T&E response to the *Oil and Gas Fiscal Regime Review Call for Evidence*

September 2023

This paper is Transport & Environment's (T&E) response to the questions posed by the Oil and Gas Fiscal Regime Review Call for Evidence. T&E is Europe's leading clean transport think tank and campaigning group. It was created as a member organisation over 30 years ago and now has staff in 6 countries, with 63 member organisations across 24 countries. It has had a UK office since 2019.

Broadly, our current transport sector is powered by oil, but will transition away from that to be powered by electricity and hydrogen-derived fuels. The speed of this transition will depend on national and international policies, but the direction of travel is abundantly clear. 76% of nations have either proposed or are legally-bound to a net zero target, and the majority of these are set at 2050. This means that one of the core tenets of the review - that oil will absolutely be needed in the UK in and post-2050 - is plain wrong. It *may* be needed, but that depends on what measures successive Governments put in place over the next two decades - and that includes the oil and gas fiscal regime. However, incentivising new oil and gas production now clearly sends the message out internationally that the UK is not a climate leader. An example of this is the current 'Investment Allowance' linked to the temporary Energy Profits Levy. This effectively means that for every £100 spent on new oil and gas development, these companies get approximately £45 off their tax bill, and clearly does not incentivise development in low-carbon technologies.

The call for evidence states that "Even when we meet our net zero targets in 2050, we still require gas for power and oil in transportation and for manufacturing products, such as plastics and fertiliser", however this doesn't take into recent and future advances in batteries and alternative fuels (as well as advances in chemical recycling of plastics). Globally, there are already millions of electric cars and vans, many electric HGVs, electric trains, planes and ferries, hydrogen fuel-cell planes, methanol-powered ships, and synthetic aviation fuels. The problem is not that vehicle powertrains that do not rely on fossil oil haven't been invented. They exist, and now need to be scaled up.

It is abundantly clear that fossil fuel production must end globally. The International Energy Agency warned in 2021 that all new exploration and development of new oil and gas fields must stop (that year) if the world was to stay within safe global heating levels. This is backed up by the Intergovernmental Panel on Climate Change, which said that *"Without early retirements, or*

reductions in utilisation, the current fossil infrastructure will emit more GHGs than is compatible with limiting warming to 1.5°C", which is further reinforced by the Climate Change Committee. It has repeatedly said that a move away from high-carbon infrastructure is a necessary prerequisite for achieving net zero (including in its latest progress review).

Questions should therefore be asked as to why the Government is refusing to listen to the advice of these expert bodies, and is continuing to push further extraction of oil and gas from the UK continental shelf.

Furthermore, the review's suggestion that investment in oil and gas is needed for energy security purposely ignores the realities of the market. Oil and gas is extracted by private companies that are then free to sell to whoever they like (usually to get the best price they can). The oil and gas market is a global market, and companies in this space can, and do, sell to whomever they wish. This is evidenced by the gas export figures for Autumn 2021, when double the amount of gas was exported from the UK than in previous years. This is simply because the global price had gone dramatically up (in the run-up to Russia's invasion of Ukraine), and companies operating in the UK could get a better price exporting it than selling it in this country. Energy security will be achieved by decreasing UK demand for oil products and gas, and replacing that with additional demand for British electrons.

Finally, whilst this review is focussed on upstream activities, the downstream oil fiscal regime also disincentivises a move away from fossil hydrocarbons. In particular, fossil kerosene (for planes) and bunker fuel (for ships) are not taxed. Taxing these, in the same way that fuel duty is applied to road fuels, would raise billions of revenue for the Treasury, whilst incentivising the aviation and shipping industries to decarbonise faster.[1] T&E has previously modelled how much money would be raised if duty was applied to aviation at various duty levels, and the results are startling: had the UK taxed all jet fuel uplifted in 2019 at the same rate as drivers were taxed that year, then the Treasury would have been £6.7 billion better off.

In short:

- **Incentivising new oil and gas production is slowing down the move towards net zero.**
- **A clear timeline should be laid out as to when oil and gas incentives will end.**
- **Energy security will be achieved by building out UK grid-connected electricity capacity, and speeding up the switch away from oil and gas burning devices.**
- **The downstream fiscal regime should be changed, and in particular fuel duty is applied to jet and bunker fuel.**

[1] It should be acknowledged that taxing both jet fuel and bunker fuel could increase tankering, which is where planes and ships fill up with extra fuel at places where fuel is cheapest, and then use extra energy carrying that fuel around. This is potentially far more of a problem in shipping, where fuel tanks are very large.

Further information

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