PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT INVESTMENT ALLOWANCE AND CLUSTER AREA ALLOWANCE (RELEVANT INCOME: TARIFF RECEIPTS) REGULATIONS 2018

Wednesday 9 January 2019

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not later than

Sunday 13 January 2019

The Committee consisted of the following Members:

Chair: PHILIP DAVIES

† Allan, Lucy *(Telford)* (Con)
† Benyon, Richard *(Newbury)* (Con)
Coffey, Ann *(Stockport)* (Lab)
† Cowan, Ronnie *(Inverclyde)* (SNP)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Jenrick, Robert *(Exchequer Secretary to the Treasury)*
† Menzies, Mark *(Fylde)* (Con)
† Merriman, Huw *(Bexhill and Battle)* (Con)
† Powell, Lucy *(Manchester Central)* (Lab/Co-op)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Sobel, Alex *(Leeds North West)* (Lab/Co-op)
† Spellar, John *(Warley)* (Lab)
† Sturdy, Julian *(York Outer)* (Con)
† Tredinnick, David *(Bosworth)* (Con)
† Walker, Thelma *(Colne Valley)* (Lab)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Mike Winter, *Committee Clerk*

† attended the Committee

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[Philip Davies *in the Chair*]

Draft Investment Allowance and Cluster Area Allowance (Relevant Income: Tariff Receipts) Regulations 2018

8.55 am

The Exchequer Secretary to the Treasury (Robert Jenrick): I beg to move,

That the Committee has considered the draft Investment Allowance and Cluster Area Allowance (Relevant Income: Tariff Receipts) Regulations 2018.

It is always good to start the day with a Treasury statutory instrument. The draft regulations will amend the investment allowance and cluster area allowance to expand the meaning of "relevant income" to include tariff receipts. The aim is to incentivise operators in the North sea to continue investment in their infrastructure, which is critical to protecting oil and gas production in the UK and bringing new projects on stream.

The UK's oil and gas sector is a national asset—a foundation stone of our economy, supporting more than 280,000 jobs across the UK, particularly in north-east Scotland, and meeting approximately half of our primary energy requirements. High-quality infrastructure is vital to the industry, and encouraging the industry to work together is important to its future. Sharing pipelines, terminals and other offshore infrastructure brings efficiencies that can benefit everyone involved and ensure continued competitiveness.

The draft regulations will help to ensure that infrastructure is well maintained and well utilised by encouraging continued and healthy investment. Under existing legislation, the investment allowance and cluster area allowance offer relief for oil and gas companies operating on the UK continental shelf that can be offset against ring-fenced profits taxed by the supplementary charge. At present, however, the allowance can be activated only by income derived directly from oil and gas production, not by tariff income—income from third parties for access to infrastructure. This runs the risk of the UK continental shelf experiencing a lack of investment in core infrastructure, possibly leading to the early decommissioning of assets, which would undermine the Government's objective of maximising economic recovery of North sea oil and gas reserves.

In the 2016 Budget, the Government addressed the issue by committing to extend the scope of the investment and cluster area allowances to include tariff receipts. The Finance Act 2016 introduced a power to enable that expansion to be delivered through regulations, and the Government published a draft for consultation in July 2018, which was very well received by the industry.

The draft regulations will widen the definition of relevant income that can activate the investment and cluster area allowances and provide further relief for profits subject to the supplementary charge. This will promote investment in the 14,000 km of pipeline that connects the sector's oil and gas platforms and wider production infrastructure. The additional tax relief given to owners of the infrastructure will help to ensure the protection of existing production, the development of new projects and the prevention of early decommissioning—all objectives that we can agree on.

In conclusion, the draft regulations will stimulate investment in the UK's oil and gas infrastructure and provide support to the wider industry by including tariff income within the investment and cluster area allowances. I commend them to the Committee.

8.58 am

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is a privilege to serve under your chairmanship this morning, Mr Davies. It is, indeed, always good to start the day with a Treasury statutory instrument; the Minister and I could go even further and say that it is a treat to consider one that is not related to Britain's exit from the European Union, for a change.

As the Minister outlined, the draft regulations relate to a change originally announced in the 2016 Budget: allowing tariff receipts to be included as a relevant income for investment allowances in the oil and gas sector. My only technical question for him is whether that change will be retrospective and, if so, whether there is an estimate of the overall cost to the Exchequer in that regard. It is marked blank in the impact section of the tax information and impact note that the Government published on 23 July 2018. If the figure is zero, perhaps there is a question about why the change is needed at all.

Understandably, the Opposition are supportive of the economic contribution of the oil and gas sector and the jobs and tax revenue that it provides; as the Minister said, it is a major national asset. However, our constituents will be interested to know the Government's rationale for offering a further tax break to the oil and gas sector at the time of transition to a low-carbon economy and when concerns about climate change are so acute. The Minister will be more than aware that the UN Intergovernmental Panel on Climate Change report published in October 2018 showed that we have just 12 years left to make unprecedented changes to prevent global warming from increasing above 1.5°.

The impact note published by the Government states:

"While the UKCS is a mature basin compared to other prospects, there is still an estimated 20 billion barrels of recoverable oil remaining.

In recent years, the government has taken significant steps to create the right environment for oil and gas producers to maximise economic recovery of the remaining hydrocarbons in the basin. Encouraging investment in key infrastructure is an important aspect of this objective as it can delay decommissioning and support further development in the UKCS."

Is it really the Government's intention that those 20 billion barrels would be recovered? If so, what environmental consequences that would entail? How, for instance, does it fit with the emissions reduction pledge 2020, to which the Government have publicly committed? To give the Committee some sort of guide, I point out that 20 billion barrels of oil, if combusted, would release more than 20 times the UK's entire CO_2 emissions in 2017, and that is before any emissions generated in extracting the oil were taken into account, so clearly that is quite a significant part of Government policy.

People want to know what tax incentives are being promised to the renewable energy sector to encourage further infrastructure development in cleaner technologies. Fiscal policy is intrinsic to driving the transition to a greener, low-carbon economy. This change appears to be a move in the other direction, and I think that people would benefit from hearing from the Minister some of the rationale that lies behind it.

9.1 am

Ronnie Cowan (Inverclyde) (SNP): Although I welcome the support that the statutory instrument provides towards the sector's achieving our shared objective of maximum economic recovery, I believe that this does not go nearly far enough. It is a disgrace that, having benefited from £350 billion of North sea revenues, the UK Government have failed to accept Scottish National party demands to provide Budget funds for an oil and gas sector deal. A sector deal for the industry must include national hubs for underwater innovation, transformational technology and decommissioning. We are not rushing to decommissioning, but anyone can see the growth area that that will present for the United Kingdom and we should be bringing those jobs onshore, here to the UK. It should be based in Aberdeen, where it would be well suited to service the entire United Kingdom.

I am disappointed that there is no commitment that the UK Government will continue to work collaboratively with the Scottish Government and honour their manifesto pledge in committing to the development of an ultra-deepwater port, which would bring benefits not only for a single location, but as part of an integrated decommissioning offering. Recent industry announcements such as BP's successful discoveries in its Capercaillie and Achmelvich wells and Nexen's phase II of development of the Buzzard field demonstrate that the investment potential of the UK continental shelf still holds. The North sea has significant potential, with up to 20 billion barrels of oil equivalent remaining. That could sustain production for another 20 years. The SNP supports what has been proposed, but I have to point out that we are not being nearly ambitious enough.

9.3 am

Robert Jenrick: I shall try to respond briefly to the questions put to me. On the Government's support for the oil and gas industry, particularly in Scotland, it would be difficult for the Government to do more than we are doing at the moment. The oil and gas industry is extremely supportive of the actions that the Government have taken in successive Budgets. The driving investment principles were established by the former Chancellor of the Exchequer and restated at autumn Budget 2018 by the present Chancellor, who made it clear that we would be maintaining the headline tax rates at their current level. We have taken forward and legislated for—in fact, it passed its final stage last night—the transferable tax history, an important and innovative tax measure, supported by the Scottish National party. It will help to extend the life of a number of oilfields and put decommissioning further into the future. Of course, in terms of the headline tax rates, we reduced the supplementary charge from 32% to 10% and petroleum revenue tax—PRT—to 0%. The Government have therefore been extremely generous towards the oil and gas sector, appreciating that it is a national asset that supports so many jobs throughout the United Kingdom, that the oil price remains lower than it has been historically been—but volatile—and that the industry remains weak, particularly in parts of the supply chain in critical areas of the country, such as around Aberdeen. I and other Treasury Ministers have a very good and productive relationship with the industry, regularly visiting Aberdeen and other stakeholders to ensure that they are getting all that they require from the Government.

We think that we are striking exactly the right balance. In fact, last night, on Third Reading of the Finance Bill, the Scottish National party spokesperson, the hon. Member for Aberdeen North (Kirsty Blackman), praised the Government for our cross-party work to support oil and gas. We are in a good place, and I am pleased that there is a general cross-party consensus on that.

The hon. Member for Stalybridge and Hyde asked about the retrospective nature of the measures. They will be backdated to September 2016, and we estimate that the cost to the Exchequer will be £60 million over the next five years. We think that maximising economic recovery is important, and I believe it remains the Labour party's position to support that. I think that that is right for the UK. It does not contradict our broader commitment to climate change and to meeting our targets for reducing carbon emissions.

We have done a full analysis of the impacts arising from this measure and found no evidence to support the suggestion that it will result in increased carbon emissions. The oil and gas industry is a very important part of our industrial strategy. It contributes to the diverse energy mix that our economy requires, but we remain absolutely committed to supporting a wide range of energy sources, including renewable energies. In the Budget and the Finance Bill that we have just legislated for are a range of interventions to support renewable energies and associated technologies, such as electric vehicles.

In the future we will continue to work closely with the oil and gas sector to ensure that, as it recovers from the oil price dip in around 2008, it receives the support that it requires from the Government. With that, I urge the Committee to support the draft regulations.

Question put and agreed to.

9.7 am

Committee rose.