audit and assurance should be requested for EITI purposes.

Extractive companies were asked to have their reporting templates signed by a senior official. All reporting templates received were duly signed.

For government agencies, the MSG accepted that rules of government accounting in the UK applied and the data to be reported was agreed with the IA in most instances.

The IA concluded that the final assessment of the overall comprehensiveness and reliability of reconciled financial data from companies and government agencies to be satisfactory.

3.5. Reconciliation Scope and Methodology

3.5.1. Analysis of the reconciliation scope

The IA undertook a preliminary analysis in accordance with their Terms of Reference (ToR) for the purpose of reviewing the scope of the reconciliation exercise for the 2016 calendar year. This preliminary analysis covers the UK's extractive industries and related entities (government agencies and extractive companies).

The preliminary analysis, much of which had taken place the previous years for the reports on 2014 and 2015, included:

- acquiring a good understanding of the extractive resources and industries of the country;
- reviewing the fiscal regime and other relevant revenue streams applicable to the extractive sector;
- reviewing existing data from the relevant period to determine significant revenue streams;
- reviewing materiality thresholds for revenue streams set by the MSG;
- identifying extractive companies which make material payments within the scope of the agreed material revenue streams;
- identifying government agencies which collect material revenues within the scope of the agreed material revenue streams;
- reviewing the reporting template to be used; and
- acquiring a good understanding of assurances to be provided by reporting entities to ensure the credibility of the data made available.

The IA also contacted several entities involved in the EITI process in order to collect relevant information and documentation necessary to achieve the objectives.

The reconciliation of cash flows for the year ended 31 December 2016 is based on the reconciliation scope approved by the MSG.

3.5.2. Reconciliation process

The reconciliation process consisted of the following steps:

- analysis of the reconciliation scope prepared by the MSG;
- collection of payment data from government agencies and extractive companies which provide the basis for the reconciliation;

- comparison of amounts reported by government agencies and extractive companies to determine if there were discrepancies between the two sources of information; and
- contact with government agencies and extractive companies to resolve the discrepancies.

3.5.3. Material deviation

The MSG agreed in November 2016 that the IA should reconcile differences for any specific company payment or for any revenue stream per company of over 1% or £10,000, whichever was the lower.

3.5.4. Adjustments to the EITI Reconciliation Scope

The number of in-scope companies was adjusted slightly during the reconciliation exercise. The changes are detailed as follows:

Sector	Initial number of companies	Adjustments		Adjusted number of companies
		(+)	(-)	
Oil & Gas	42		1	41
Mining & Quarrying	22	1	3	20
Total	**64**	**1**	**4**	**61**

Oil & Gas sector

One company that was sent reporting templates was excluded from the EITI scope because it made/received no material payments/repayments during the calendar year 2016.

Mining & Quarrying sector

Two companies that were sent reporting templates were excluded from the EITI scope because they made/received no material payments/repayments during the calendar year 2016 while a third turned out to be a part of a group that was already in-scope.

One company was added when it was realised that its payments exceeded the materiality threshold.

The final number of companies included in the EITI reconciliation scope was therefore 61.[1]

[1] Three companies did not participate in the reconciliation exercise, all of them mining & quarrying companies, giving an overall participation rate of 95%.

3.6. Beneficial Ownership

The UK EITI MSG agreed to incorporate beneficial ownership (BO) disclosure from the first report and as an ongoing reporting requirement. Accordingly, companies reporting under the UK EITI were asked to disclose their beneficial owners, that is, the identity of the people who ultimately own and control each company.

The approach to BO for UK EITI is aligned with the related provisions of the Small Business, Enterprise and Employment Act 2015.[1] Since 30 June 2016, companies incorporated in the UK are required to submit information to Companies House on people with significant control (PSC) along with a statement of confirmation.[2] Under the UK EITI, companies that have filed this information at Companies House were permitted to confirm their filing and provide the link to the relevant page at Companies House as a way of disclosing Beneficial Ownership (BO).

Publicly listed companies were asked to confirm their listed status, because they are already required to provide ownership information under stock exchange requirements. Private companies are asked to identify the owners who exercise control or receive economic benefits from the company. This control or benefit could be represented by owners having shareholdings of 25% or more or be exercised through one or more intermediary companies (trusts or company partners) or by other means.

Private companies are also asked to disclose information on any owners who are identified as “politically exposed”, i.e. have political influence, or who, as family members or close associates, have links to senior political figures or government officials in the UK or abroad, and who have a share of 5% or more in the company. A senior company official is required to verify the information provided.

Data collected on reporting companies’ BO and politically exposed persons is detailed in Annex 1 to this report.

By 2020, all countries implementing the EITI will have to ensure that all oil, gas and mining companies that bid for, operate or invest in extractive projects in their country disclose their real owners. At the November 2016 MSG meeting, representatives agreed a roadmap towards fulfilling this obligation in the UK. The roadmap can be found on the UK EITI webpages.[3]

3.7. Nature and extent of IA work

The Independent Administrator (IA) has performed his work in accordance with the International Auditing Standards applicable to related services (ISRS 4400

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[1] http://www.legislation.gov.uk/ukpga/2015/26/contents/enacted

[2] http://download.companieshouse.gov.uk/en_pscdata.html

[3] https://www.gov.uk/guidance/extractive-industries-transparency-initiative

Engagements to perform agreed upon procedures regarding Financial Information). The procedures performed were those set out in the terms of reference and approved by the MSG on 22 January 2015.

The reconciliation procedures carried out were not designed to constitute an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements and as a result the IA does not express any assurance on the transactions beyond the explicit statements set out in this report. Had the IA performed additional procedures other matters might have come to the IA's attention that would have been reported.

3.8. Recommendations

The IA provided recommendations where they noted deviations from the EITI 2016 Standard or where they felt improvements would make the UK EITI reporting process more efficient and assist the MSG in its future reconciliation exercises. The IA's recommendations are set out in Section 5.1 of this report.

4. RECONCILIATION RESULTS

The detailed results of the reconciliation exercise are presented in the following tables with post-reconciliation differences noted between amounts reported as paid by in-scope extractive companies and amounts reported as received by government agencies.

4.1. Reconciled Extractive Payments to Government in 2016 by Oil & Gas companies

£000	As reported by Government Agencies						Total reported by company	Unreconciled difference
	RFCT & SC	PRT	Petroleum Licence Fees	OGA Levy	Payments to TCE	Total		
Apache Corporation	-30,261	-51,591	398	375	191	**-80,888**	**-80,889**	**0**
BHP Billiton Petroleum	-14,843	-1,120				**-15,963**	**-15,959**	**3**
BP UK Group		-164,463	4,733	1,917	467	**-157,345**	**-157,346**	**-1**
CalEnergy Gas Ltd	-187	-964				**-1,151**	**-1,152**	**-1**
Centrica Energy E&P		-14,331	3,198	1,773	307	**-9,053**	**-9,053**	**0**
Chevron North Sea Ltd	1,599	-7,318	1,450	481		**-3,788**	**-3,788**	**0**
CNR International	-64,647	-91,237	380	585		**-154,920**	**-154,920**	**0**
ConocoPhillips UK Ltd	30,273	-30,320	5,170	1,768		**6,891**	**6,890**	**-1**
Dana Petroleum Ltd	-1,324	-1,999	825	576		**-1,922**	**-1,916**	**6**
Endeavour Energy UK Ltd		-5,099	111	235		**-4,753**	**-4,753**	**0**
Engie E&P UK Ltd	94		2,839	346		**3,278**	**3,278**	**0**
ENI UK Ltd	24,682	-2,916	2,714	321	669	**25,470**	**25,476**	**6**
EnQuest PLC	-1,631		1,087	716		**172**	**171**	**-1**
Europa Oil & Gas Ltd	144					**144**	**144**	**0**
ExxonMobil International Ltd	-68,734	-114,649				**-183,383**	**-183,383**	**0**
Faroe Petroleum PLC	881		1,153	178		**2,212**	**2,212**	**0**
Hess Ltd	-141,959	-4,225	173	195		**-145,815**	**-145,815**	**0**
Idemitsu Petroleum UK Ltd	-1,114	-724				**-1,838**	**-1,838**	**0**
IGas Energy PLC	551		802			**1,354**	**1,354**	**0**
INEOS Industries		-907	1,371	439	136	**1,039**	**1,041**	**2**
Ithaca Energy UK Ltd		837	498	363		**1,698**	**1,698**	**0**
Ithaca SPL Ltd (formerly Summit Petroleum Ltd)	-4,054					**-4,054**	**-4,054**	**0**
JX Nippon E&P UK Ltd		-1,357	248			**-1,109**	**-1,109**	**0**
Maersk Oil North Sea UK Ltd	-12,000	-29,746	874	236		**-40,636**	**-40,636**	**0**
Marathon Oil UK LLC	29,537	-5,511	214	178		**24,418**	**24,418**	**0**
Marubeni Oil & Gas UK Ltd		-657				**-657**	**-657**	**0**
Mitsui E&P UK Ltd		-4,714				**-4,714**	**-4,714**	**0**
Murphy Petroleum Ltd	-299					**-299**	**-299**	**0**
Nexen Petroleum UK Ltd	230,000	-2,897	5,285	522		**232,910**	**232,910**	**0**
Oranje-Nassau Energie UK Ltd	6,900	1,727				**8,627**	**8,627**	**0**
Perenco UK Ltd	11,693	-216	3,864	1,559	574	**17,474**	**17,474**	**0**

£000	As reported by Government Agencies						Total reported by company	Unreconciled difference
	RFCT & SC	PRT	Petroleum Licence Fees	OGA Levy	Payments to TCE	Total		
Premier Oil PLC	-4,701	281	2,394	755		**-1,271**	**-1,271**	**0**
Repsol Sinopec Resources UK Ltd	-12,650	-58,829	2,103	1,795		**-67,581**	**-67,581**	**0**
Royal Dutch Shell PLC	26,140	-149,592	3,784	2,442		**-117,226**	**-117,226**	**0**
Siccar Point Energy (Holdings) Ltd [incl. OMV (U.K.) Ltd]	-8,423		1,610			**-6,813**	**-6,813**	**0**
SSE E&P UK Ltd		-4,468				**-4,468**	**-4,470**	**-2**
Statoil UK Ltd		3,581	1,272	181		**5,034**	**5,034**	**0**
Suncor Energy UK Ltd	198,686					**198,686**	**198,686**	**0**
TAQA Bratani Ltd	41,423	-29,458	843	442		**13,250**	**13,252**	**2**
Total E&P UK Ltd	5,410	-8,573	4,270	1,422	189	**2,718**	**2,717**	**-1**
Tullow Oil PLC		-839	168	195		**-476**	**-476**	**0**
Total	**241,189**	**-782,294**	**53,831**	**19,994**	**2,532**	**-464,748**	**-464,736**	**12**

4.2. Reconciled Extractive Payments to Government in 2016 by Other Mining & Quarrying companies

£000	As reported by Government Agencies			Total reported by company	Unreconciled difference
	Mainstream Corporation Tax	Payments to TCE	Total		
Aggregate Industries UK Ltd	13,499	251	**13,750**	**13,750**	**0**
Breedon Group PLC	9,030	393	**9,423**	**9,423**	**0**
Brett Group	1,100	0	**1,100**	**1,100**	**0**
Britannia Aggregates Ltd	0	421	**421**	**421**	**0**
Cemex UK Materials Ltd	0	5,390	**5,390**	**5,390**	**0**
Cleveland Potash Ltd	0	1,744	**1,744**	**1,753**	**9**
DEME Building Materials Ltd	0	828	**828**	**828**	**0**
Garreg Lwyd Energy Ltd	0	459	**459**	**459**	**0**
Hanson UK Group	0	4,266	**4,266**	**4,266**	**0**
Irish Salt Mining & Exploration Co. Ltd	903	0	**903**	**903**	**0**
Kendall Bros (Portsmouth) Ltd	441	311	**752**	**753**	**1**
Llanelli Sand Dredging Ltd	0	124	**124**	**124**	**0**
Severn Sands Ltd	100	187	**287**	**287**	**0**
Tarmac Holdings Limited	4,492	4,350	**8,842**	**8,839**	**-3**
Van Oord UK Ltd	2,209	400	**2,609**	**2,609**	**0**
Volker Dredging Ltd	0	2,011	**2,011**	**2,011**	**0**
Westminster Gravels Ltd	1,005	1,076	**2,081**	**2,081**	**0**
Total	**32,779**	**22,213**	**54,992**	**54,999**	**7**

There were additional, relatively minor, payments reported by the relevant government agencies for companies that were in scope but whose payments were below the agreed materiality thresholds and for in-scope companies that did not participate in the reconciliation process. The totals of such payments are reported in the tables in the Executive Summary and, for petroleum licence fees and the OGA Levy, are included in the online disclosure of project level payments and repayments

at https://www.gov.uk/government/publications/extractive-industries-transparency-initiative-payments-report-2016, which also includes reconciled field level data on Petroleum Revenue Tax and project-level payments to TCE.

Separate to the UK EITI payment reconciliation exercise and complementing the information in this report, a number of companies have reported their 2016 payments to governments around the world, including to UK government entities, under the EU Accounting and Transparency Directives.[1]

[1] Data can be extracted from https://extractives.companieshouse.gov.uk/search?query=c

5. IA'S RECOMMENDATIONS TO THE MSG

We present in the section below additional measures we recommend should be implemented in order to improve the UK EITI process.

Follow-up to the IA's recommendations made in previous EITI Reports is presented in the annual progress report.[1]

5.1. Lessons Learned from the 2016 EITI Reconciliation Exercise

5.1.1 Reconciliations issues

During the reconciliation exercise, we identified some discrepancies that arose due to a variety of different reasons, viz:

- some licensees reported payments that were not licence fees or the OGA Levy;
- some participants incorrectly reported payments related to Research and Development Expenditure payments, which fall outside the reconciliation scope;
- some payments and repayments of interest and APRT were omitted.

These discrepancies were identified and reconciled.

In order to avoid such issues in further reconciliation exercises, we recommend that the MSG considers updating the guidance notes and adding payment definitions in the reporting templates for 2017. It is also recommended to carry out a webinar for reporting entities to avoid any misunderstandings and improve the quality of the templates submitted. This should make the reconciliation process more efficient.

5.1.2 Implementation of automated online disclosure

According to EITI Requirement 7.2.c, the MSG is encouraged to consider automated online disclosure of extractive revenues and payments by Government Agencies and companies on a continuous basis.

We note that HMRC, the main Government Agency involved in the reconciliation exercise, does not publish its payments/repayments due to taxpayer confidentiality issues.

The MSG should be encouraged to explore opportunities to disclose data as soon as practically possible, for example through continuous online disclosures or, where possible, by publishing additional, more recent, non-financial EITI data than covered by the accounting period.

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[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/667231/uk-eiti-progress-report-2016.pdf

To achieve this, we recommend that the MSG considers the following:

i. Reporting entities

The MSG may consider either unilateral disclosure by Government Agencies or asking extractive companies to disclose their payments as well.

ii. Frequency of the automated online disclosure

The MSG should agree on the frequency of the automated online disclosure. This can be done on a monthly, quarterly, or half-yearly basis.

iii. Technical feasibility

A detailed study should be carried out in order to obtain a full understanding of the technical abilities of the reporting entities to disclose their interim data.

iv. Legal feasibility

A detailed study should be carried out in order to obtain a full understanding of the legal obligations of the reporting entities to disclose their interim data.

5.1.3 Late and no submission of templates

50 out of 61 companies submitted their reporting template on or before the agreed deadline of six weeks as detailed below:

Sector	In-scope companies	Submission on time	Late submission	No submission
Oil & Gas	41	37	4	-
Mining and Quarrying	20	13	4	3
Total	**61**	**50**	**8**	**3**
%	**100%**	**82%**	**13%**	**5%**

For other companies frequent follow up by telephone calls and emails were required to obtain their completed reporting templates.

As a result of the non-submission of the reporting templates by the three mining and quarrying companies, we were unable to confirm the totality of receipts reported by the Government Agencies.

We recommend that the MSG considers the options available in order to try to achieve 100% on time submission by the reporting entities. One of the options to consider could include raising the awareness of the EITI programme. The UK Government could also consider regulatory (legal) mechanisms to impose EITI disclosure requirements on extractive companies.

ANNEXES

Annex 1: Beneficial Ownership

For all 58 reporting templates received, companies submitted a beneficial ownership declaration form. A total of 15 of these companies were privately held and made material payments to the UK Government under UK EITI. These 15 companies are detailed in the table below.

List of Privately owned companies making material payments which submitted a beneficial ownership declaration form.

N°	Company	Sector	Beneficial ownership disclosed for EITI purposes	Information to Companies House on PSC?
1	Brett Group	Mining and Quarrying	No	Yes
2	Britannia Aggregates Ltd	Mining and Quarrying	No	Yes
3	Endeavour Energy UK Ltd	Oil and Gas	No	No
4	Engie E&P UK Ltd	Oil and Gas	No	No
5	INEOS Industries	Oil and Gas	Yes: Mr James Arthur Ratcliffe	No
6	Irish Salt Mining and Exploration Co. Ltd	Mining and Quarrying	No	Yes
7	Kendall Bros (Portsmouth) Ltd	Mining and Quarrying	No	No
8	Korea National Oil Corporation	Oil and Gas	No	No
9	Mitsui E&P UK Ltd	Oil and Gas	No	No
10	Oranje-Nassau Energie UK Ltd	Oil and Gas	Yes: Mr Martialis Quirinus Henricus van Poecke	No
11	Perenco UK Ltd	Oil and Gas	No	No
12	Severn Sands Ltd	Mining and Quarrying	No	Yes
13	Siccar Point Energy (Holdings) Ltd (incl. OMV (U.K.) Ltd)	Oil and Gas	No	Yes
14	Van Oord UK Ltd	Mining and Quarrying	No	No
15	Volker Dredging Ltd	Mining and Quarrying	No	Yes

No Politically Exposed Persons (PEPs) were disclosed.

Annex 2: Reporting Templates

2016 Reporting Templates for Oil & Gas Companies

Template 1 - Payments/Repayments in Calendar Year 2016

UK EITI REPORTING TEMPLATE (TEMPLATE 1) PAYMENTS/REPAYMENTS IN CALENDAR YEAR 2016			
Reporting group:			
Name of contact person			
E-mail			
REPORTING ITEMS	**PAYMENTS (£)**	**REPAYMENTS (£)**	**NET PAYMENT (£)**
RING FENCE CT AND SUPPLEMENTARY CHARGE	-	-	-
PETROLEUM REVENUE TAX	-	-	-
PETROLEUM LICENCE FEES	-	-	-
OGA LEVY	-	-	-
PAYMENTS TO THE CROWN ESTATE	-	-	-
SUM OF REPORTED AMOUNTS	**-**	**-**	**-**

I confirm that the information above reflects an accurate record of the relevant transactions during 2016 (sign or tick box).

SIGNATURE ☐

Name of Signatory	
DATE	

Template 2 - RFCT/SC Payments/Repayments in the Calendar Year 2016 Per GPA/Individual Company

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 2) RFCT/SC PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2016 PER GPA/INDIVIDUAL COMPANY				
Legal Entity (Name)	**UTR**	**RFCT/SC Payment (£)**	**RFCT/SC Repayment (£)**	**NET RFCT/SC Payment (£)**
	Totals	-	-	-
				-
				-
				-

Template 3 - PRT Payments/Repayments in the Calendar Year 2016 Per Field

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 3) PRT PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2016 PER FIELD					
Legal Entity (Name)	Field (Name)	PRT Reference	PRT Payment (£)	PRT Repayment (£)	NET Payment (£)
		Totals	-	-	-
					-
					-
					-

Template 4 - Petroleum Licence Fee Payments/Repayments in Calendar Year 2016

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 4) PETROLEUM LICENCE FEE PAYMENTS/REPAYMENTS IN CALENDAR YEAR 2016				
Licensee	Licence Number	Licence Fee Payment (£)	Licence Fee Repayment (£)	Net Payment (£)
	Total	-	-	-
				-
				-
				-

Template 5: OGA LEVY Payments/Repayments in the Calendar Year 2016

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 5) OGA LEVY PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2016			
Legal Entity (Name)	OGA Levy Payment (£)	OGA Levy Repayment (£)	NET Payment (£)
Total	-	-	-
			-
			-
			-

Template 6: Payments to TCE in the Calendar Year 2016

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 6) PAYMENTS TO THE CROWN ESTATE IN THE CALENDAR YEAR 2016				
Legal Entity (Name)	Field or Facility Name	Payment (£)	Repayment (£)	NET Payment (£)
	Total	-	-	-
				-
				-
				-

2016 Reporting Templates for mining and quarrying Companies

Template 1 - Payments/Repayments in the Calendar Year 2016

UK EITI REPORTING TEMPLATE (TEMPLATE 1) PAYMENTS/REPAYMENTS IN CALENDAR YEAR 2016			
Reporting group:			
Name of contact person			
E-mail			
REPORTING ITEMS	**PAYMENTS (£)**	**REPAYMENTS (£)**	**NET PAYMENT (£)**
CORPORATION TAX	-	-	-
PAYMENTS TO THE COAL AUTHORITY	-	-	-
PAYMENTS TO THE CROWN ESTATE	-	-	-
SECTION 106 (Town and Country Planning Act 1990) AND EQUIVALENT PAYMENTS	-	-	-
SUM OF REPORTED PAYMENTS	**-**	**-**	**-**

I confirm that the information above reflects an accurate record of the relevant transactions during 2016 (sign or tick box).

SIGNATURE ☐

Name of Signatory

DATE

Template 2 - CT Payments/Repayments in the Calendar Year 2016 per GPA/Individual Company

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 2) CT PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2016 PER GPA/INDIVIDUAL COMPANY				
Reporting Entity (Name)	**UTR**	**CT Payment (£)**	**CT Repayment (£)**	**NET Payment (£)**
	Totals	**-**	**-**	**-**
				-
				-
				-

Template 3 - Payments to the Coal Authority in the Calendar Year 2016 per Licence

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 3) PAYMENTS TO THE COAL AUTHORITY IN THE CALENDAR YEAR 2016 PER LICENCE							
Site	Licence Number	Payment of Licensing Fees (£)	Repayment of Licensing Fees (£)	NET Payment (£)	Royalty Payments (£)	Royalty Repayments (£)	Total Payment (£)
	Totals	-	-	-	-	-	-
				-			-
				-			-
				-			-

Template 4 - Payments to TCE in the Calendar Year 2016

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 4) PAYMENTS TO THE CROWN ESTATE IN THE CALENDAR YEAR 2016				
Reporting Entity (Name)	Licence Number or other reference	Payment (£)	Repayment (£)	NET Payment (£)
	Totals	-	-	-
				-
				-
				-

Template 5 - S106 and Equivalent Payments to Local Authorities in the Calendar Year 2016 per Site

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 5) S106 AND EQUIVALENT PAYMENTS TO LOCAL AUTHORITIES IN THE CALENDAR YEAR 2016 PER SITE					
Reporting Entity (Name)	Local Authority	Unique Reference	Payment (£)	Repayment (£)	NET Payment (£)
		Total	-	-	-
					-
					-
					-

Beneficial ownership declaration form (for oil and gas & mining and quarrying companies)

Company identification

Full legal name of the company (including legal form)	[Company name]	
Unique identification number (e.g. company registration number)	[Unique identification number]	
	Is the company a publicly listed company, or a wholly owned subsidiary of a publicly listed company?	
	☐	Yes – there is no need to complete the remainder of the form
	☐	No – please go to the following question
	Is the company reporting payments to the UK Government under the UK EITI? (See Beneficial Ownership definition section for information on the materiality threshold)	
	☐	Yes – please go to the following question
	☐	No – there is no need to complete the remainder of the form
	Has the company filed information to Companies House on people with significant control (PSC) as part of its confirmation statement?	
	☐	Yes – please provide a link to the confirmation statement and go to the section "Additional identification for Politically Exposed Person (PEP)" below.
	☐	No – please complete the reminder of the form (Beneficial ownership and PEP identification).
Contact address (registered office for companies)		
Declaration form prepared by	[Name, Position, E Mail Address]	
(Sign or tick box:)	☐	

Beneficial ownership definition

In accordance with the EITI Standard, Requirement 3.11.d.i, a beneficial owner in respect of a company means the natural person(s) who directly or indirectly ultimately owns or controls the corporate entity. Further to Requirement 3.11.d and in accordance with the decision of the UK EITI MSG, for the purposes of the UK EITI and for non-PEP beneficial owners (as defined below), beneficial ownership declarations are only required in respect of beneficial owners who directly or indirectly ultimately own or control more than twenty-five per cent (25%) of a company that (a) is reporting payments to the UK Government under the UK EITI and (b) is not a publicly listed company, or a wholly owned subsidiary of a publicly listed company. In connection with (a) above, companies will be asked to prepare a report under UK EITI if any reportable payment exceeds the agreed materiality threshold of £86,000. This threshold will be applied at the group level to each separate payment type.

The >25% threshold is calculated by reference to the nominal value of the shares in the company in the case of a company with share capital. If the company does not have a share capital, this condition is met by an individual holding a right to share in more than 25% of the entity's capital or profits.

Control shall be defined consistently with the interpretative provisions applying to the new public register of persons with significant control of UK companies introduced in the Small Business, Enterprise and Employment Act 2015 (the "PSC Register").

A person with significant control over a company is defined as an individual that (either alone or as one of a number of joint holders of the share or right in question) meets one of the following conditions:

1. The individual holds, directly or indirectly, more than 25% of the shares in the company. The 25% threshold is calculated with reference to the nominal value of the shares in the case of a company with share capital. If the company does not have a share capital, the condition is met by an individual holding a right to share in more than 25% of the entity's capital or profits.

2. The individual holds, directly or indirectly, more than 25% of the voting rights in the company. Voting rights held by the company itself are disregarded for this purpose.
3. The individual holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company.
4. The individual has the right to exercise, or actually exercises, significant influence or control over the company. (The Secretary of State for Business, Energy and Industrial Strategy is required to issue guidance on the meaning of 'significant influence or control' and regard must be had to that guidance in interpreting this condition).
5. The trustees of a trust or the members of a firm that is not a legal person meet one or more of the other specified conditions in their capacity as such or would do if they were individuals, and the individual has the right to exercise, or actually exercises, significant control or influence over the activities of that trust or firm.

Beneficial ownership disclosure

Identity of beneficial owner	
Full name as it appears on national identity card	
Month and year of birth	
Nationality	
Country of residence	
Date when beneficial interest was acquired	
Service address	

Method of Control	
Select from:	1. The individual holds, directly or indirectly, more than 25% of the shares in the company. The 25% threshold is calculated with reference to the nominal value of the shares in the case of a company with share capital. If the company does not have a share capital, the condition is met by an individual holding a right to share in more than 25% of the entity's capital or profits.
	2. The individual holds, directly or indirectly, more than 25% of the voting rights in the company. Voting rights held by the company itself are disregarded for this purpose.
	3. The individual holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company.
	4. The individual has the right to exercise, or actually exercises, significant influence or control over the company. (The Secretary of State for Business, Energy and Industrial Strategy is required to issue guidance on the meaning of 'significant influence or control' and regard must be had to that guidance in interpreting this condition).
	5. The trustees of a trust or the members of a firm that is not a legal person meet one or more of the other specified conditions in their capacity as such or would do if they were individuals, and the individual has the right to exercise, or actually exercises, significant control or influence over the activities of that trust or firm.

Politically exposed person (PEP) definition

In accordance with the decision of the UK EITI MSG, for the purposes of the UK EITI, declarations are required in respect of PEPs who directly or indirectly ultimately own or control more than five per cent (5%) of a company that (a) is reporting material payments to the UK Government under the UK EITI and (b) is not a publicly listed company, or a wholly owned subsidiary of a publicly listed company.

UK EITI has adopted the EU's definition of politically exposed person as described in the new EU Fourth Money Laundering Directive. The term 'politically exposed person' means a natural person who is or who has been entrusted with prominent public functions and includes the following:

a) heads of State, heads of government, ministers and deputy or assistant ministers;
b) members of parliament or of similar legislative bodies;
c) members of the governing bodies of political parties;
d) members of supreme courts, of constitutional courts or of other high-level judicial bodies, the decisions of which are not subject to further appeal, except in exceptional circumstances;
e) members of courts of auditors or of the boards of central banks;
f) ambassadors, chargés d'affaires and high-ranking officers in the armed forces;
g) members of the administrative, management or supervisory bodies of State-owned enterprises;
h) directors, deputy directors and members of the board or equivalent function of an international organisation.

No public function referred to in points (a) to (h) shall be understood as covering middle-ranking or more junior officials.

"Family members" includes the following:

(i) the spouse;
(ii) any person considered as equivalent to the spouse;
(iii) the children and their spouses or persons considered as equivalent to the spouse;
(iv) the parents.

Persons known to be "close associates" means:

(i) any natural person who is known to have joint beneficial ownership of legal entities or legal arrangements, or any other close business relations, with a person referred to in points (i) to (vii);
(ii) any natural person who has sole beneficial ownership of a legal entity or legal arrangement which is known to have been set up for the benefit de facto of the person referred to in points (i) to (vii).

The [>5%] threshold is calculated by reference to the nominal value of the shares in the company in the case of a company with share capital. If the company does not have a share capital, this condition is met by an individual holding a right to share in [more than 5%] of the entity's capital or profits.

Disclosures in relation to PEP beneficial owners reflect the actual knowledge of the company based on the information available to the company in the ordinary course of business, i.e. with no requirement for incremental due diligence.

PEP disclosure

Identity of PEP:	
Full name as it appears on national identity card	
Month and year of birth	
Nationality	
Country of residence	
Date when beneficial interest was acquired	
Service address	

Political Connection	
Name of public office holder	
Public office position and role	
Date when office was assumed	
Date when office was left, if applicable	
If the PEP beneficial owner is not the public office holder, PEP beneficial owner's connection with the public office holder	

Attestation

Select one of the following:

1. Full Attestation *"I, undersigned, for and on behalf of [company], confirm that all information provided in the above beneficial ownership declaration is, to the best of my knowledge, accurate and reliable."*	
Attestation prepared by:	[Name, Position]
Sign or tick box:	☐

2. Qualified Attestation *"I, undersigned, for and on behalf of [company], confirm that all information provided in the above beneficial ownership declaration is, to the best of my knowledge, accurate and reliable, subject to the following qualifications:*	
☐	*Information was not received from one or more beneficial owners; and/or*
☐	*One of more beneficial owners did not give satisfactory consent for the disclosure of information; and/or*
☐	*Other – please specify."*
Attestation prepared by:	[Name, Position]
Sign or tick box:	