



HM Revenue & Customs

Open consultation response

**Draft legislation: oil and gas taxation – investment and
cluster area allowances**

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

For more information on this response, please contact the SCDI Policy Team:

Matt Lancashire
Director of Policy and Public Affairs
matt.lancashire@scdi.org.uk

Gareth Williams
Head of Policy
gareth.williams@scdi.org.uk

David Kelly
Policy Analyst and Administrator
david.kelly@scdi.org.uk

Scottish Council for Development and Industry
1 Cadogan Square
Cadogan Street
Glasgow
G2 7HF

0141 243 2667

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Introduction

1. The **Scottish Council for Development and Industry (SCDI)** is an independent and inclusive economic development network which has been serving Scotland since 1931. Our diverse membership represents all sectors and all geographies of the Scottish economy. We represent FTSE 100 companies, world-class universities, local authorities, charities, public sector bodies and institutions, trade unions, social enterprises and small- and medium-sized enterprises from across Scotland. Our mission is to inform, influence and inspire our members, alongside policymakers, government and other stakeholders, to deliver social and economic prosperity for Scotland.
2. We have a strong and long-standing presence in the North East of Scotland. Our North East activities are centred on Aberdeen, the energy capital of Scotland and the UK, but also engage across the entire region. In partnership with SCDI's Glasgow headquarters and Inverness office, our Aberdeen office works with our members in the region and with our North East Committee to support macroeconomic thinking, engage policymakers, facilitate business development and drive national and local economic growth. We engage across the oil and gas sector and its supply chain across the whole of Scotland.
3. SCDI's **North East Committee** is chaired by Trevor Garlick OBE and gives the organisation significant expertise, experience and insight into Scotland's oil and gas industry.
4. The North Sea is the most economically significant section of the UK Continental Shelf. Scotland's world-class oil and gas industry utilises the natural resources of the North Sea, and the talent and skills of Scotland's workforce, to support economic growth, jobs and prosperity across the country. The industry supports 160,000 jobs in Scotland alone. According to the **EY Attractiveness Survey 2018**, Aberdeen is the UK's 8th largest site of foreign direct investment. Such is the importance of the industry to the Scottish economy, analysis by the Scottish Government's Chief Economist attributed two-thirds of Scotland's macroeconomic slowdown between 2014 and 2016 to its contraction, as the price of Global Brent Crude declined from a high of circa \$120 a barrel to a nadir of circa \$25 a barrel.
5. It is anticipated that global oil prices will remain 'lower for longer' due to geopolitical, macroeconomic and environmental factors. The UK Government will be required to offer sufficient support to the sector to assist its transition to this 'new normal'. Companies will have to invest in innovation, and commit to diversifying their operations, including expanding into renewables, to remain competitive.
6. However, the industry has proven its resilience and is now emerging from the downturn and into recovery. Firms have been working hard to reduce production

costs, increase exploration and increase capital investment. According to the [Fraser of Allander Institute's 28th Oil and Gas Survey](#) report, 70% of firms expect higher profits in 2018 than in 2017. This resurgence has been underpinned by rising global prices, which have been consistently over \$65 a barrel in 2018 thus far and were over \$70 at the time of writing. There is a cautious optimism in the sector, with new fields being discovered and over 20 billion barrels still to be recovered from the North Sea.

Draft legislation

7. SCDI welcomes the publication of the draft legislation. It is important that oil and gas companies operating in Scotland and on the UK Continental Shelf have clarity with regards to the fiscal and regulatory regimes. Stability and clarity of taxation and regulation can be as important to facilitating investment, expansion and forward-planning as the level of taxation or regulation.
8. SCDI strongly supports the expansion of the Investment and Cluster Area Allowances to include income received by infrastructure owners for third party use of those assets, known as tariff receipts, a reform which Scotland's oil and gas industry representatives and companies have requested. Around one in four of the 200 companies operating on the UK Continental Shelf will benefit from a reduction in their profits subject to the Supplementary Charge. There is consensus that this measure will have a positive, albeit limited, impact.
9. Underinvestment in infrastructure has been previously identified as a historical challenge for the sector. As a mature industry facing significant medium- and long-term decommissioning costs, stimulating higher levels of investment is critical to ensure its continued competitiveness and future prospects. It is expected that this legislative change will encourage higher levels of investment in key infrastructure by companies leading to increased efficiency, which will be required to maximise extraction from the North Sea basin.
10. The draft legislation will also likely encourage increased collaboration and the dissemination of best practice by incentivising, through fiscal policy, the sharing of infrastructure to third parties. Barriers to intra-sectoral collaboration have often been significant in the oil and gas industry.
11. Members have not raised with SCDI any concerns relating to increased administrative or technical burdens. We expect there to be a smooth transition for those companies impacted once the legislation is passed into law.