UKEITI United Kingdom Extractive Industries Transparency Initiative

UNITED KINGDOM EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (UK EITI)

UK EITI Report for 2015

March 2017

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LIST OF ABBREVIATIONS

AMRI	Annual Minerals Raised Inquiry
AP	Accounting Period
BBL	Balgzand–Bacton Line
BEIS	Department for Business, Energy & Industrial Strategy
BGS	British Geological Survey
billion	one thousand million or 10^9
BMAPA	British Marine Aggregate Producers Association
BO	Beneficial ownership
boe	barrel of oil equivalent
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
CA	Coal Authority
CNS	Central North Sea
CT	Corporation Tax
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
EITI	Extractive Industries Transparency Initiative
EU	European Union
FYAs	First Year Allowances
GB	Great Britain
GDP	Gross Domestic Product
GVA	Gross Value Added
HM	Her Majesty's
HMRC	Her Majesty's Revenue and Customs
IA	Independent Administrator
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
NGLs	Natural Gas Liquids
NIEA	Northern Ireland Environment Agency
NPPF	National Planning Policy Framework
NRW	Natural Resources Wales
NYM	North York Moors
OBR	Office for Budget Responsibility

LIST OF ABBREVIATIONS

OGA	Oil & Gas Authority (as inheritor body of most oil and gas functions from DECC)
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
SI	Statutory Instrument
SPD	Supplementary Petroleum Duty
TCE	The Crown Estate
ToR	Terms of Reference
UCG	Underground Coal Gasification
UK	United Kingdom
UKCS	UK Continental Shelf

1. EXECUTIVE SUMMARY

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

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.

EITI is a stakeholder-led initiative, overseen by a Multi-Stakeholder Group (MSG) consisting of 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 the second UK EITI report for publication.

This report contains detailed information relating to a net total of £904 million of revenues received by UK Government agencies from extractive companies in 2015, for a range of payments included within the scope of EITI. The report shows a breakdown of this total between the oil and gas and mining and quarrying sectors, by the different payment types and by the Government agencies that received those payments. A total of 42 oil and gas companies and 18 mining and quarrying companies participated in compiling the report, showing a high level of industry participation for 2015. 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.

Separate to EITI and complementing the information in this report, a number of companies have started reporting their 2015 payments to governments, including the UK government, under the EU Accounting and Transparency Directives.

The extractives sector in the UK

The extractive industries are an important sector in the UK, contributing a gross value added (GVA) of £16.7 billion in 2015 to the UK economy. The oil and gas industry accounts for the great majority of the sector's GVA.

In 2015, the UK was the world's 21st largest producer of oil and gas, supporting hundreds of thousands of jobs in Scotland and across the country. The sector was responsible for direct employment of 38,100 people, with many more supported in the industry's supply chain. However, 2015 saw a dramatic fall in the global oil price, from $99/barrel on average in 2014 to $52/barrel on average in 2015. This represented a challenging period for the industry globally, with activity and investment in the UK reducing significantly. This resulted in lower payments to government compared with 2014.

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 2,000 employed in coal mining, 7,400 in quarrying and 7,700 in the operation of gravel and sand pits, mining of clays and kaolin in 2015.

Reconciliation

The two tables below summarise the reconciled extractive industry payments to and repayments by UK Government agencies in 2015. 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.

Summaries of Extractive Industries Payments to/refunds from UK Government in 2015[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	66.11	8.49	-498.25	1,278.07	33.26	5.69	21.62	0.80	915.79
Total reported by government agencies for out-of-scope extractive companies*	8.15	0.71	0.00	0.76	0.00	1.42	0.13	0.65	11.82
Total reported by government agencies for in-scope extractive companies	57.96	7.78	-498.25	1,277.32	33.26	4.27	21.48	0.15	903.96
Total reported by in-scope extractive companies	57.96	7.78	-498.26	1,277.32	33.25	4.27	21.48	0.14	903.95
Net unreconciled difference**	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.01

[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-2015

(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	860.12	55.67	74.60	813.08	27.31	0.80	915.79
Total reported by government agencies for out-of-scope extractive companies*	11.04	0.78	8.86	0.76	1.56	0.65	11.82
Total reported by government agencies for in-scope extractive companies	849.08	54.89	65.74	812.33	25.75	0.15	903.96
Total reported by in-scope extractive companies	849.07	54.88	65.74	812.31	25.75	0.14	903.95
Net unreconciled difference**	0.01	0.00	0.00	0.01	0.00	0.00	0.01

* 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

Additional changes to the process

Oil and gas

For this year's report, HMRC provided a list of oil and gas companies in scope of EITI which made material payments. This allowed the Independent Administrator (IA) to limit requests to those oil and gas companies in scope for 2015.

Following a thorough review of the first year's reconciliation process and addressing specific recommendations by the IA, the MSG agreed two key amendments to the oil and gas reconciliation:

1. Bringing into scope payments to The Crown Estate (TCE) for pipeline easements (rights to route pipelines across the foreshore) from those companies extracting oil and gas in the UK.
2. Targeting the reconciliation of payments to the Oil and Gas Authority (OGA). It was decided that companies comprising the top 80% of payments to the OGA (for petroleum licences and the OGA Levy) should be reconciled, with unilateral reporting of government receipts for the remaining companies. This resulted in some of the smaller companies falling out of scope of the reconciliation process.

Other mining and quarrying

Unlike the oil and gas industry, the rest of the mining and quarrying sector is not subject to a special tax regime for extraction and production. Other mining and quarrying companies are instead subject to the general UK corporate tax regime which can result in them paying a single amount for corporation tax which covers both extractive and, where relevant, non-extractive activities. This means that, whereas HMRC can confirm which companies made material payments relating to the extraction of oil and gas, it is unable to identify which other mining and quarrying companies make material payments of corporation tax related to their extraction activities.

The MSG's review of the first report resulted in a new methodology for the sector. The number of mining and quarrying companies from which information was requested this year has been refined to ensure that only those thought to be making significant payments to government are included. All companies making material payments to TCE and the Coal Authority have been included, along with other larger businesses in the mining and quarrying sector. The MSG considers this to result in data which are more representative of the sector. The MSG is committed to reviewing the methodology to avoid asking companies that make very minor payments to participate.

Beneficial ownership

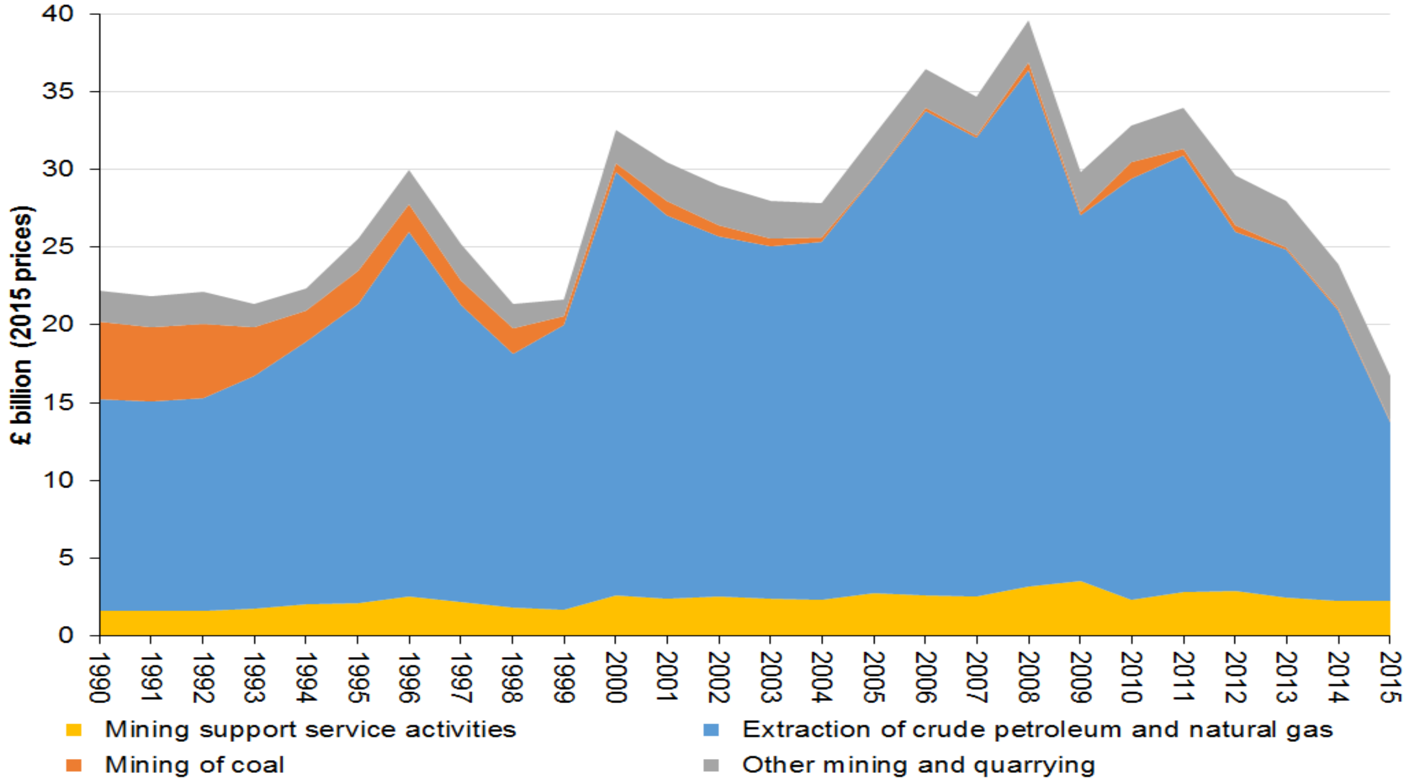
The report includes information on beneficial ownership in sub-section 3.6 and Annex 1 below. Contributions in this area have shown an increase from last year, with 15 private companies responding, 6 of which provided relevant information or links. This compared with only 1 of 13 private companies providing material beneficial ownership information for 2014.

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. There is currently no UK state participation in the extractive industries.

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



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.

[1] Source: ONS, UK GDP, preliminary estimate: Oct to Dec 2016, published 26 January 2017 https://www.ons.gov.uk/releases/ukgdppreliminaryestimateocttodec2016

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

The table below shows GVA in millions of pounds 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. The table covers the years 2011–15 and gives for each subsector its percentage share of total UK GVA in 2015. It also shows the whole sector's GVA as a percentage of national gross domestic product (GDP) for each year.[1]

Gross Value Added (£ million)

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)
2011	399	26,528	2,523	2,669	32,119	1,452,075	1,628,274	**2.00%**
2012	359	22,151	3,076	2,811	28,397	1,495,576	1,675,044	**1.70%**
2013	200	21,861	2,902	2,406	27,369	1,551,553	1,739,563	**1.60%**
2014	125	18,534	2,860	2,286	23,805	1,624,276	1,822,480	**1.30%**
2015	86	11,464	2,932	2,242	16,724	1,663,792	1,870,693	**0.90%**
%*	**0.0%**	**0.7%**	**0.2%**	**0.1%**	**1.0%**	**100.0%**		

* The percentages in this row are shares of total GVA for all industries in 2015.

Source: ONS, UK GDP, preliminary estimate: Oct to Dec 2016, published 26 January 2017.

https://www.ons.gov.uk/releases/ukgdppreliminaryestimateocttodec2016

https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/unitedkingdomeconomicaccountsmainaggregates

The following table gives a finer breakdown of the sector in 2015 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 not identical. Note that in value terms support service activities are almost entirely related to extraction of petroleum and natural gas.

[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, and excluding oil and gas. In this report, unlike last year's, we have not excluded mining support service activities from the total for the sector when calculating its contribution to GDP.

Mining and quarrying including oil and gas production: 2015

SIC 07 Code	Description	Number of enterprises	Approximate GVA at basic prices (aGVA)	Total employment costs
		Number	£ million	£ million
06	Extraction of crude petroleum and natural gas	98	8,034	2,709
09.1	Support activities for petroleum and natural gas extraction	252	2,914	2,058
08.11	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate	235	916	488
08.12	Operation of gravel and sand pits; mining of clays and kaolin	180	950	390
08.92	Extraction of peat	19	25	12
08.93	Extraction of salt	8	55	29
09.9	Support activities for other mining and quarrying	125	41	46
B	**Mining and quarrying**	**1,189**	**13,290**	**5,930**

Source: Annual Business Survey; Release Date 10 November 2016.

2.1.2. Government revenues

UK Government accounts cover the period 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 the table below.

UK Government revenues from upstream oil and gas

£ 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 (%)
		(A)	(B)	(C) = (A) + (B)	(D)	(E) = (C) / (D)
2011-12	43,130	8,840	2,032	**10,872**	472,315	**2.3%**
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	2,073	77	**2,150**	515,348	**0.4%**
2015-16	44,410	538	-562	**(24)**	533,686	**0.0%**
2011	43,231	8,270	1,775	**10,045**	469,554	**2.1%**
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	41,577	2,538	569	**3,107**	506,570	**0.6%**
2015	44,932	934	-553	**381**	528,288	**0.1%**

Source: HM Revenue & Customs (HMRC), Tax Receipts and National Insurance Contributions for the UK, https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk.

The table above includes estimates of the amounts of ring fence corporation tax (RFCT) paid annually in respect of UK upstream oil and gas production activities, i.e. the exploration and production 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 above are consistent with the annual totals reported in them.

There are differences between the 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:

(in £ million)	Reconciled total	Total above	Variance	Variance % of reconciled total
RFCT & SC	1,278	934	344	26.9%
PRT	-498	-553	55	11.0%

The difference for RFCT/SC is partly explained by the fact that HMRC’s published statistics do not include interest, which is included within the scope of EITI. Equally, when companies make payments they are not obliged to inform HMRC whether the payments relate to an upstream, RFCT/SC liability or a downstream, non-ring fence liability. Some companies do tell HMRC when they make a payment what liability it relates to, but others do not. HMRC undertakes work to try to understand which payments relate to upstream activities and which do not, but it does not do a full reconciliation of the figures with the companies.

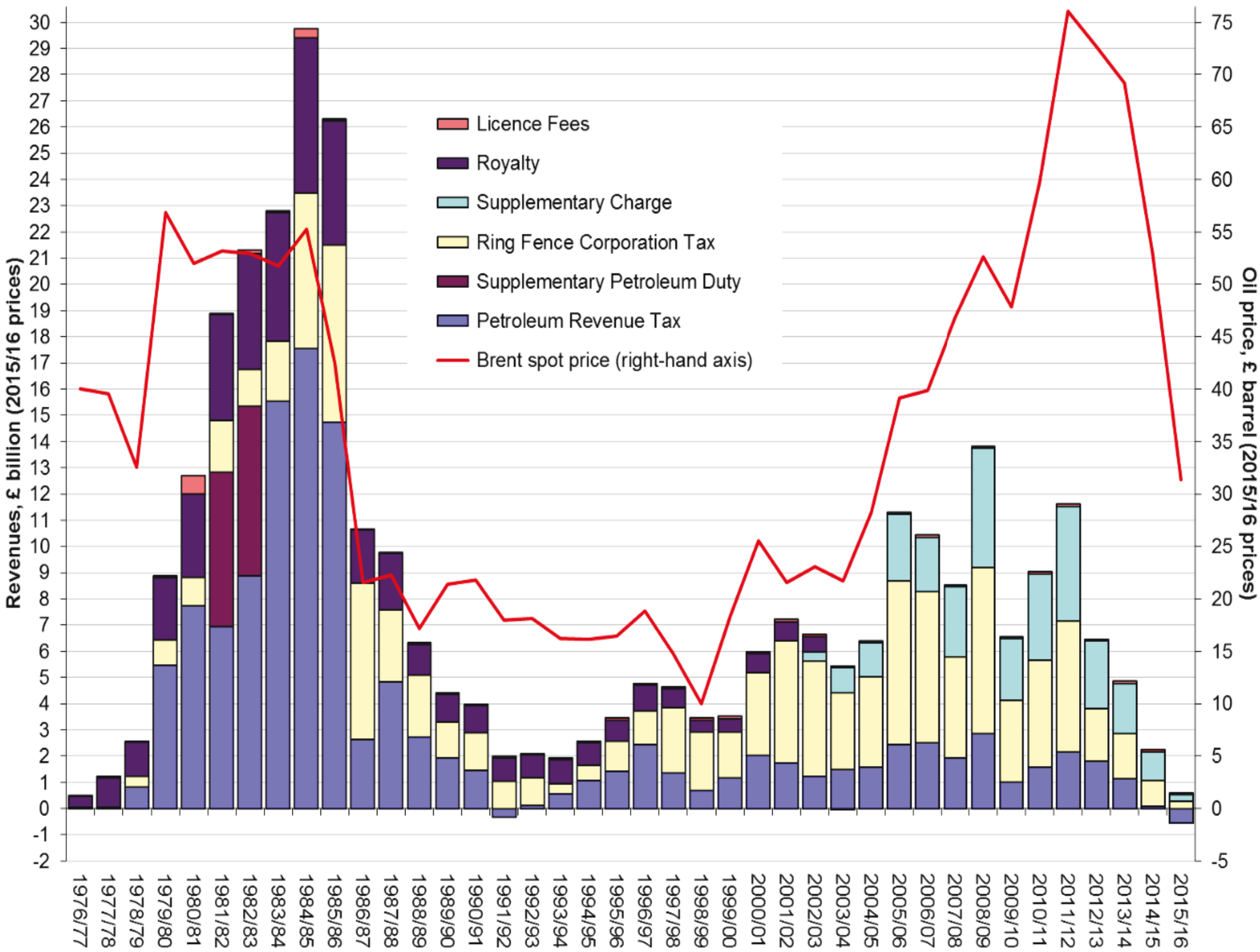
For PRT, the discrepancy is primarily the result of timing differences between payments and repayments being made and the date that they are recorded on HMRC's systems.

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 and 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 2014-15. [1] 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 sub-section.

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 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. The chart also shows the average level of oil prices (measured by the Brent crude benchmark) since that is a key determinant of the changes in revenues.

[1] HMRC August 2016, Corporation Tax Statistics, Table 11.7, https://www.gov.uk/government/statistics/analyses-of-corporation-tax-receipts-and-liabilities-document-august-2015

Figure 2. Government revenues from UK oil and gas production[1]



Income reported from fees for petroleum licences totalled £70.225 million in 2015/16 (£69.410 million in 2014/15).[2] During calendar year 2015, total licence fees actually received were £66.088 million. In 2015, the Coal Authority received £238,000 in licensing fees and £863,000 in rents, royalties and rights.[3] Government revenues received in 2015 by TCE for marine aggregate dredging licence and terrestrial minerals fees were £15,210,000.

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.

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[1] Source: 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] Department of Energy and Climate Change (DECC), Annual report and accounts 2014–15 and Annual report and accounts 2015–16, https://www.gov.uk/government/collections/decc-annual-reports-and-accounts

[3] Source: Coal Authority, email communication.

Section 106[1] 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 2021/22) and longer-term outlook (most recently to 2040/41).[2] 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.

Total public sector current receipts (excluding public sector banks) in calendar year 2015 amounted to £674,208 million[3] including a net total of £904 million (or 0.1%) received from extractive companies.

2.1.3. Exports

Up-to-date official trade data are not available for non-fossil fuel minerals. Data are available for fossil fuels. Data on the volume and value of exports (and imports) of fossil fuels are tabulated below, together with the volume and value of indigenous production.[4] The UK exports coal, oil and natural gas but, with the decline in indigenous production of all three fossil fuels, imports more and is thus overall a net importer of each.

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

[2] OBR, Economic and Fiscal Outlook, November 2016, http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/; OBR, Fiscal Sustainability Report, June 2015, http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-june-2015/

[3] Source: ONS, Public sector current receipts: Appendix D, 21 March 2017, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/appendixdpublicsectorcurrentreceipts

[4] Source: BEIS, Digest of UK Energy Statistics 2016, https://www.gov.uk/government/collections/digest-of-uk-energy-statistics-dukes

	Volume of exports (mtoe)				Value of exports (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2011	0.370	36.770	15.794	52.565	60	16,830	3,555	20,385
2012	0.368	33.837	12.384	46.221	55	16,435	2,715	19,150
2013	0.447	36.192	9.429	45.622	90	17,460	2,510	19,970
2014	0.319	33.774	11.013	44.787	55	14,630	2,005	16,635
2015	0.290	36.813	13.893	50.706	45	9,920	2,265	12,185

	Volume of imports (mtoe)				Value of imports (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2011	21.399	63.471	50.600	114.071	3,050	30,115	9,630	39,745
2012	29.061	66.090	47.250	113.340	3,315	31,270	10,045	41,315
2013	32.122	64.489	46.011	110.500	3,235	30,010	10,985	40,995
2014	27.581	58.676	41.001	99.677	2,260	24,070	7,250	31,320
2015	15.950	55.278	42.337	97.615	1,015	13,365	7,240	20,605

	Volume of net exports (mtoe)				Value of net exports (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2011	(21.029)	(26.701)	(34.805)	(61.506)	(2,990)	(13,285)	(6,075)	(19,360)
2012	(28.693)	(32.253)	(34.867)	(67.119)	(3,260)	(14,835)	(7,330)	(22,165)
2013	(31.675)	(28.297)	(36.582)	(64.878)	(3,145)	(12,550)	(8,475)	(21,025)
2014	(27.262)	(24.902)	(29.988)	(54.890)	(2,205)	(9,440)	(5,245)	(14,685)
2015	(15.661)	(18.465)	(28.444)	(46.909)	(970)	(3,445)	(4,975)	(8,420)

	Volume of indigenous production (mtoe)				Value of indigenous production (£ million)			
Year	Coal	Oil	Natural Gas	Oil & Gas	Coal	Oil	Natural Gas	Oil & Gas
2011	11.532	56.902	45.289	102.191	1,175	26,525	7,890	34,415
2012	10.583	48.756	38.925	87.681	990	23,685	7,840	31,525
2013	7.973	44.468	36.523	80.991	500	21,330	7,755	29,085
2014	7.289	43.705	36.831	80.537	440	18,185	6,655	24,840
2015	5.384	49.544	39.622	89.165	285	12,260	5,815	18,075

Source: Digest of UK Energy Statistics 2016.

As noted above, data for 2015 on the volume and value of exports, imports and production of non-fossil fuel minerals are not yet available. 2015 data for specific minerals are due to be incorporated into the British Geological Survey (BGS) UK Minerals Yearbook 2016 from the Annual Minerals Raised Inquiry (AMRI), carried out by the Office for National Statistics (ONS) for the Department of Communities and Local Government (DCLG), and should become available during 2017. For the latest available data, for 2014, see Section 2.3.

The value of UK Exports of Goods and Services (Balance of Payments basis) in calendar year 2015 amounted to £517,446 million[1] including £12,185 million (or 2.4%) from Coal, Oil and Natural Gas.

2.1.4. Employment

The table below gives estimates of the total UK workforce (in thousands) directly supported by the UK mining and quarrying sector including its major sub-sectors. It also shows the estimates for 2015 as shares of the total workforce for all industries. The extractive industries are typically capital- rather than labour-intensive and correspondingly represent a significantly smaller share of the workforce than of GVA.

Workforce estimates from Business Register and Employment Survey

(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]
2011	21	19	25	65	31,440
2012	24	22	30	76	31,788
2013	22	18	30	70	32,156
2014	21	17	29	68	33,204
2015	**20**	**21**	**30**	**70**	**33,739**
2015 %	**0.1%**	**0.1%**	**0.1%**	**0.2%**	**100.0%**

Source: ONS, https://www.ons.gov.uk/releases/uklabourmarketstatisticsdec2016

The following table shows estimates (in thousands) of extractive industry employment in Great Britain (GB) (excluding Northern Ireland) between 2011 and 2015 (inclusive) at a finer level of disaggregation than is available for the workforce estimates for the United Kingdom (UK).

[1] Source: ONS, UK trade: Jan 2017, 10 March 2017, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/jan2017

Extractive industry employment in GB and UK (in thousands)

SIC 2007		2011	2012	2013	2014	2015
GB 05101	Deep coal mines	3.6	3.9	2.2	1.6	0.9
GB 05102	Open cast coal working	2.8	2.9	2.4	1.3	1.1
GB 05	**Mining of coal**	**6.4**	**6.9**	**4.6**	**2.9**	**2.0**
GB 06	Extraction of crude petroleum and natural gas	13.2	15.6	15.5	16.6	15.7
GB 08110	Quarrying of ornamental and building stone; limestone; gypsum; chalk and slate	6.2	6.9	4.9	6.7	7.4
GB 08120	Operation of gravel and sand pits; mining of clays and kaolin	8.5	8.7	7.0	7.1	7.7
GB 081	Quarrying of stone; sand and clay	14.7	15.5	12.0	13.8	15.1
GB 08930	Extraction of salt	0.3	0.3	0.3	0.4	0.4
GB 08990	Other mining and quarrying n.e.c.	1.1	2.1	1.1	1.1	1.3
GB 089	Mining and quarrying n.e.c.	2.5	3.9	2.4	2.7	3.2
GB 08	**Other mining and quarrying (other than mining of metal ores)**	**17.1**	**19.4**	**14.4**	**16.4**	**18.3**
GB 091	Support activities for petroleum and natural gas extraction	20.8	22.3	21.2	25.1	22.4
GB 099	Support activities for other mining and quarrying	0.3	0.6	0.4	0.3	0.4
GB 09	**Mining support service activities**	**21.1**	**22.9**	**21.6**	**25.4**	**22.9**
GB 05–09	**Total Extractive Industries**	**57.8**	**64.8**	**56.1**	**61.3**	**58.9**
GB 06, 09	of which *Oil and Gas Extraction and Support Services*	34.0	37.9	36.7	41.7	38.1
UK 05, 06	**Mining of coal and lignite; Extraction of crude petrol/gas**	**20.5**	**23.5**	**21.8**	**21.0**	**19.5**
UK 07, 08	**Mining of metal ores; Other mining and quarrying**	**19.3**	**22.0**	**18.3**	**17.5**	**22.8**
UK 09	**Mining support service activities**	**24.8**	**30.0**	**30.3**	**29.5**	**31.8**
UK 05–09	**Total Extractive Industries**	**64.5**	**75.5**	**70.3**	**68.0**	**74.0**

Source: ONS, Business Register and Employment Survey

GB	https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/industry235digitsicbusinessregisterandemploymentsurveybrestable2
UK	https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/september2016

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.

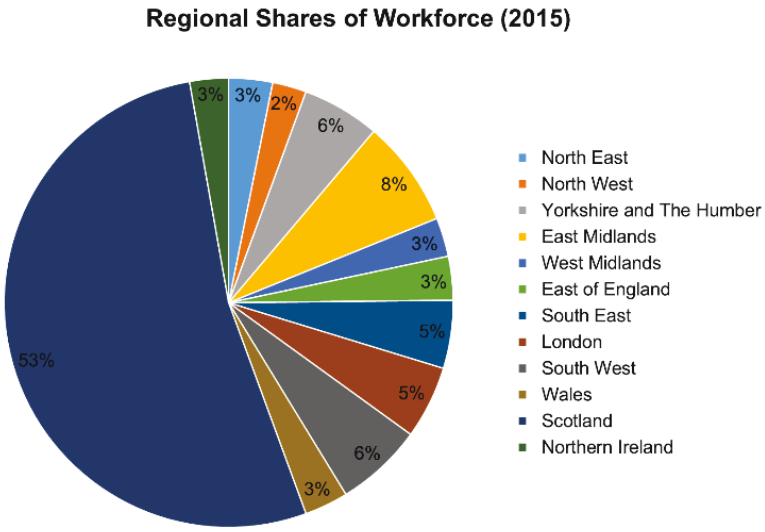
Further details of employment supported directly and indirectly by the oil and gas sector are given in Section 2.2 below.

2.1.5. Regional location of extractive industries

The broad geographic spread of employment in 2015 in the UK extractive sector (including oil and gas and mining support service activities) is illustrated in the table and chart below. This is shown in thousands and a percentage of the total number. The concentration of employment in Scotland reflects the dominance of the Aberdeen area in terms of oil and gas-related activity.

Figure 3. Regional distribution of oil, gas, mining and quarrying workforce[1]

	2015	
Region	**(thousand)**	**(share)**
North East	2	3%
North West	2	2%
Yorkshire and The Humber	4	6%
East Midlands	6	8%
West Midlands	2	3%
East of England	2	3%
South East	4	5%
London	4	5%
South West	5	6%
Wales	2	3%
Scotland	38	53%
Northern Ireland	2	3%
United Kingdom	**72**	**100%**



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/releases/uklabourmarketstatisticsdec2016

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

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

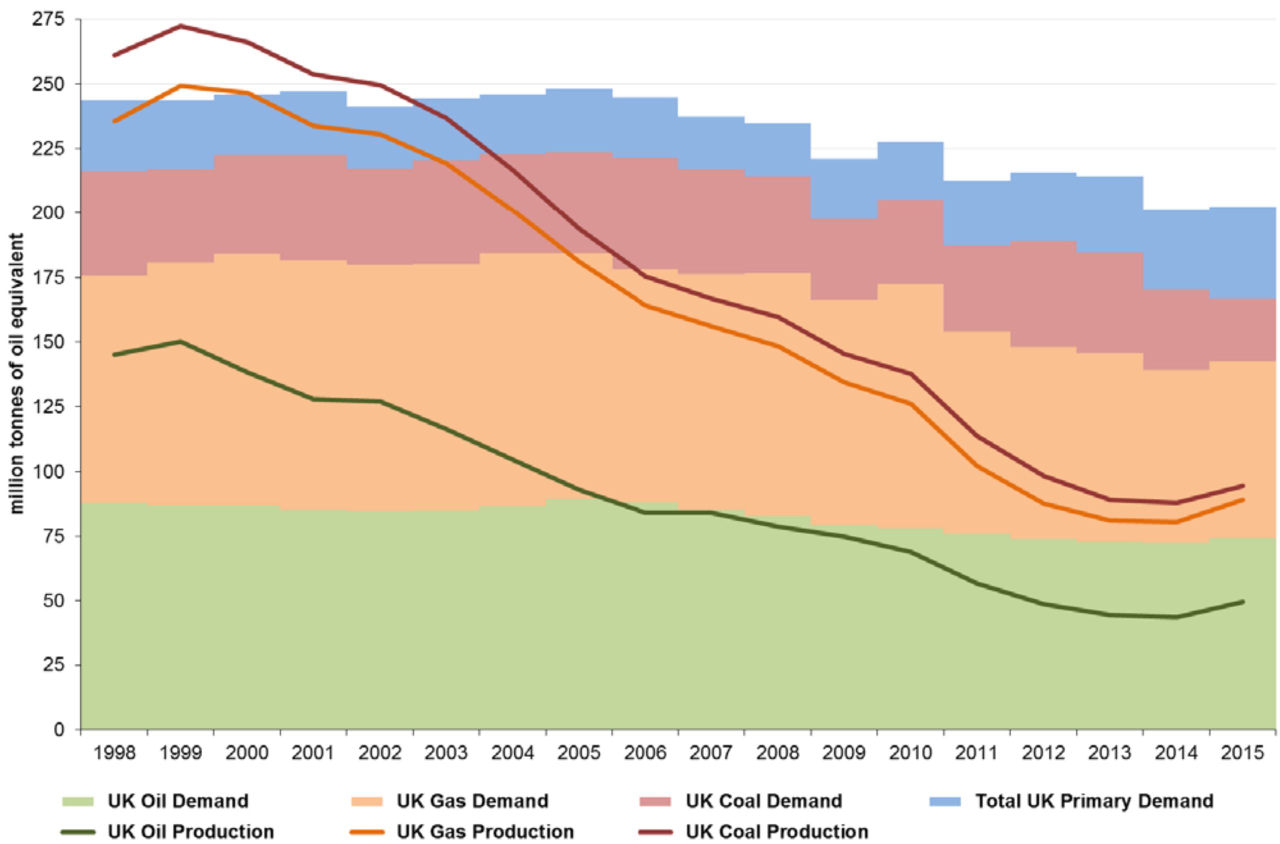
The majority of coal production comes from sites in Scotland, England and South Wales, as mapped by the Coal Authority.[1] The mining and quarrying of non-hydrocarbon minerals are widely distributed across the UK. There are no significant hard-rock aggregate deposits in the South and East of England, 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. With higher UK production and historically low UK demand, in 2015 UK fossil fuel production was equivalent to almost half of total UK energy demand. This is illustrated in the charts below:

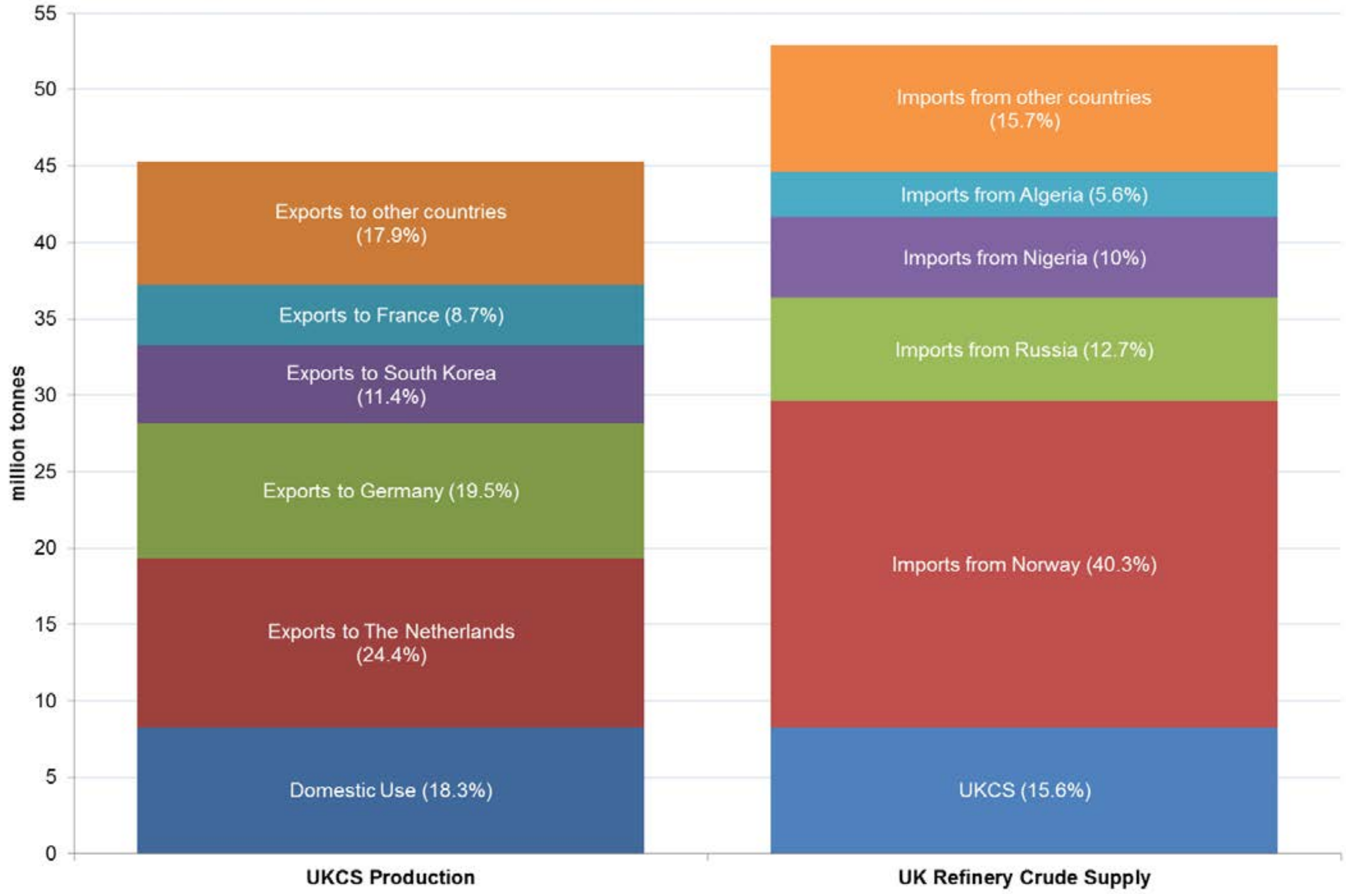
Figure 4. UK fossil fuel production and primary energy demand



Source: Energy Trends Table 1.3

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

Figure 5. Destination of UK oil production and sources of UK supply, 2015



Source: Digest of UK Energy Statistics (DUKES), July 2016 [principally Table G4]

Figure 6. UK monthly gas supply

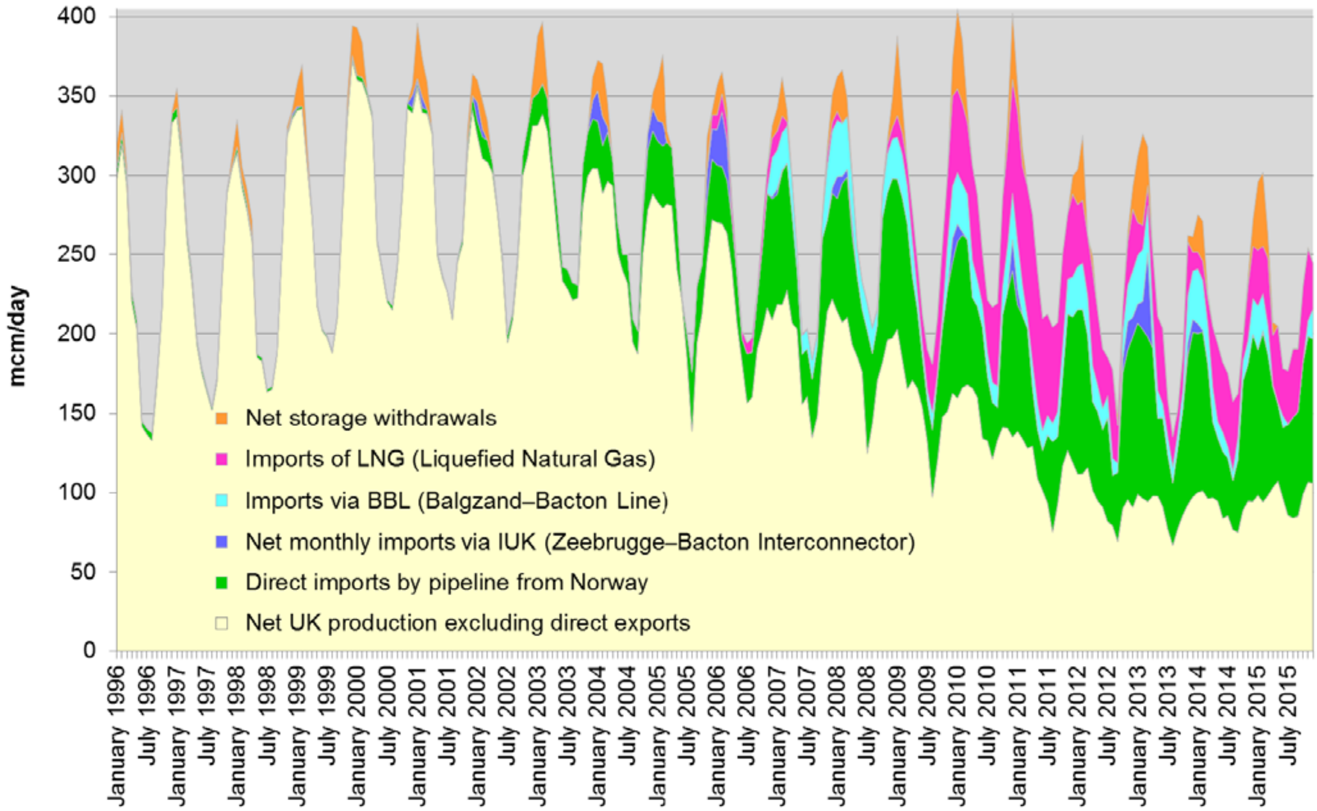
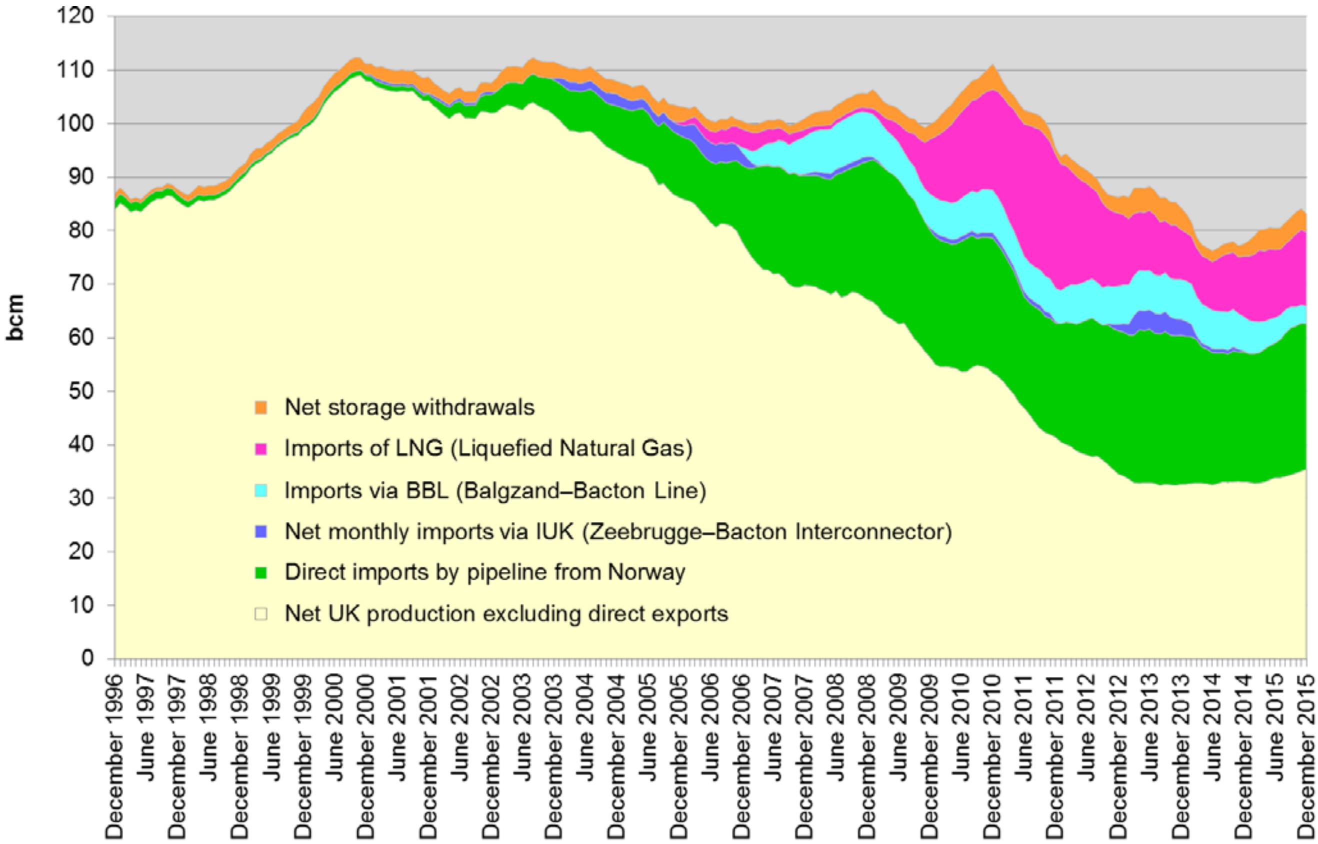


Figure 7. Sources of UK gas supply on a rolling 12 month basis



Source for both charts: Energy Trends Tables 4.2 and 4.3

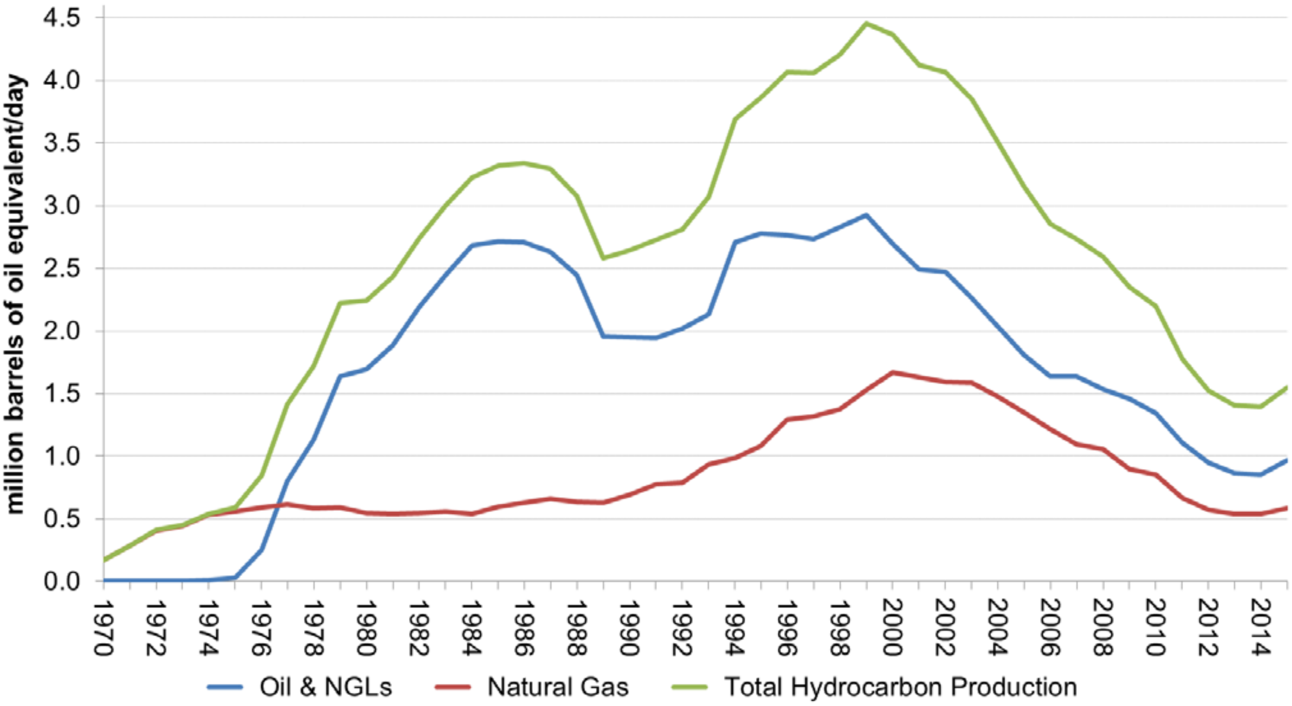
2.2. Oil and Gas

2.2.1. Production

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.

Combined oil and gas production volumes peaked in 1999 at 4.6 million barrels of oil equivalent (boe) per day and have since declined to 1.6 million boe/day in 2015, split roughly 60:40 between oil production and natural gas production (Figure 8).

Figure 8. UK oil and net gas production[2]



The OGA publishes data relating to production of UK oil and gas, including production data for individual fields, current and historical production figures, production projections, and tables and charts on UKCS income and expenditure.[3]

[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.

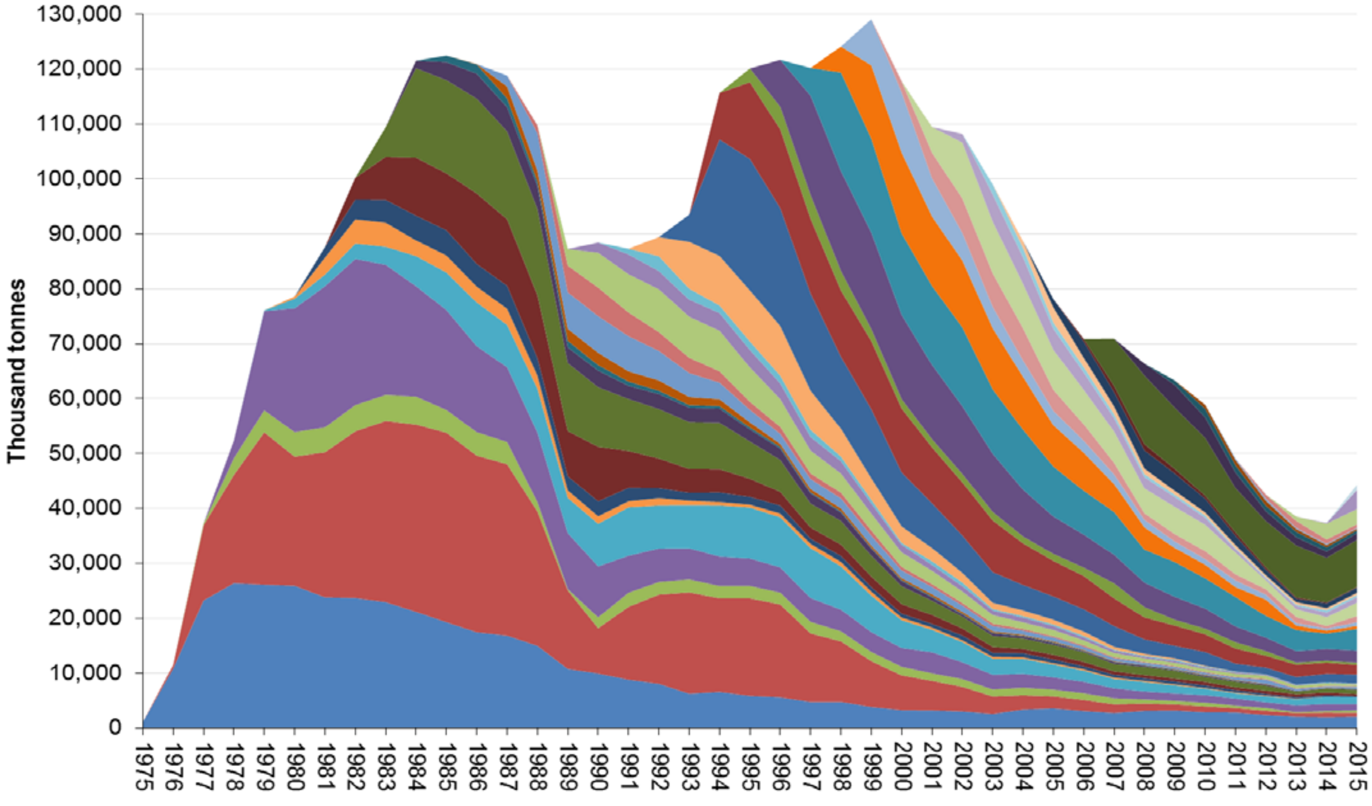
[2] Source: OGA, https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/production-data/. Net natural gas production equals gross production less producers' own use, i.e. the gas used in the course of production of oil and gas and therefore not available for sale to end users.

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

2.2.2. Background and recent developments

At the start of the industry in the 1960s and 1970s production was dominated by a small number of very large, profitable fields, such as 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. The overall level of production has fallen significantly, especially in the last decade – a consequence of natural reservoir decline in existing fields combined with fewer/smaller developments. This decline was arrested in 2014; 2015 witnessed the first year-on-year production growth since 1999 on account of a few new large developments and improvements in production efficiency of older installations. Figure 9 illustrates this for crude oil production. Note that the annual aggregates of field-level data charted here do not coincide exactly with the totals used elsewhere in this report.

Figure 9. UK oil production by start-up year of field[1]



[1] Source: OGA, https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/production-data/

As shown in the following table, which displays the annual average oil price in dollars per barrel and pounds per barrel from 2011 to 2015 (inclusive), 2015 saw a dramatic fall in the global oil price, from $99/barrel on average in 2014 to $52/barrel on average in 2015.

Annual average oil price (Brent crude spot price)[1]

	2011	2012	2013	2014	2015
$/barrel	111	112	109	99	52
£/barrel	69	71	70	60	34

Total upstream expenditure peaked in 2014 at £27.8 billion and is estimated to have fallen to £20.8 billion in 2015 as companies cut discretionary spending in the face of low oil prices. The year 2015 saw development consent for 5 new fields and 10 incremental projects and also saw the cessation of production from 16 fields. It was also the third consecutive year of negative cash flow, i.e. post-tax income was less than expenditure. Profitability was at a historic low since records began in 1997.[2]

The UK is still a significant oil and gas producer, being responsible for 1.1% of global output of oil and gas. In 2015, the UK was the 21st largest producer of oil and gas globally (ranked 21st for oil and 22nd for gas production).[3]

2.2.3. Reserves and forecasts

A total of 43 billion barrels of oil equivalent (boe) had been produced from the UKCS by the end of 2015. The OGA estimates remaining recoverable hydrocarbon resources from the UKCS to be between 10 and 20 billion boe.[4] 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.[5]

Exploration activity in 2015 was at an all-time low since the start of offshore exploration in the mid-1960s. Only 13 offshore exploration wells (including

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[1] Sources: http://www.imf.org/external/np/res/commod/index.aspx ($ oil price) and http://www.bankofengland.co.uk/statistics/Pages/default.aspx (£/$ exchange rate).

[2] ONS profitability of UK companies dataset, https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompanies

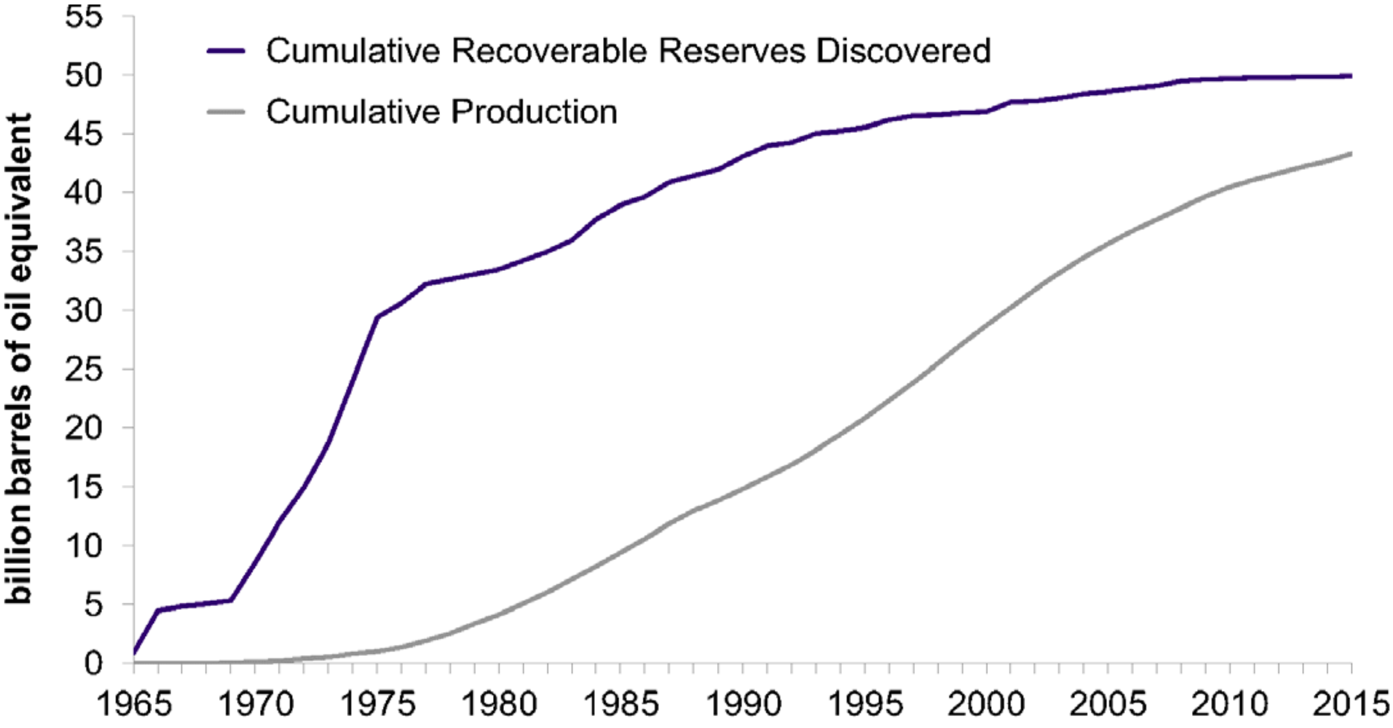
[3] BP, Statistical Review of World Energy, 2016, http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html

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

[5] OBR, http://budgetresponsibility.org.uk/

sidetracks) were drilled in the year. Discovered volumes are thought to have been around 150 million boe, an improvement on recent years, but still below the 10-year average.[1] Cumulative reserves produced to date are catching up with cumulative resources discovered to date (Figure 10) and the number of fields discovered but not yet developed is dwindling – an important issue for the long-term future of the UKCS.

Figure 10. Recoverable UKCS reserves discovered and reserves produced[2]

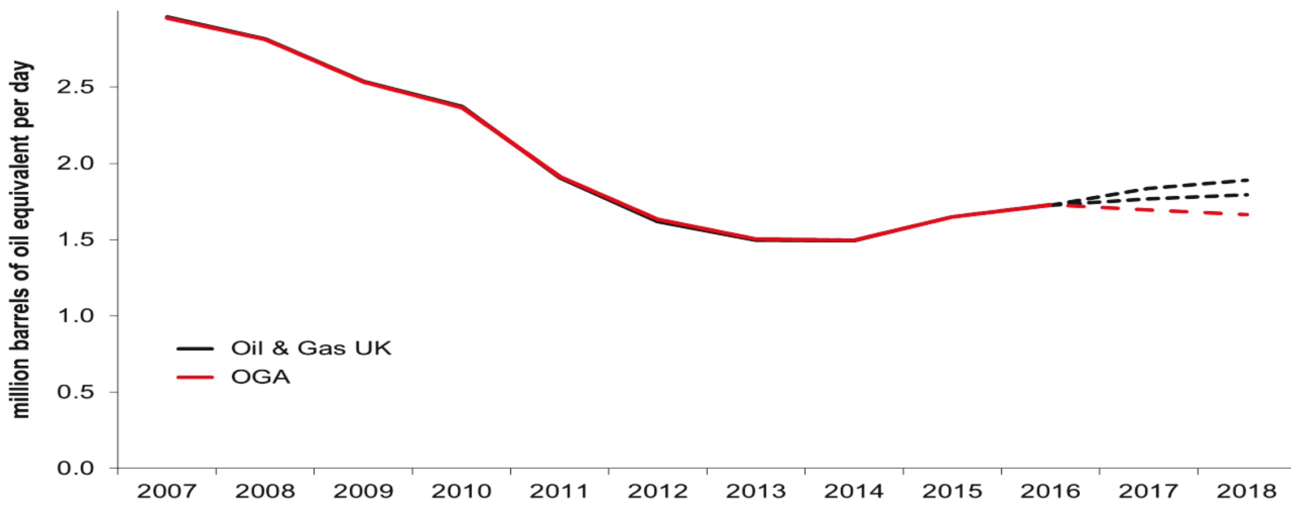


Forecasts of future production rates vary. Oil & Gas UK predicts that production will continue to increase in the near term, with the start-up of some very large projects more than offsetting anticipated decline from existing fields. By contrast, the OGA's central projection is for a return to declining production after increases seen in 2015 and 2016 (Figure 11).

[1] Oil & Gas UK, Activity Survey 2016, http://oilandgasuk.co.uk/

[2] Underlying data from Wood Mackenzie, Upstream Data Tool, http://www.woodmac.com/content/portal/energy/highlights/wk4_Nov_13/Upstream%20Data%20Tool.pdf; chart showing up to 2013 from Oil & Gas UK, Economic Report 2014, http://oilandgasuk.co.uk/wp-content/uploads/2015/05/EC041.pdf, p. 28.

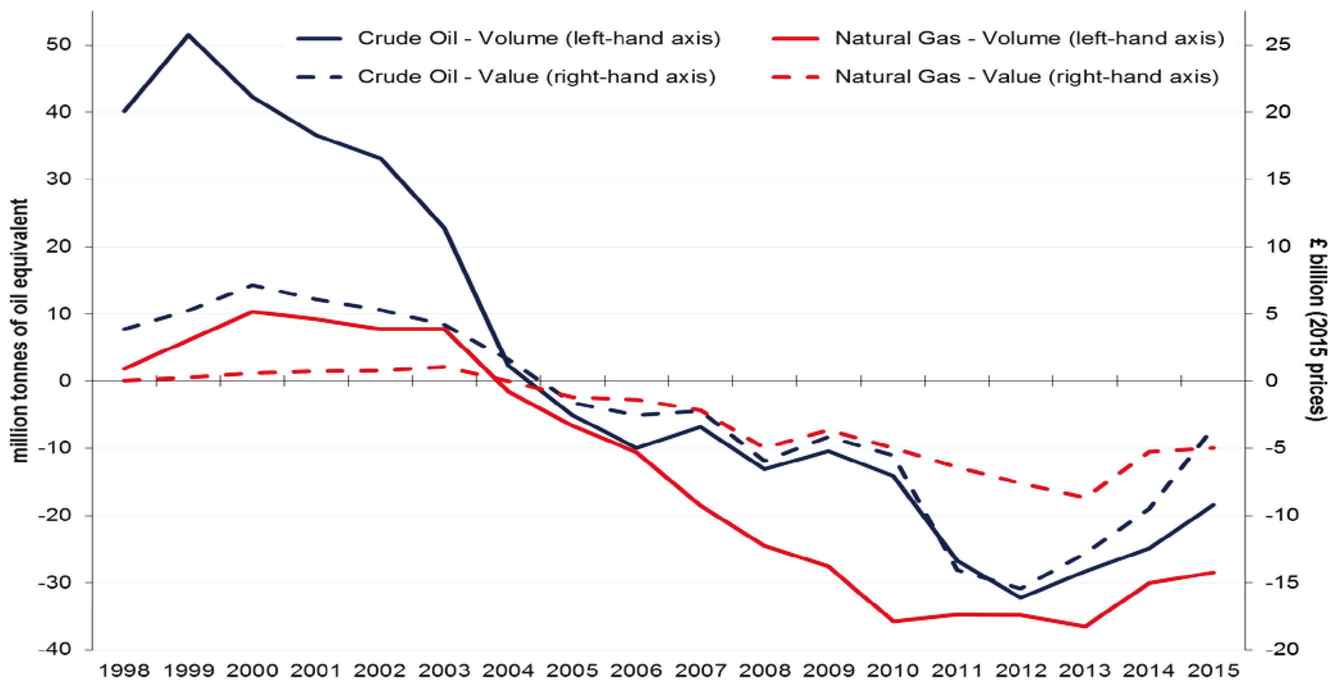
Figure 11. Oil & Gas UK and OGA forecasts of future UKCS production[1]



2.2.4. Balance of 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 12.

Figure 12. Volume and value of net UK oil and gas exports (imports)



[1] Source: Oil & Gas UK *Business Outlook 2017*, March 2017 (http://oilandgasuk.co.uk/businessoutlook.cfm), OGA UKCS oil and gas production projections, February 2017 (https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/production-projections/).

Oil and gas (whether domestically produced or imported) provide 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)[1] expects this percentage to stay stable up to 2030 under current policies.

2.2.5. Employment

In addition to direct employment in oil and gas companies there are a significant number of jobs in companies providing support activities. Official estimates for both are tabulated below.

Direct employment [GB not UK]

Thousands	2011	2012	2013	2014	2015
Oil and Gas Extraction	13.2	15.6	15.5	16.6	15.7
Support activities for petroleum and natural gas extraction	20.8	22.3	21.2	25.1	22.4
Oil and Gas Extraction and Support Services	**34.0**	**37.9**	**36.7**	**41.7**	**38.1**

Source: Business Register and Employment Survey.
http://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.[2] This information includes estimates of the indirect and induced jobs that depend on the UK's upstream oil and gas sector in thousands from 2013 to 2015 (inclusive).[3]

Latest Oil & Gas UK estimates

Thousands	2013	2014	2015
Direct	36,600	41,700	38,200
Indirect	198,100	201,000	160,600
Induced	206,200	211,100	170,800
Total employment	**440,900**	**453,800**	**369,700**

[1] 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).

[2] http://oilandgasuk.co.uk/

[3] http://oilandgasuk.co.uk/oil-gas-uk-figures-show-impact-of-oil-price-downturn-on-jobs/

2.2.6. Legal framework and licensing[1]

The Petroleum Act 1998[2] vests rights to oil and gas (petroleum) resources in the Crown. The government grants petroleum licences, giving exclusive rights to "search and bore and get" petroleum (mineral oil, natural gas and any associated hydrocarbons) over a limited area for a limited period. There are separate licensing regimes for offshore (seaward) and onshore (landward) areas, with distinct licences in each. In Northern Ireland, the Petroleum (Production) Act (Northern Ireland) 1964[3] vests the property in oil and gas in Northern Ireland, with certain exceptions, in the Department for the Economy (DfE).

Before 1 April 2015 petroleum licences were awarded by the Department of Energy and Climate Change (DECC). Since then a newly established independent regulator, the Oil and Gas Authority (OGA), has been the licensing authority in all areas other than onshore Northern Ireland, where the Northern Ireland Executive has retained responsibility.

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 for GB and the UKCS.[4] The OGA also publishes offshore and onshore maps. The interactive maps allow users to find the co-ordinates of each licence and download individual licences.[5] Older licences have not all been scanned, so some are not available online, but copies may be requested from the OGA.

The Northern Ireland DfE issues separate onshore licences independently of the OGA and publishes current licences and a map showing licence areas.[6]

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.

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[1] This sub-section draws on OGA, Oil and gas: petroleum licensing guidance, https://www.ogauthority.co.uk/licensing-consents/overview/

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

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

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

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

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

Award and transfer of licences

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.[1] This method of licensing aims to optimise recovery of the UK's remaining petroleum resources. 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 and awards during 2015. Licensing rounds are announced in the Official Journal of the European Union and assessed against a publicly announced set of criteria.[2]

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 and sale of licences in order to enforce its policy objectives.

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.

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 cases.[3] 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

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

[2] 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.

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

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.[1]

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, which has broadly similar terms and condition to onshore GB Petroleum Exploration and Development Licences (PEDLs) but also some differences.[2]

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 2015, 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

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 introduced by the Oil Taxation Act 1975 and was abolished 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.

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

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

In 2015, PRT was charged at 50%.[1]

RFCT

RFCT is a tax charged on the profits a company earns from carrying out oil and gas related activities. 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 is 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 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 21% at the start of 2015, falling to 20% from 1 April 2015. 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.

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

[1] In Finance Act 2015, the rate was reduced to 35% with effect from 1 January 2016. However, this was superseded by the Chancellor's announcement at Budget 2016, that from 1 January 2016 the PRT rate would be permanently reduced to 0%. As a result, from this date, no company will pay PRT. However, it is important to note that PRT has not been abolished in legislation. Companies will still have to record and declare their profits and may claim relief for losses incurred.

Allowance, and the Onshore Allowance, which are outlined below. The company's adjusted ring fence profits are then charged to SC. In 2015 the rate of SC was 20%.[1]

Summary of rates for 2015

- PRT – 50%
- RFCT – 30%
- SC – 20%

Interaction

PRT is 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 net tax burden was 75% on income from fields paying PRT, and 50% for fields that were not paying PRT (ignoring any adjustment for finance costs and allowances). An example of this is shown below:

	PRT field	Non-PRT field
Profit	£1,000	£1,000
PRT at 50%	(£500)	-
Profits after PRT	£500	£1000
RFCT at 30%	(£150)	(£300)
SC at 20%	(£100)	(£200)
Profit after tax	£250	£500
Total tax (PRT+RFCT+SC)	**(£750)**	**(£500)**
Tax as a % of profit	**75%**	**50%**

There have been various 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 "well head value". This was abolished in 2002 as it distorted investment incentives. Supplementary Petroleum Duty (SPD) existed in 1981 and 1982. Advance PRT was also payable between 1 January 1983 and 31 December 1986.

[1] The rate of SC was reduced to 10% at Budget 2016, for chargeable periods ending after 31 December 2015.

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 in 2015. Oil Allowance ensures that for at least the first 10 years of a field's life a substantial slice of production is 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 the mainstream CT regime (and are also available in relation 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 particular 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. These are the Research and Development Allowance (RDA), Mineral Extraction Allowance (MEA) and Plant and Machinery Allowances (PMA). RDA and MEA tend to be 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 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.

Field Allowance

In recent years, the discoveries and subsequent developments on the UKCS have been increasingly small in size (less than 50 million boe, many of them as small as 25 million boe or less), and/or technically challenging. These fields were not commercially viable at the previously prevailing tax rates. The Field Allowance was therefore introduced in 2009 based on the physical characteristics of qualifying fields (or in the case of the brownfield allowance, based on project economics). By the end of 2014 there were a total of seven different categories of field that were eligible.

The Field Allowance gives an amount of production income that can be earned free of the SC. The Field Allowance is only a relief against SC, so the full profit from the field is always charged to RFCT at the full 30% rate (and to PRT for applicable incremental projects).

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 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.

The definition of qualifying expenditure for Investment Allowance and Cluster Area Allowance is being extended. As a result, certain types of operating and leasing expenditure incurred on or after 8 October 2015 may also be able to generate the allowances.

Losses

There was a dramatic drop in the oil price during the second half of 2014 and 2015. This meant that some previously profitable companies started to make losses, 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 company 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

As explained above, PRT is a field level tax, so loss relief is normally only available against profits from the same field. The 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 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, following cessation of production, 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 only be carried back 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 only generate a refund 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

There is a system of instalments and payments on account for paying PRT. The first instalment is due two months into a chargeable period, and 5 subsequent instalments are due each month thereafter. The amount of each instalment is 1/8 of the payment on account for the previous chargeable period. However, companies do not have to make an instalment payment if during the month in question they did not deliver any oil, or a relevant appropriation of the oil won from the field, or receive any chargeable tariff receipts.

Two months after the end of the chargeable period, a payment on account must be made. The amount of this depends on the income, expenditure and allowances in the relevant period. Finally, any further PRT due, which could be as a result of HMRC rejecting an expenditure claim, for example, must be paid within 6 months of the end of the chargeable period. From 2016, as the PRT rate is reduced to nil, no PRT payments will be made.

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. Where the AP is a year in length, the three payments should be of equal amounts.

This report covers payments made in the 2015 calendar year. As a result of the payment regimes described here, the tax due for a particular year may not relate directly to the payments made in the year.

Decommissioning

Decommissioning is an inherent cost of doing business in the UKCS. As a result, tax relief is given for decommissioning costs at the point that they are incurred and the decommissioning is carried out (for accounting purposes a company will make an annual provision, but this cannot be deducted for tax purposes as the cash has yet to be spent).

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 2015 tax rates, losses generated by decommissioning costs and carried back to be offset against previous profits will be relieved at 20% for SC and 30% for RFCT in non-PRT paying fields. The rate of relief for PRT fields is up 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.

Decommissioning Relief Deeds (DRDs)

In 2013 the government introduced legislation giving it the statutory authority to sign contracts (DRDs) with companies operating in the UK and UKCS. The aim of the DRD is to provide certainty over decommissioning tax relief.

The DRD works by guaranteeing the amount of tax relief due on decommissioning expenditure in perpetuity, based on the relief available at Finance Act 2013. It provides a payment from the Exchequer to compensate companies for adverse changes to the tax relief available on decommissioning expenditure (but not due to changes in tax rates) compared to those that existed in 2013. 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 to ensure 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.

Looking ahead: *Driving Investment*

At Budget 2014 the government committed to review the oil and gas fiscal regime. Over 2014, HM Treasury (HMT) sought views on how the government should best adapt the regime to the changing economics of the UKCS, create fiscal stability, help the UKCS compete for investment and simplify the regime to support maximising the economic recovery of the UK's oil and gas resources.

In December 2014, the government published *Driving Investment – a long-term plan to reform the oil and gas fiscal regime.*[1] The conclusion was that, although the fundamentals of the fiscal regime remained sound, significant change was needed

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1 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

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. [1]

Exploration - *Driving Investment* noted that exploration activity in the UKCS had been falling for some time. In 2015, 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.[2]

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.

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, [3] 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

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

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

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

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. Payments to the OGA

The Petroleum Act 1998 vests in the Crown all rights to petroleum resources in GB and on the UK Continental Shelf. 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. Licences are 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 under the Petroleum Act 1998 are collected by the OGA (formerly DECC) for payment to the Consolidated Fund.

The OGA Levy was introduced with effect from 1 October 2015[1] and part-funds the OGA, which became an Executive Agency of DECC on 1 April 2015 and a Government-owned company on 1 October 2016.

2.2.9. 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 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

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

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 recently 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.

The licensing of onshore oil and gas extraction underlying Scotland is devolved to the Scottish Parliament, in addition to responsibility for the planning and

[1] http://www.northyorks.gov.uk/32467

[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

environmental aspects of the onshore oil and gas regime. In January 2015, the Scottish Government announced a moratorium on granting planning and environmental consents for unconventional oil and gas developments in Scotland pending a comprehensive programme of research and a public consultation.[1]

On 27 February 2015, the government published the paper: *Powers for a purpose: Towards a lasting devolution settlement for Wales.*[2] One of the commitments was that the licensing of onshore oil and gas extraction underlying Wales will be devolved. These powers complement the Welsh Assembly's existing planning powers, and allow Welsh Ministers to take a strategic view of future licensing in Wales. In February 2015 Welsh Minister for Natural Resources, Carl Sargeant issued a new direction to Mineral Planning Authorities (MPAs) requiring them to notify him of any planning application where unconventional extraction techniques such as fracking are proposed. This direction only applies if the MPA plans to approve the application and gives the Minister an opportunity to consider calling it in for review.[3]

2.3. Mining and Quarrying[4]

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

[1] http://www.gov.scot/Topics/Business-Industry/Energy/onshoreoilandgas; http://news.gov.scot/news/moratorium-called-on-fracking

[2] https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales

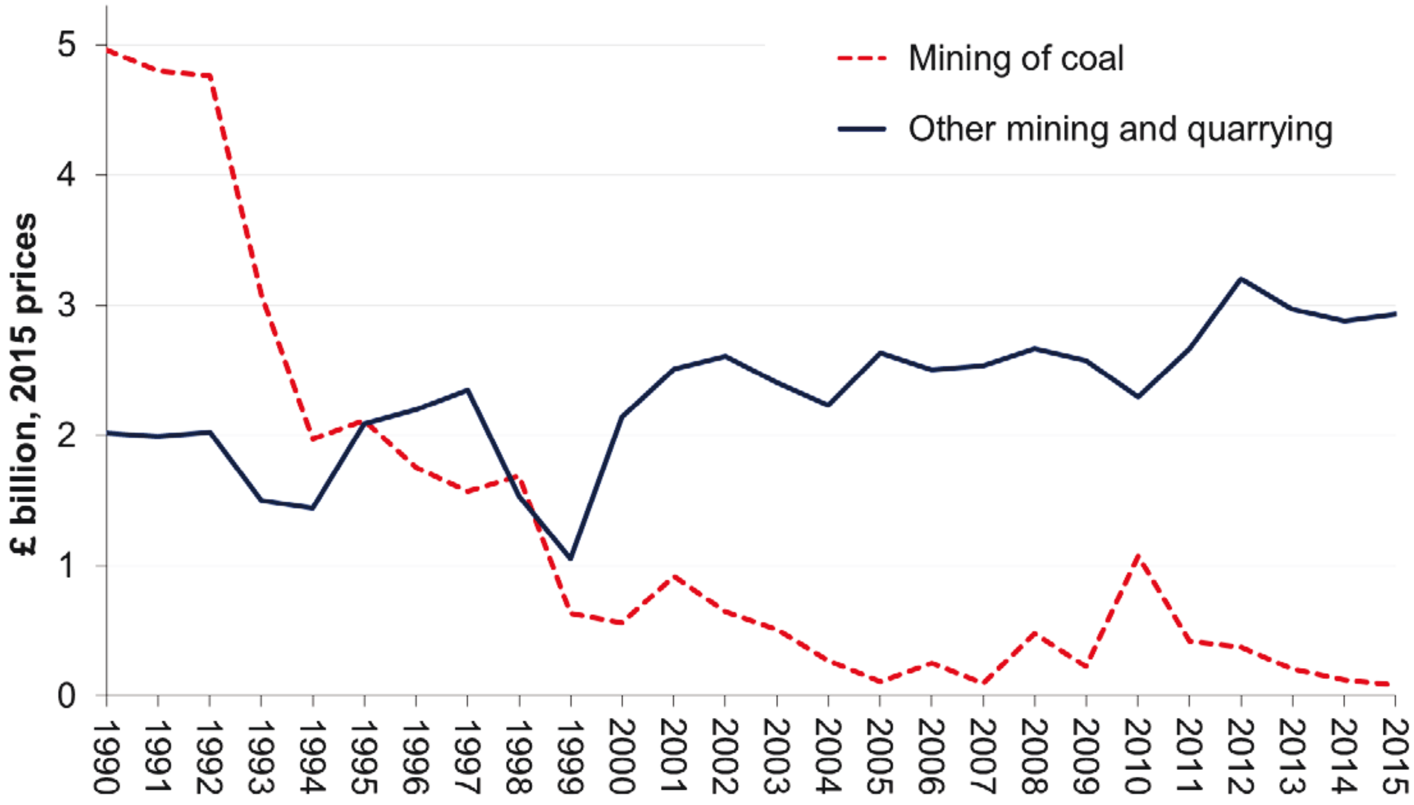
[3] http://gov.wales/topics/planning/policy/dear-cpo-letters/unconventional-oil-and-gas/?lang+en

[4] Unless noted otherwise, in this section of the chapter, mining and quarrying include coal but exclude oil and gas extraction.

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 (Figure 13).

Figure 13. GVA of mining and quarrying 1990–2015[1]



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

[1] ONS, Gross Domestic Product, preliminary estimate: Oct to Dec 2016, published 26 January 2017, https://www.ons.gov.uk/releases/ukgdppreliminaryestimateocttodec2016

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

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.[1]

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

2.3.3. Legal framework, fiscal regime and revenue streams

Planning

Extraction of minerals is subject to the UK's mineral planning process.[2] 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),[3] Planning Policy Wales[4] and National Planning Framework for Scotland 2.[5] In Northern Ireland, policy and guidance are provided through documents such as the Strategic Planning Policy Statement for Northern Ireland,[6] which partly supersedes the Planning Strategy for Rural Northern Ireland.[7] 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.[8]

Mineral planning and decisions on planning applications are a responsibility of a local authority body designated as the Mineral Planning Authority (MPA). In Wales,

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

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

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

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

[5] Scottish Government, 2009, http://www.gov.scot/resource/doc/278232/0083591.pdf

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

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

[8] 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/

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 under the provision set out in s26 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]

[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://search.netregs.org.uk/environment/Mineral-Extraction

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

- Welsh Government, Planning.[1]
- Natural Resources Wales, Mining waste.[2]

2.3.4. Licensing, fiscal regime and revenue streams

Mineral ownership and licensing

With the exception of oil, gas, coal, gold and silver, the state does not own mineral rights in the Great Britain.[3] Generally, mineral rights belong to private landowners. There is no single national licensing system for exploration and extraction of non-petroleum minerals. Planning permission goes with the land, so if the land is sold, the rights under the permission transfer to the new owner. Environmental permits are granted to the operator and therefore must be formally transferred to a new operator.

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.[4] 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

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

[2] https://naturalresources.wales/apply-for-a-permit/waste/waste-permitting/mining-waste/?lang=en

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

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

email.[1] The Authority provides online coal mining data including on licence areas and known areas of activity.[2]

Coal Authority revenue streams include:[3]

- 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 2016, 22 surface mines were in operation under licences held by 17 companies, and 6 underground mines were in operation under licences held by 6 companies. In addition, there were 19 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).[4] The DfE publishes a description of the process for the award of Mineral Prospecting Licences (MPLs) and consults publicly on

[1] Contact details at https://www.gov.uk/government/organisations/the-coal-authority

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

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

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

applications.[1] Applications are accepted on a "first come, first served" basis, although there is provision for a competitive process where an expression of interest has been lodged over an area for which an application is subsequently submitted by another company. In 2015-16, DfE awarded five new MPLs to four companies. MPLs are held electronically and available on request from the DfE's Minerals and Petroleum Branch.

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.[2] TCE 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. TCE's policy is not to disclose contracts and agreements relating to minerals on the grounds that they contain commercially confidential information. All licensed application and exploration/option marine aggregate area details are published online.

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 the Northern Ireland Executive – according to location.[3] All regulators are required to keep a public

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

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

[3] 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

register of marine licences they have issued.[1] Applications for marine licences must be publicised to allow anyone who is interested a chance to object.[2]

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.[3]

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 one exclusive option agreement (York Potash) on which planning approval has been granted but extraction has yet to start. Fees and royalties received by TCE are negotiated privately. 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"),[4] but there is no significant gold or silver production in the UK.

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[1] 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: "A register of licensing information is available for inspection at all reasonable times by members of the public free of charge. This register is available to view at the NIEA Lisburn Office or regional offices if requested" – Northern Ireland Environment Agency (NIEA), Marine Dredging, https://www.doeni.gov.uk/contact

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

[3] 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.

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

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 (and its 2010 modification regulation) in Scotland and Article 40 of the Planning (Northern Ireland) Order 1991. 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, usually in form of highway improvements (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.

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 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 these companies).

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 22 operating surface mines and no operating commercial-scale underground mines. UK coal production peaked in 1913 and has been contracting, with fluctuations, since 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 2015 was 8.6 million tonnes (5.8 million from opencast mines, 2.8 million from deep mines).[2] 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.

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[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

[2] BIES, 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

The aggregates industry produces crushed rock, sand and gravel. According to the Mineral Products Association, in 2015 the industry produced 162 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.[1] 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 from 2012 to 2015 sales volumes of land-based primary aggregates increased by 23%. UK landings of marine aggregates increased by 8% over the same period, due to higher UK construction demand. Exports to the near Continent (in 2014, 17% of marine aggregate production from UK waters was exported) declined, but demand for replenishing UK beaches increased. 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.[2]

Most (65% of) UK primary aggregates production in 2014 took place in England, 15% in Scotland, 12% in Northern Ireland and 8% in Wales.[3] In 2015, 932 sq km (less than 0.1% of the total area of UK seabed) were licensed for dredging by TCE, 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.[4]

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[1] Mineral Products Association, The mineral products industry at a glance – key facts, 2014, http://www.mineralproducts.org/documents/mpa_facts_at_a_glance_2014.pdf, based on BGS data (excluding Northern Ireland); BGS, UK Minerals Yearbook 2013, https://www.bgs.ac.uk/downloads/start.cfm?id=2930

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

[3] Mineral Products Association, The mineral products industry at a glance, http://www.mineralproducts.org/documents/mpa_facts_at_a_glance_2014.pdf

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

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.[1]

Industrial minerals

Industrial minerals include a number of raw materials used in specialised processes, with notable production in the UK of the following.[2]

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.[3]

Production peaked in 1988 at 2.8 million tonnes but since then has declined to 1.09 million tonnes in 2014, 90% of which was exported, mostly to Europe. The UK exported 984 thousand tonnes (dry weight) of kaolin in 2014 worth £116 million and imported 92 thousand tonnes (dry weight) worth £15 million.

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 2014, production was estimated at 733,000 tonnes, with 555,000 tonnes exported worth £36 million and imports totalling 6,200 tonnes worth £2.4 million.

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

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

[2] Sources of data in this sub-section include: BGS, UK Minerals Yearbook 2014; https://www.bgs.ac.uk/downloads/start.cfm?id=3030; 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

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

(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 (2014) is estimated at 1.0 million tonnes, worth an estimated £248 million.[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. 4.69 million tonnes of salt were produced in the UK in 2014, with exports totalling 772,971 tonnes worth £40.8 million and imports 356,289 tonnes worth £39.7 million.

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 2014 the UK produced 1.2 million tonnes with exports of 24,000 thousand tonnes worth £9.5 million and imports of 557,000 thousand tonnes worth £19 million.

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

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[1] Company information; BGS, UK Minerals Yearbook 2014, https://www.bgs.ac.uk/downloads/start.cfm?id=3030

[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

agriculture, and for flue gas desulphurisation in coal fired power generation. Total 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 2014, 25,000 tonnes were extracted. Exports were 49,000 tonnes, worth £6.5 million. Imports in 2014 were estimated at 12,000 tonnes worth an estimated £2.3 million.

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 2014 was 44,000 tonnes. The UK exported 13,500 tonnes of barytes in 2014 worth £5 million and imported 76,000 tonnes worth £10 million.

The above data is sourced from the BGS UK Minerals Yearbook 2015 and covers extraction from 2014. This was the most recent data available in time for publishing this UK EITI report. The 2016 yearbook covering 2015 data will be published in early 2017 on the BGS website.[1]

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]

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[1] http://www.bgs.ac.uk

[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

2.3.6. Outlook

Coal

At the end of 2015 the UK had an estimated 65 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.[1]

Construction minerals

Construction output has increased since the end of the industry recession and rose by 15% between 2012 and 2015. Independent forecasts previously suggested a growth trend in construction of 3% to 5% per annum in the medium term to 2018, based on factors including modest growth in housebuilding, increased spending on infrastructure projects in areas such as transport, energy and water, and increases in commercial construction (including offices and retail development) outside London and the South East. However, forecasts produced from June 2016 suggest a relatively flat trend of construction output from 2016 to 2018. The demand trend for construction minerals such as aggregates is therefore likely to be broadly flat over this period.

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

[1] Coal Authority, email communication.

Devon and planning approval for a major new potash mine in the NYM illustrate the continuing importance of the UK as a mineral producer.

The May 2016 mineral resource statement for the gold deposit at Curraghinalt in Northern Ireland gives a measured mineral resource of 25,000 ounces, an indicated mineral resource of 2.69 million ounces and inferred mineral resource of 2.31 million ounces: a significant deposit in global terms.[1]

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] Micon International for Dalradian Resources Inc., An Updated Preliminary Economic Assessment of the Curraghinalt Gold Deposit, Tyrone Project, Northern Ireland, October 2014, filed on SEDAR, http://s1.q4cdn.com/162468244/files/doc_downloads/PEA/Curraghinalt-PEA-Report-2014-10-31-(SEDAR).pdf

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

2.4. The UK's Budget and Audit Processes

The UK Government publishes full details of its income and expenditure (outturn figures, estimates and forecasts).[1] Budget forecasting is now 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 (see below for one relating to extractive income), central government receipts are not hypothecated to specific items or types of expenditure. From 2015 onwards, this has changed in the case of the newly introduced OGA Levy, which part-funds the operation of the recently created Oil and Gas Authority (OGA).[5]

The only other 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 2015/16 was £1,600,000 (£1,850,000 in 2014/15).[6]

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[1] See e.g. HM Treasury, Autumn Statement 2016, https://www.gov.uk/government/publications/autumn-statement-2016-documents

[2] OBR, http://budgetresponsibility.org.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] DECC, Funding the Oil and Gas Authority, https://www.gov.uk/government/consultations/funding-the-oil-and-gas-authority-consultation-on-levy-design

[6] DECC, Annual Report and Accounts: 2015–16, https://www.gov.uk/government/publications/annual-report-and-accounts-2015-to-2016.https://www.gov.uk/government/publications/decc-annual-report-and-accounts-2014-to-2015

3. APPROACH AND METHODOLOGY

3.1. Payment Streams

In preparation for last year's 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 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 this report, which covers 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). 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:

- Ring Fence Corporation Tax (RFCT) and the Supplementary Charge (SC);
- Petroleum Revenue Tax (PRT);
- Petroleum licence fees;
- OGA Levy; and
- Payments to The Crown Estate (TCE) in respect of pipelines.

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.

For 2015, to be covered by the second-year report, companies have been given the option to make two payments, one being the mainstream corporation tax payment (out of scope) and the other being the RFCT and SC payments (within scope) or, at least, to identify how much of any payment was to be treated as relating to their extractive activities. Payments had already been made for the 2014 calendar year before the methodology was agreed so, as an exception for the 2014 reconciliation, companies were allowed to confirm the split between in-scope and out-of-scope payments themselves, with reconciliation focusing on the total payments.

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
- Payments for planning obligations paid to Local Planning Authorities. 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. No such payments were reported as having been made in 2015.

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

3.2. Government Agencies

The Government Agencies required to report for UK EITI for 2015 were:

- Her Majesty's Revenue and Customs (HMRC);
- Oil and Gas Authority (OGA) – the body which took over key oil and gas functions from the then Department of Energy and Climate Change (DECC);
- 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 or individual company and project level. The threshold applies to the total of net 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 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 (Moore Stephens), 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

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

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 2015 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 mining and quarrying sector.

Oil and gas companies

HMRC provided the IA with a list of 46 oil and gas groups that had made or received material payments for upstream activities during 2015.

In addition, the OGA provided the IA with a full list of payments in respect of petroleum licence fees and the OGA Levy that it received from companies during 2015. Many of the companies that made material payments to the OGA also made material payments to HMRC. A number of companies came into scope of the UK EITI solely because of the level of their payments to the OGA in 2015.

For the 2014 reconciliation (first report), 100% of material OGA payments had been fully reconciled and reported (as taxpayer confidentiality restrictions do not apply to OGA data). With this in mind, representatives agreed during the July 2016 MSG meeting that the reconciliation of OGA payments made in 2015 should be more targeted to reflect an increased focus on risk and materiality.

The MSG authorised the IA to develop a methodology that would involve reconciling a high percentage of the payments made to the OGA by the largest payers. In response, the IA considered the impact of targeting 80%, 90% and 100% of OGA payments. The IA recommended that 80% of OGA payments be targeted; this would result in the reconciliation of 89% of payments to the OGA (as companies with material payments to HMRC would have their OGA payments reconciled if they are material – even if they fall below the 80% OGA threshold).

The reconciliation sub-group considered the IA's proposal and were supportive of the approach. The proposal was circulated to the MSG for agreement in early August 2016. This timetable allowed the IA to implement the methodology before circulating the templates to companies requesting their 2015 data.

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 were unable to provide the IA with a list of mining and quarrying companies that made material payments in 2015 for extractive activities, because the amounts paid to HMRC will often include a significant proportion of taxes on non-extractive activities.

For the first year's reconciliation (2014), minerals representatives on the MSG agreed to a methodology to identify companies that were thought to account for 80% by volume of the total output of the UK mining and quarrying sector. The MSG undertook a review of the first report, in which mining and quarrying representatives expressed concern that the first-year reconciliation gave a distorted view of the sector. The MSG agreed that a new methodology was required for year 2.

With this in mind, the mining and quarrying sub-group developed a new methodology, as a result of which the following were asked to participate in the UK EITI:

- companies that made material payments to TCE (as confirmed by TCE);
- companies that made material payments to the Coal Authority (as confirmed by the Coal Authority); and
- companies on a list provided by the MPA as being the largest companies operating in the aggregates sector.

The mining and quarrying sub-group proposed this methodology at the July MSG meeting, and this methodology was agreed. A list of 32 companies expected to be in scope 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.

The reporting template was sent electronically to all extractive companies by the end of August 2016. This included 79 companies in total: 47 oil and gas companies[1] and 32 mining and quarrying companies. Extractive companies were asked to report

[1] As noted below, one oil and gas company was added during the reconciliation process.

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.

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.

3.5. Reconciliation Scope and Methodology

3.5.1. Analysis of the reconciliation scope

The IA, Moore Stephens, 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 2015 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 year for the report on 2014, 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 carried out interviews with 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 2015 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

During the reconciliation exercise, 13 extractive companies were excluded from the EITI reconciliation scope and one was added. As a result, 67 extractive companies were actually included in the 2015 EITI reconciliation scope. These are detailed as follows:

Sector	Initial number of companies	Adjustments		Adjusted number of companies
		(+)	(-)	
Oil & Gas	47	1	4	44
Mining & Quarrying	32		9	23
Total	**79**	**1**	**13**	**67**

Oil & Gas sector

Royal Dutch Shell Group was initially asked to report its figures cumulatively with BG Group which it took over in early 2016. However, it turned out that the tax merger between these two companies was not established until 2016. BG Group was then asked to submit its own reporting template. A number of other companies that were taken over or merged after the end of 2015 did' however, report under their new identities.

Four oil and gas companies that were sent reporting templates were in the end excluded from the EITI scope because they made/received no material payments/repayments during the calendar year 2015.

Mining & Quarrying sector

A total of nine mining and quarrying companies that were sent reporting templates were in the end excluded from the EITI scope because they made/received no material payments/repayments during the calendar year 2015, had become part of a group that was in scope or were outside the extractive sector (three ports).

The final number of companies included in the EITI reconciliation scope was 67.[1]

[1] Seven companies did not participate in the reconciliation exercise including five mining & quarrying companies and two Oil & Gas companies, hence a participation rate of 90%.

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]

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

[2] https://beta.companieshouse.gov.uk/

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

3.7. 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 sub-section 5.1 of this report.

A follow up of recommendations made in year 1 is set out in sub-section 5.2 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 2015 by Oil & Gas companies

£000	As reported by government agencies						Total reported by company	Unreconciled difference
	Petroleum Licence Fees	OGA Levy	PRT	RFCT & SC	Payments to TCE	Total		
Alpha Petroleum Resources Ltd	1,306	100		406		**1,811**	**1,811**	**0**
Apache North Sea	650	188	70,710	30,255		**101,803**	**101,803**	**0**
BG Group	1,100	202	7,295	257,000	87	**265,685**	**265,685**	**0**
BHP Billiton Petroleum			3,035	-27,954		**-24,919**	**-24,919**	**0**
BP	3,570		-178,558	-47,515	1,341	**-221,163**	**-221,163**	**0**
Centrica Energy E&P	3,875	127	-8,308	-1,581	504	**-5,383**	**-5,387**	**-4**
Chevron North Sea Ltd	918		-3,737	-66,589		**-69,407**	**-69,407**	**0**
CNOOC (Nexen Petroleum U.K. Ltd)	5,368	271	245	786,531		**792,416**	**792,416**	**0**
CNR International (UK) Ltd	342	274	-146,975	-46,139		**-192,497**	**-192,497**	**0**
ConocoPhillips	4,922	907	-33,776	31,069		**3,122**	**3,122**	**0**
Dana Petroleum	486		-291	-10,449		**-10,254**	**-10,254**	**0**
Dyas UK Ltd and EOG Ltd				1,297		**1,297**	**1,297**	**0**
Endeavour Corp	646	135	11,067			**11,848**	**11,847**	**-1**
ENGIE E&P UK Limited	2,929	185	1,899			**5,013**	**5,013**	**0**
Eni UK Limited	1,316	138	6,447	86,075	667	**94,642**	**94,640**	**-2**
EnQuest PLC	1,723	310	-3,011	460		**-517**	**-517**	**1**
ExxonMobil			-139,926	-75,863		**-215,790**	**-215,790**	**0**
Faroe Petroleum	1,197	94		3,066		**4,357**	**4,357**	**0**
Hess Limited		91		-90,000		**-89,909**	**-89,909**	**0**
Idemitsu Petroleum UK Ltd			-4,009			**-4,009**	**-4,009**	**0**
IGas Energy Group	1,404					**1,404**	**1,404**	**0**

£000	As reported by government agencies: Petroleum Licence Fees	OGA Levy	PRT	RFCT & SC	Payments to TCE	Total	Total reported by company	Unreconciled difference
INEOS INDUSTRIES	2,828	260			116	**3,204**	**3,204**	**0**
Ithaca Energy (UK) Ltd	419	152	2,891			**3,462**	**3,462**	**0**
JX Nippon Exploration and Production (U.K.) Ltd	206		10,441			**10,647**	**10,646**	**0**
Maersk Oil North Sea UK Ltd	1,289	216	1,763			**3,267**	**3,267**	**0**
Marathon Oil	218	91	-10,976	29,046		**18,379**	**18,379**	**0**
Marubeni North Sea Ltd			-628			**-628**	**-628**	**0**
Mitsui E&P UK Ltd			3,985			**3,985**	**3,985**	**0**
Murphy Petroleum Ltd				-1,692		**-1,692**	**-1,692**	**0**
Noble Energy (Oilex) Ltd				279		**279**	**279**	**0**
OMV (U.K.) Ltd	2,670		-24,349	-19,875		**-41,554**	**-41,554**	**0**
Perenco UK	3,927	797	15,607	47,516	1,175	**69,022**	**69,022**	**0**
Premier Oil [incl E.ON Ruhrgas]	3,042	379	10,039	-28,624		**-15,164**	**-15,166**	**-2**
Royal Dutch Shell Group	2,645	1,007	-83,675	98		**-79,925**	**-79,924**	**1**
SSE			28,987	18,116		**47,103**	**47,103**	**0**
Statoil (UK) Ltd	1,173		-14,333			**-13,160**	**-13,160**	**0**
Summit Exploration and Production Ltd				678		**678**	**678**	**0**
Suncor Energy UK				310,593		**310,593**	**310,593**	**0**
Talisman Sinopec Energy UK Ltd	2,631	846	-61,145			**-57,668**	**-57,669**	**-1**
Taqa Global	1,246	260	-4,835	62,237		**58,907**	**58,907**	**0**
Total	3,754	661	46,285	28,877	380	**79,956**	**79,957**	**1**

£000	As reported by government agencies						Total reported by company	Unrecon-ciled differen ce
	Petroleum Licence Fees	OGA Levy	PRT	RFCT & SC	Payment s to TCE	Total		
Holdings UK Ltd								
Tullow Oil plc	162	91	-414			-161	-161	0
Total	**57,960**	**7,782**	**-498,250**	**1,277,318**	**4,270**	**849,079**	**849,071**	**-7**

4.2. Reconciled Extractive Payments to Government in 2015 by Other Mining & Quarrying companies

£000	As reported by government agencies: Mainstream Corporation Tax	Payments to TCE	Coal Authority Licensing and Permissions Charges	Total	Total reported by company	Unreconciled difference
Aggregate Industries UK Ltd	13,200			**13,200**	**13,200**	**0**
Albion Stone plc	119	186		**305**	**305**	**0**
Breedon Aggregates England Ltd	5,021	630		**5,651**	**5,648**	**-4**
Brett Group	200			**200**	**200**	**0**
Britannia Aggregates Ltd	130	486		**616**	**616**	**0**
CEMEX Group		4,381		**4,381**	**4,388**	**7**
Cleveland Potash Limited	-101	2,231		**2,130**	**2,129**	**-2**
Compass Minerals - Winsford Salt Mine	-89			**-89**	**-89**	**0**
Deme Building Materials		706		**706**	**706**	**0**
Hanson Aggregates Marine		5,741		**5,741**	**5,741**	**0**
Hargreaves Surface Mining Ltd	2,671			**2,671**	**2,671**	**0**
HJ Banks & Company	4,572		146	**4,718**	**4,716**	**-2**
Llanelli Sand Dredging Ltd		1,105		**1,105**	**1,105**	**0**
Norwest Sand & Ballast Co		136		**136**	**136**	**0**
Tarmac Trading Limited	4,586	3,764		**8,351**	**8,348**	**-3**
Tillicoultry Quarries Limited	894	176		**1,070**	**1,070**	**0**
Van Oord UK Ltd	2,054	573		**2,627**	**2,627**	**0**
Volker Dredging Ltd		1,364		**1,364**	**1,364**	**0**
Total	**33,257**	**21,482**	**146**	**54,885**	**54,882**	**-3**

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, 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-2015, which also includes reconciled project level data on Petroleum Revenue Tax (at field level) and payments to TCE.

Separate to the UK EITI payment reconciliation exercise and complementing the information in this report, a number of companies have started reporting their 2015 payments to governments around the world, including to UK government entities, under the EU Accounting and Transparency Directives. A total of 36 reports have been identified which include payments to UK government entities in 2015.[1]

[1] Data compiled by Natural Resource Governance Institute: http://resourcegovernance.org/analysis-tools/tools/company-reports-payments-governments-including-uk-2015

5. INDEPENDENT ADMINISTRATOR'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 of the previous year's Report is presented in Section 5.2 below.

5.1. Lessons Learned from the 2015 EITI Reconciliation Exercise

5.1.1. Reconciliation scope

Companies incorrectly included in scope

It was noted that several entities were incorrectly included in the initial 2015 EITI reconciliation scope. Some of them were non-material taxpayers, others were non-extractive companies.

It is recommended that the MSG devise a new methodology for the next UK EITI report for determining which companies are within scope.

Interest paid/repaid

The MSG decided to include interest and penalty payments along with the payment with which they are associated. For example, interest payable or repayable that relates to PRT should be added to, or deducted from, the associated PRT payment or repayment and a single figure reported showing the total.

It was noted that HMRC did not include interest paid or repaid within the payment data that they initially provided to the IA. HMRC reporting templates are prepared by the Large Business Directorate which deals only with tax payments and repayments.

Interest is calculated and managed by the Account Office (a separate Service at HMRC), which was not involved in the reporting process. This led to the failure to report interest paid or repaid.

Consequently, it is theoretically possible that companies were excluded from the EITI reconciliation scope which would have exceeded the materiality threshold had interest paid been added.

Additionally, as companies reported interest when submitting their reporting templates, the information submitted by HMRC was incongruous with that submitted by the companies. This situation led to additional resources required and unnecessary difficulties in the reconciliation process.

It is highly recommended that HMRC co-ordinates with the Account Office before submitting payment data to the IA in order to ensure that interest payments are included within this reporting in the reconciliation process and will allow reconciling of like-for-like data submitted from Government and companies.

5.1.2. Reconciliation issues

Lack of distinction between cash payments and offsets from previous years

It was noted that HMRC were not able to distinguish cash payments received during the year from offsets (allocation of previous over payments). Big adjustments were made during the reconciliation exercise accordingly.

It is highly recommended that HMRC seek to make amendments to its data recording systems to enable this distinction.

Lack of distinction between ring fence CT and non-ring fence CT

HMRC do not require companies to separately identify payments of RFCT (and SC) from mainstream corporation tax. It is therefore not currently possible for HMRC to establish how much of each cash payment relates to RFCT and SC and how much relates to non-ring fence CT at the time the payment is made.

For several companies making lump-sum payments, HMRC was able to confirm to us that the total amounts that the companies had stated were correct, but were unable to provide their own data for RFCT (and SC), making the reconciliation more akin to unilateral disclosure.

When making payments to HMRC, companies are highly encouraged to distinguish RFCT from non-ring fence payments so that the payment can be allocated to the appropriate tax stream.

Payments incorrectly reported by The Crown Estate

The Crown Estate (TCE) was requested to submit its receipts from oil and gas companies to the IA by 10 October 2016. Returns were not received until 30 November 2016.

In addition to the late submission, most of the initial data contained significant errors as payments were reported which were out of scope and certain payment streams were missing.

This caused significant delays in the reconciliation process, especially in respect of companies for which payment streams had already been reconciled with the other government agencies.

It is highly recommended for future reconciliation processes that TCE meet the deadline for data submission in order to achieve the reconciliation exercise on time. TCE is also encouraged to follow the UK EITI Guidance to disclose (only) payment streams included in scope.

5.2. Follow up of Recommendations of 2014 EITI Reconciliation Exercise

There are two recommendations not yet implemented:

Title	Brief summary of recommendation	Status	Reasons for rejection
Reporting template for government agencies	The MSG should agree on a reporting template for Government Agencies reporting. This should be designed to facilitate the reconciliation work.	Not yet implemented	
Reporting unit	Both extractive companies and government agencies are asked to report their payments in units of £ to avoid confusion.	Implemented	
Materiality threshold for the revenue streams	The materiality threshold should be applied to the company and not to each payment stream. If one tax meets the materiality threshold of £86,000, all other taxes under the materiality threshold would then be included in the EITI scope.	Rejected	The MSG was concerned that this would move EITI away from the mandatory reporting requirements. As the key issue underlying the recommendation was that companies had reported revenue streams inconsistently, the MSG agreed that the materiality threshold should not be changed for 2015.
Overall coverage of the report	The MSG should introduce the EITI to extractive companies through a strong awareness campaign such as conferences, meetings, workshops, etc.	Implemented	
Determining in scope companies in the mining & quarrying sector	It would be worthwhile reviewing the methodology used in order to better identify mining and quarrying companies within the scope of EITI as the current methodology does not identify companies by the value of extraction, profitability or potential payments to Government. One avenue to explore could be the potential to link participation in EITI with the UK implementation of the Reports on Payments to Government Regulation 2014.	Implemented	

Title	Brief summary of recommendation	Status	Reasons for rejection
Register of licences for the mining and quarrying sector	The MSG should discuss the possibility of requesting licence information from mining companies included in the scope of the EITI Report. This can be done through the reporting template where detailed information can be requested. The information collected from companies could then be annexed to the EITI report and / or a publicly accessible register could be set up.	Not yet implemented	

ANNEXES

Annex 1: Beneficial Ownership Declaration Form

Of the 60 reporting templates received, 59 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	Albion Stone plc	Mining & Quarrying	Yes: Mr. Michael Poultney	No
2	Alpha Petroleum Resources Ltd	Oil & Gas	No	No
3	Brett Group	Mining & Quarrying	na	Yes
4	Britannia Aggregates Ltd	Mining & Quarrying	na	Yes
5	Dana Petroleum	Oil & Gas	No	No
6	Dyas UK Ltd and EOG Ltd	Oil & Gas	No	No
7	Endeavour Corp	Oil & Gas	No	No
8	ENGIE E&P UK Limited	Oil & Gas	No	No
9	HJ Banks & Company	Mining & Quarrying	Yes: Mr. Harry James Banks	Yes
10	INEOS INDUSTRIES	Oil & Gas	Yes: Mr. James Arthur Ratcliffe	No
11	Mitsui E&P UK Ltd	Oil & Gas	No	No
12	Perenco UK	Oil & Gas	No	No
13	Tillicoultry Quarries Limited	Mining & Quarrying	Yes: Mr. Wallace James Menzies	No
14	Van Oord UK Limited	Mining & Quarrying	No	No
15	Volker Dredging Ltd	Mining & Quarrying	No	No

There were no Politically Exposed Persons (PEPs) disclosed.

Annex 2: Reporting Templates

2015 Reporting Templates for Oil & Gas Companies

Template 1 - Payments/Repayments in Calendar Year 2015

UK EITI REPORTING TEMPLATE (TEMPLATE 1)

PAYMENTS/REPAYMENTS IN CALENDAR YEAR 2015

Reporting group:	
Name of contact person	
Telephone number	
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 2015 (sign or tick box).

SIGNATURE ☐

Name of Signatory	
DATE	

Template 2 - RFCT/SC Payments/Repayments in the Calendar Year 2015 Per GPA/Individual Company

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 2)

RFCT/SC PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2015 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 2015 Per Field

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 3)

PRT PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2015 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 2015

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 4)

PETROLEUM LICENCE FEE PAYMENTS/REPAYMENTS IN CALENDAR YEAR 2015

Licensee	Licence Number	Licence Fee Payment (£)	Licence Fee Repayment (£)	Net Payment (£)
	Total	-	-	-
				-
				-
				-

Template 5: OGA LEVY Payments/Repayments in the Calendar Year 2015

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 5)

OGA LEVY PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2015

Legal Entity (Name)	OGA Levy Payment (£)	OGA Levy Repayment (£)	NET Payment (£)
Total	-	-	-
			-
			-
			-

Template 6: Payments to TCE in the Calendar Year 2015

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 6)

PAYMENTS TO THE CROWN ESTATE IN THE CALENDAR YEAR 2015

Legal Entity (Name)	Field or Facility Name	Payment (£)	Repayment (£)	NET Payment (£)
	Total	-	-	-
				-
				-
				-

2015 Reporting Templates for mining and quarrying Companies

Template 1 - Payments/Repayments in the Calendar Year 2015

UK EITI REPORTING TEMPLATE (TEMPLATE 1)

PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2015

Reporting group:	
Name of contact person	
Telephone number	
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 2015 (sign or tick box).

SIGNATURE ☐

Name of Signatory

DATE

Template 2 - CT Payments/Repayments in the Calendar Year 2015 per GPA/Individual Company

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 2)

CT PAYMENTS/REPAYMENTS IN THE CALENDAR YEAR 2015 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 2015 per Licence

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 3)

PAYMENTS TO THE COAL AUTHORITY IN THE CALENDAR YEAR 2015 PER LICENCE

Site	Licence Number	Payment of Licensing Fees (£)	Repayment of Licensing Fees (£)	NET Payment (£)	Royalty Payments (£)	Royalty Repayments (£)	NET Payment (£)
	Totals	-	-	-	-	-	-
				-			-
				-			-
				-			-

Template 4 - Payments to TCE in the Calendar Year 2015

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 4)

PAYMENTS TO THE CROWN ESTATE IN THE CALENDAR YEAR 2015

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 2015 per Site

APPENDIX TO UK EITI REPORTING TEMPLATE (TEMPLATE 5)
S106 AND EQUIVALENT PAYMENTS TO LOCAL AUTHORITIES IN THE CALENDAR YEAR 2015 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:	