North Sea Oil and Gas Taxation and Lobbying
How the oil majors and their lobbyists work to gain huge tax relief subsidies from HM Treasury
February 2017
Lobbying by the UK's North Sea Oil and Gas Operators

February 2017

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Executive Summary

The oil and gas industry has been able to successfully lobby the UK government to ensure it pays a minimum amount of tax on North Sea operations. It has achieved this through actively opposing existing taxes, using tax avoidance measures and advocating for the extension of and implementation of new tax breaks. The sector has received £2.3bn in tax cuts since 2015 whilst its contributions to the UK tax base have become negative. The UK Treasury in 2016 had a £24m deficit on the North Sea.

North Sea operators are now putting pressure on the UK Chancellor Philip Hammond prior to the 2017 Spring Budget (to be announced on March 8th), lobbying for additional costs of decommissioning legacy oil equipment to be paid by the UK taxpayer. These costs are already expected to escalate to £53bn in the next decade, with an estimated £24bn cost to the taxpayer.¹ This subsidisation is particularly notable in a time of Government austerity, which has for example, seen a reduction of £18bn for local authority services since 2010.

The oil and gas industry has been able to successfully influence policy through controlling public discourse and policymaker opinion on the North Sea issue. Led by the oil majors and the trade association Oil & Gas UK, it has been effective in consistently communicating what it views as the plight of sector. It incorrectly attributes this to the UK tax regime, whilst explicitly threatening that without immediate tax cuts, thousands of jobs would be lost. CEOs of leading companies like BP, Shell and Total have been particularly vocal about how their North Sea operations are suffering, despite after tax profits of more than $10bn globally in 2016 for these three alone, according to their latest annual reports.

This research shows that the interests of the oil and gas industry have prevailed through broad capture of Treasury’s tax policy formulation processes. The Treasury appears to make key tax policy decisions following consultations that seem to be effectively closed to all but the oil and gas sector and its lobbyists. Highly relevant stakeholders from the public, private and NGOs sectors find it difficult to participate effectively due to a lack of transparency and information on engagement opportunities. According to the Treasury,

¹ The GMB union claims that UK taxpayers could be liable for a North Sea decommissioning bill of £75bn (BBC, 21 Nov 2016)
the oil and gas industry has had 110 meetings with senior Treasury officials between January 2013 and September 2016. This relationship between oil and gas companies and the Government has been strengthened through a revolving door of personnel, industry secondments and political party funding.

The tax policy influencing activities of the oil and gas companies and direct lobbyists appear to be facilitated by the Big Four accounting firms (Deloitte, EY, KPMG, PwC). These firms are well networked with policymakers at all levels of government. They are often viewed as objective experts on all matters tax and sit on various forums inside the UK Treasury that are actively influencing tax policy. EY and PwC in particular stand out for their policy advocacy in recent years in favour of reducing the tax rate paid by the North Sea operators. All of the Big Four audit firms explicitly supported the North Sea tax breaks that were implemented over the past two years.²

These four accounting firms provide the majority of statutory auditing services to the North Sea oil and gas operators globally. According to the 2016 annual reports of the oil majors, EY audits BP, Royal Dutch Shell, ConocoPhillips, Apache, Total on a global basis, while PwC audits Centrica, ExxonMobil and Chevron. Given the policy influencing activities they appear to engage in on North Sea taxation, this poses two issues. Firstly is the issue of whether they should be registered in the UK as lobbyists. Secondly, as statutory auditors, regulators and investors expect them to remain objective and independent from the companies they are assessing and whose accounts they are signing off on. Questions on this independence could be raised given their stated positions on North Sea taxation policy addressed to the Treasury.³

² Examples of the Big 4’s advocacy positions: EY, Deloitte, PwC, KPMG
³ In 2014 EY was fined $4m by the US Securities Exchange Commission (SEC) for “violations of auditor independence” for lobbying on behalf of audit clients.
Taxation of North Sea Revenues

Introduction

Taxation policy for revenues arising from the UK Continental Shelf (UKCS) - or the North Sea - is reviewed each year by the UK government. Changes are made in the budget announced in March by the Chancellor of the Exchequer. Since 2013, with the launch of the Wood Review, the government has tended towards a lower North Sea tax regime. Key inputs into the decision are as follows:

- The revenue needs of the Treasury;
- The leverage specific tax policies may have on desired government policy outcomes;
- Impacts of the tax policy on various stakeholders.

This research indicates that the third of these three input streams has dominated decisions on North Sea taxation policy, with the oil and gas industry having been successful in swaying policy to its advantage.

Since the 1970s, taxation applied to North Sea oil and gas production, has provided an important source of income for the UK government. However, over time the tax rate has been repeatedly cut (with only moderate increases in 2001 and 2010), making the UK tax regime one of the most generous to the oil and gas industry in the world. Industry has a clear vested interest in seeing tax on North Sea production as low as possible while also ensuring the maximisation of production. At the same time, the government position is clear that it is “100% behind the industry” and official policy since the 2013 Wood Review it has had the statutory obligation to “maximise economic recovery” of North Sea oil and gas reserves. This led to the establishment of the Oil and Gas Authority (OGA) in 2015 to enact this strategy as part of its statutory obligation, as well as to act as an industry regulator.

Leading UK policy think tank the ODI estimates that the UK provides subsidies of almost £6bn per year to the fossil fuel sector, with a direct subsidy of £750m ($930m\(^4\)) to North Sea oil companies. In 2016, reports emerged that the UK government was revenue negative for the North Sea, paying the oil and gas sector £24m in that year to operate.

\[^4\] Data taken from the ODI’s, G20 subsidies to oil, gas and coal production: United Kingdom, Table 1, Pg.4. This figure relates only to North Sea tax policies and does not include R&D or infrastructure expenditure, or any other costs that could constitute a subsidy.
Recent Changes to North Sea Taxation

The Government in 2017 confirmed that over the last two years it has provided £2.3bn in tax reductions for the oil and gas industry. In March 2015, the Treasury under George Osborne reduced the tax applied to North Sea oil companies by an estimated £1.3bn over 5 years in a bid to boost production. This included cutting the Supplementary Charge (SC) from 30% to 20% and the Petroleum Revenue Tax (PRT) from 50% to 35%, as well as an extension of the ring fence expenditure supplement from a maximum of 6 claims up to 10. The Office of Budget Responsibility predicted that these tax changes would increase oil production by 14% and increase capital (investment) expenditure £4bn by 2019. In the March 2016 budget the Treasury announced a further cut in the Petroleum Revenue Tax (PRT) from 35% to 0%, effectively abolishing it, whilst allowing companies to claim back tax from previous years. It also further reduced the Supplementary Charge from 20% to 10%. These two changes are estimated by the ODI to be worth an estimated £432m ($538m) in forgone revenues a year, constituting two thirds of the income from North Sea oil and gas companies from 2016 onwards. The UK Government however does not accept that these tax allowances constitute a subsidy. Industry welcomed these cuts, and companies such as Premier Oil saw an increase in 10% of its share price immediately following Osborne’s 2015 announcements.

Tax Avoidance by the Oil and Gas Sector

The UK Government has introduced a number of measures in response to criticism that large corporations were engaging in tax evasion and avoidance. This scrutiny was stepped up in the wake of the release of the Panama Papers. The All Party Parliamentary Group on Responsible Tax concluded in a 2016 report that “tax havens has not been comprehensively confronted and tackled by the UK Government”, and that the government had been a “difficult friend” of OECD recommendations to tackle profit shifting by multinationals. Committee chair, Margaret Hodge, said: “While publicly proclaiming their determination to tackle global tax avoidance, they have been encouraging these practices by changes they have made to the U.K. tax system and by refusing privately to agree to some key OECD proposals”.

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5 The Office of Budget Responsibility estimated that the March 2015 tax cuts would reduce receipts by a further £0.3bn a year on average.
6 This permits a tax break on new investments on oil and gas fields.
7 The Office of Budget responsibility however believes there is “considerable uncertainty” with these figures.
8 Original ODI figure was calculated in US dollars.
9 Field allowances exempt a portion of a company’s profits from the Supplementary Charge, reducing the tax rate on that portion from 50% to 30%. This exemption is designed to support investment across all stages of production.
The oil and gas industry often cites its tax contribution to justify its importance to the UK economy, however, there is evidence to suggest that some companies take extraordinary measures to minimise their UK tax bill. An investigation by the International Workers Federation (IWF) revealed that companies including Chevron and Nexen had set-up a series of complex offshore structures to avoid paying tax in the UK. In 2013, BP gave evidence to the House of Lords in an inquiry on aggressive corporate tax avoidance, arguing “the fundamentals of the system are not broken [...] we are on the right path at the moment with corporation tax”\(^\text{10}\). It was later revealed that BP’s four main British subsidiaries, along with Shell had paid no corporation tax in the UK in 2014. The Diverted Profits Tax (DPT) is one measure the government has introduced to combat these practices, which was announced in the 2015 budget. The rate of tax charged on diverted profits is 25%, and 55% for oil and gas activities in the UK operating in the ring fence. In response, the oil and gas industry have emphasised how new regulation negatively impacts "certainty". Trade group Oil and Gas UK in particular have expressed concerns about the scope of the legislation, and argued it penalised the industry.

The House of Commons Public Accounts Committee has criticised leading audit firms (in particular the big four firms of EY, KPMG, Deloitte, PwC) for helping multinationals exploit tax legislation. The 2013 report concluded that auditors "sell tax advice which promotes artificial tax structures, which serve to avoid UK taxes rather than to reflect the substance of the way business is actually conducted". They said these schemes were devised using "insider knowledge" gained from the Treasury, often through seconded staff working on the policies that auditors also advised on, stating "we have seen what look like cases of poacher, turned gamekeeper, turned poacher again".\(^\text{11}\) In 2016 clients of EY were ordered to pay back money after using a tax avoidance scheme the auditor itself had marketed.

### The Future of North Sea Taxation

The UK’s North Sea oil resource is now regarded as a “mature basin”. Oil and gas production peaked in 1999 declining since then with significant fall since 2010, rising again in 2015 and 2016. Large scale decommissioning of oil and gas infrastructure in the near future is necessary, with current efforts being spearheaded by trade group Decom North Sea. These costs are expected to escalate in what has been described as a "decommissioning time bomb". Wood Mackenzie, a leading oil and gas consultancy, estimates that North Sea


\(^{11}\) The Public Accounts Committee, 44th Report of this Session on tax avoidance: the role of large accountancy firms, April 2013.
companies will spend £53bn from 2017 decommissioning oil and gas infrastructure. It also estimates that half of this cost will be incurred by the Treasury through tax relief schemes costing the UK taxpayer £5bn by 2021 and £24bn in total. The government has already entered into 76 such agreements with oil and gas companies since October 2013. Tax breaks the oil and gas sector is seeking in the upcoming budget include:

- Supporting the transfer of ownership of late-life assets such as off shore rigs;
- Extending investment allowances and credit to incentivise exploration and production;
- Amendments to the diverted profits tax;

The Independence of the External Audit and Tax Policy Lobbying

The Big Four - EY, PwC, KPMG and Deloitte - are global business services firms with a combined staffing level of almost 900,000 and revenues of over $125bn. They are all roughly the same size, are privately owned by their employees and offer large and mid size clients a range of professional services. A key service offered is the external audit, which is a mandatory requirement for companies listed on major stock exchanges and this checking service is relied on by investors who refer to a company’s financial disclosures. The Big Four between them provide the external audit to most of the world’s largest companies. It gives them a close understanding of client companies and allows them to sell in other consulting services. The independence and objectivity of the external audit is a fundamental pillar of investor assurance of corporate disclosure. In the wake of Enron, regulators, concerned that this independence could be jeopardised by conflict of interest enacted rules on provision of auxiliary services by an external auditor. The advocacy towards governments on tax policy by the statutory auditor to benefit clients may in certain jurisdictions represent a breach of independence and indeed applicable laws (e.g. based on the US SEC/EY case). In 2014 the US SEC charged EY with a breach of this independence in the form of providing lobbying services through a subsidiary to an audit client. EY is the most recent statutory auditor for North Sea operators Royal Dutch Shell, BP, ConocoPhillips, Apache and Total. This research suggests it also advocated (through EY LLC, London in a Oil and Gas Fiscal Review consultation submission to HM Treasury in 2014) for a lower tax rate for North Sea operators, of whom all of these external audit clients are major players. EY’s position in this submission stated “We believe the Government should consider the case for reducing petroleum revenue tax (PRT) to a rate of 0%....” (See here for the entire submission).
The Policy Influencing Process

In this report, the term "lobbying" is included within the overall policy influencing process by industry and no legal definition is implied in any context where used. In the context of climate and energy policy, the UN has defined a best practice guide published in 2014 for policy influencing that over 100 leading companies (including KPMG UK) made commitments to. InfluenceMap bases its methodology on this guide, which lays out policy influence as covering the below activities. Details of how the North Sea oil and gas players are active in each are described.

Capturing the Narrative

A key way the corporate sector influences policy is through crafting the narrative on a particular topic, which is then communicated through the popular, business and specialist media. This is usually facilitated by significant PR, advertising and research-funding budgets. In the case of North Sea taxation, the key player in this respect is the trade association Oil & Gas UK. Using technical reports, press releases, social media posts and comments to the press, Oil & Gas UK has consistently suggested that the level of tax is abnormally high, despite this being demonstrably untrue as the UK takes a smaller share of oil revenues than the global average. The industry has also funded research suggesting that tax reductions will increase investment and prevent job losses; promoting its vested interests in lower tax rates to the level of expert opinion. The oil and gas sector attempts to portray the sector as on the verge of collapse in widely read media, focusing on the "plight of companies" unable to continue operating without further tax cuts, whilst also emphasizing the "critical role" the sector plays as a major UK economic contributor and employer. It also insinuates to policy makers that if there are no tax cuts there would be "hundreds of thousands of UK job" losses and a "bloodbath" for smaller companies. This is despite the fact that more than two thirds of the North Sea fields remain profitable at oil prices of $50 a barrel and leading North Sea operators BP, Shell/BG, Total and ExxonMobil made robust profits after tax in 2016 of $2,600m, $4,777m, $6,206m and $8,375m respectively.12

CEO Messaging

Due to the weight their message carries and access leading CEOs have to elected officials and policy makers alike, this is a key means of corporate influence over policy. In the case

12 Company annual reports, 2016
of the North Sea taxation issue CEOs maintain the drum beat of statements that the sector is facing collapse while stressing its economic importance to the UK. Total’s Chief Executive, Patrick Pouyanne, has emphasized that jobs in the North Sea will decline unless investment increases, whilst calling on the Treasury to take action. Royal Dutch Shell’s Chief Executive, Ben Van Beurden, in 2015, called for the government to review the supplementary charge, suggesting it was “hindering viability”. BP’s, Chief Executive, Bob Dudley argued that tax cuts in the 2015 Budget helped but did not go far enough, emphasizing that “We’re going to see massive restructuring […] The North Sea is a very high cost basin and it is going to be a painful adjustment”. Centrica CEO Ian Conn has been particularly active, writing directly to George Osbourne in February 2016, citing job loss figures and stating “The North Sea is really hurting […] right now there is a case to be made that corporation tax in the North Sea should just be corporation tax and that petroleum revenue tax should probably disappear for a while.”

Stakeholder Holder Engagement Process

Policy and regulation changes in the US, Europe and many other regions are accompanied by a process whereby the responsible public entities are obliged to solicit and consider opinions from any interested stakeholders. These consist of consultations processes (with the various submissions made public), reviews, public hearings and “town hall” meetings. For North Sea taxation policy, there is a stakeholder consultation process where the Treasury sends out ‘calls for evidence’ to select groups and individuals. There were two consultations, in 2014 and 2015, which are likely to have been influential over recent Government policy. In these, the Treasury does not appear to have engaged any civil society groups or special interests that are not closely connected to the oil and gas industry. In response to the 2014 consultation on industry fiscal reform, all sections of the industry including producers and support services, argued for a lower tax regime. ExxonMobil wanted tax cuts and a reduction of the Petroleum Revenue Tax to 0%. GDF Suez (Fonow Engie) talked about “unheralded dramatic tax increases” and asked that all companies be able to receive decommissioning tax relief regardless of income, as well as an extension of Ring Fence Expenditure Supplement (RFES) in timescale, rate and use. EnQuest called for an “immediate” cut in headline tax along with Dana Petroleum, as well as a road map for the abolition of the supplementary charge. In Parliament, a representative of ConocoPhillips strongly criticised the 2011 tax increases, and the lack of consultation.

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13 In July 2014 it launched “Driving Investments, a plan to reform the oil and gas fiscal regime” and in January 2015 “Fiscal Reform Of The UK Continental Shelf”.
14 Government’s response to the consultations: “Driving Investments, a plan to reform the oil and gas fiscal regime”, pp44-45, and “Fiscal Reform Of The UK Continental Shelf”, p23.
The Treasury also holds group meetings with industry stakeholders on the North Sea, including a one-off Oil and Gas Fiscal Forum in December 2014\(^\text{15}\) ahead of what was a significant policy change in March 2015. In the forum, industry welcomed the reduction in the rate of supplementary charge but many felt that more could be done to increase international competitiveness, and address the challenging business environment.

**Private Meetings**

In parallel with any official stakeholder consultation process on policy/regulatory change there is a concerted effort by companies and sectors with a vested interest to arrange private meetings with key policy makers to make their case. This effort is conducted by professional lobbyists acting on behalf of the companies as well as trade associations and key staff from individual companies. Due to the significant costs of such lobbying campaigns, it is usually the case that only entities with access to such resources and who are directly impacted engage in this lobbying activity. Stakeholders representing civil society (e.g. NGOs) may not have these resources and often find it difficult to break into an entrenched network which often requires specialist expertise. This is the case with North Sea oil and gas taxation policy where representatives of the oil and gas industry are regularly invited, or invite themselves, to meet with Treasury officials to discuss policy issues. Data collected by the Treasury shows that between January 2013 and September 2016 there has been 110 meetings between the Treasury and oil industry representatives,\(^\text{16}\) with the majority of the meetings proceeding when decisions regarding reductions to the supplementary charge and the petroleum revenue tax were likely made.

**Money Politics**

Political donations by corporations and their representatives to political parties/campaigns are legal to various extents throughout Europe and the US, while payments of monies or favours in kind to unelected regulators are usually construed as illegal bribes. Both are used by the corporate sector to influence policy, practices which can attract scrutiny from civil society groups and often law enforcement. Within the North Sea oil and gas sector, there is a long history of donations to political parties in both the US and UK. Between 2005 and 2015, Ian Taylor of Vital Oil gave £965,000 to the conservative party, and Ayman Asfari

\(^{15}\) Treasury notes from a meeting that InfluenceMap acquired through a Freedom of Information Request

\(^{16}\) Information is disclosed as part of HMT ministers’ meetings, hospitality, gifts and overseas travel. This does not include meetings with Special Advisors who are influential over Ministers’ policymaking.
of Petrofac gave £450,600, with £400,600 donated in 2015 when the first wave of recent oil and gas industry tax cuts were announced. Concerns have previously been raised by MPs about external funding of All Party Parliamentary Groups (APPG) that receive corporate funding. Research by other NGOs and journalists has previously highlighted the revolving door between industry and government, creating a potential conflict of interest when it comes to decision making and giving certain companies undue access and advantages. In 2015, The Guardian revealed BP’s influence on Government, including ministers’ promise to find a way to allow BP to reopen its co-owned North Sea gas field with Iran, despite EU sanctions. Cited as an influencing factor, was New Labour’s previous close ties with the company, dubbed “Blair Petroleum”, as well as the continued “revolving door” between BP and Government since 2010. Greenpeace research considers that “at least ten employees working in government relations for oil and gas companies used to work in politics”. Global Justice Now has also previously highlighted the links between ministers and the oil and gas companies.

The following chart shows the processes by which corporations influence public policy:
Who are the Oil & Gas Lobbyists?

The following image shows the key operators’ share of oil and gas production in the North Sea basin, based on data from an ODI report from 2015.

As well as directly influencing policy using their considerable advertising, technical and other resources, the oil and gas companies employ additional entities to act on their behalf in lobbying activities. The following are the most influential in the context of North Sea taxation policy. All entities who conduct activities associated with policy influencing discussed in the last chapter are included in these tables, including but not limited to those registered in the UK as "lobbyists", as defined by the Charted Institute of Public Relations.

The following table outlines the key external agents the North Sea oil and gas operators employ to influence policy on their behalf. Details of positions are in Appendix C.
<table>
<thead>
<tr>
<th>Type</th>
<th>Entity</th>
<th>Recent North Sea Oil &amp; Gas Taxation Influencing Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Associations</td>
<td>Oil and Gas UK (OGUK)(^{17})</td>
<td>With an annual turnover in 2015 of £15m, which appears to be primarily spent lobbying, Oil and Gas UK is the premier organisation advocating for a &quot;lighter tax burden&quot; for North Sea oil companies. It takes credit for the March 2015 reduction in the rate of supplementary charge and the introduction of a capital based Investment Allowance.(^{18}) It is close to policy makers providing secretariat services and reception funding for the APPG on offshore oil and gas and has a close relationship with the Oil and Gas Authority. It also regularly writes to Government and politicians and has met with Ministers at least 49 times in the last 3 years.</td>
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<td></td>
<td>The United Kingdom Oil Industry Taxation Committee (UKOITC)(^{19})</td>
<td>UKOITC appears to be a non-government group of tax experts seeking to influence fiscal policy to be in alignment with the interests of the oil and gas industry.(^{20}) UKOITC claims to work closely with OGUK, holds a joint annual conference with HMRC, and has held working groups with them on Decommissioning Relief Deeds. In the most recent published minutes of the Oil and Gas tax forum UKOITC had written to HMRC arguing that the Petroleum Revenue Tax (PRT) remained a barrier for maximising economic recovery.</td>
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<tr>
<td>Fora and Working Groups</td>
<td>Oil and Gas Industry Direct Tax Forum</td>
<td>The &quot;Oil and Gas Industry Direct Tax Forum&quot;, established in 2012, brings together Treasury civil servants, oil and gas companies, auditors and others &quot;in an atmosphere of mutual trust&quot;. Members of the group, referred to in official meeting notes as &quot;industry&quot;, have been consistently supporting tax exemptions and reductions for North Sea companies and investors.</td>
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<td></td>
<td>Tax Professionals Forum</td>
<td>The Tax Professionals Forum chaired by an MP, meets within the Treasury, with a technical mandate to support &quot;the quality of tax law and the way we make tax policy&quot;. Members of the forum are made up of auditing firms such as EY, KPMG and various other accounting bodies. It is explicitly set up not to debate specific policy issues, however, during its first meeting the auditing groups began lobbying against the &quot;Oil Supplementary Charge&quot;.(^{21}) In 2013, the Public Audit Committee (PAC), accused KPMG’s Global Head of Tax, Jane McCormick, of fostering &quot;inappropriate&quot; relationships between auditors and ministers which was partly facilitated by the forum. EY’s John Dixon at the same meeting was accused of lobbying on behalf of Oil and Gas by opposing the supplementary charge in forum meetings in September 2011.</td>
</tr>
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</table>

\(^{17}\) Members include oil and gas companies, auditors, universities and a number of other industries.

\(^{18}\) The UK Oil and Gas Industry Association Limited, Directors’ Report and Financial Statements For the Year Ended, 31 December 2015, pg.7.

\(^{19}\) Members include most major oil companies as well as KPMG, EY, PwC and Deloitte.

\(^{20}\) Publicly available information does not provide what the purpose is.

\(^{21}\) The Supplementary Charge rate (increase) that the forum raised as an issue in 2011 was reduced back to its original level of 20% in September 2012 following a policy reverse by the then Chancellor, George Osborne.
<table>
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<tr>
<th>Registered Lobbyists (registered with the Office of the Register of Consultant Lobbyists and/or Association of Professional Political Consultants)</th>
<th>Consultancies</th>
</tr>
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<tbody>
<tr>
<td>CW Energy is a prominent oil and gas consultancy, although it has not registered any clients that it is lobbying on behalf of. However, partner Phil Greatex claims to have “extensive experience of dealing with Treasury and HMRC personnel through the regular industry forum meetings and lobbying for tax changes.” Director Ian Hack worked at HMRC for twenty years, where his most recent role had been as an Oil Tax Inspector.</td>
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<th>Public relations companies</th>
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<tr>
<td>Centrica has engaged both Bell Pottinger and Westbourne Communications as consultant lobbyists. Engie is declared as a client of Brevia both on the compulsory and voluntary register. The voluntary register also records Oil and Gas UK as a client of Weber Shandwick, Shell as a client of Edelman, and Sinopec’s subsidiary, Addax Petroleum, as a client of Burson-Marsteller.</td>
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<tr>
<th>Other Advisors</th>
<th>Accountants and Consultants</th>
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<td>It appears that of the Big Four, the companies with the most audit clients among the North Sea oil &amp; gas sector appear to be the most actively engaged in North Sea policy influencing activities - EY and PwC. They are also some of the strongest advocates for tax reductions in the region. Full details of the role of the Big Four in UK oil and gas taxation policy is presented in Appendix B.</td>
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Conclusions

The UK Continues to Subsidise the North Sea

The oil and gas industry has been able to influence North Sea tax policy to its advantage in the last five years. The consequence is that the sector has received £2.3bn in tax cuts since 2015 whilst their contributions to the UK tax base have become negative or negligible. The same companies have seen their profits rebound (e.g. BP, Shell and Total made after tax profits of more than $10bn in 2016). Despite this, now faced with a £52bn bill for decommissioning ageing fields, the industry wants the taxpayer to pick up £24bn of this in the form of special tax relief. This subsidisation is particularly notable in a time of Government austerity, which has for example, seen a reduction of £18bn for local authority services since 2010.

A Lack of Real Stakeholder Engagement in the Process

To ensure a more democratic process in the formulation of North Sea taxation policy it is likely all stakeholder engagement opportunities in the tax policy process need to be made public and communicated to interested parties, including to all public-sector entities competing for government spending. These opportunities consist of consultation processes (with the various submissions made public), reviews, public hearings and special stakeholder meetings such as the one-off Oil and Gas Fiscal Forum in December 2014. This report documents how the oil and gas sector has been allowed by the Treasury to engage with North Sea tax policy in the last few years. Looking ahead, the Treasury should map out its engagement process and invite a wider spectrum of stakeholder participation.

Transparency Needed on Lobbying

Successive UK Governments have recognised the importance of transparency for good policy making and accountability. However, the North Sea tax policy process appears to occur behind closed doors with no discernible external oversight or mechanisms for interested third parties to monitor or understand the process. The UK government maintains a database where policy consultations are listed. Unlike the US Federal Government and the European Commission, the comments from individual entities in this process are not made public. For example, in the context of North Sea tax policy InfluenceMap acquired the

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22 Treasury notes from a meeting that InfluenceMap acquired through a Freedom of Information Request
responses to the December 2014 consultation Driving Investments, a plan to reform the oil and gas fiscal regime. However only half of the total responses were disclosed to InfluenceMap, as it appears from Treasury communications that companies including PwC, Shell, and BP prevented the public disclosure of their comments. A clear record of the positions of the various stakeholders as submitted to regulatory consultation processes is necessary to understand the how public policy decisions are made and uncover any conflicts of interest. Another transparency issue concerns the clarification of which entities are acting on behalf of the oil and gas industry in policy influencing and what their positions and activities are. This research suggests that major auditor firms in the UK (particularly PwC and EY) have potential conflict of interests in auditing certain oil and gas companies, whilst also actively promoting tax policy that closely aligns with the interests of these clients in engagement with policy makers. At the least, it may be likely that these and other agents should be registered as lobbyists either with the Registrar of Consultant Lobbyists or Association of Professional Political Consultants as a matter of public record.

North Sea Taxation: Looking Ahead to the March 2017 Budget

Putting pressure on the UK Chancellor Philip Hammond prior to the 2017 Spring Budget (to be announced on March 8th), the North Sea operators are now lobbying for the burden of decommissioning ageing oil fields to be borne in a large part by the UK taxpayer. It is unlikely that the Government will reduce the headline rate of tax for the industry. It is more likely that the Treasury will move to further reduce the Supplementary Charge rate from 10% to 0% - effectively abolishing it and/or reform which entities the Diverted Profits Tax is applied to (see here for a detailed explanation of these taxation terms from gov.uk). However, the focus should be on decommissioning costs as decisions taken now will lock successive governments into contracts that will cost the taxpayer billions of pounds for decades to come. In the short-term, the Treasury may introduce policy that provides tax relief on decommissioning costs on the sale of late-life assets, such as platforms and pipelines. It may also allow North Sea operators to trade previous loses for tax credits for exploration and drilling.
### Appendix A: Key Lobby Group Members

The organisation memberships of key organisations detailed in this report are detailed below (green coloured boxes indicate membership).

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Oil and Gas UK</th>
<th>UKOITC</th>
<th>Oil and Gas direct tax forum</th>
<th>Tax Professionals Forum</th>
<th>MER UK Forum and Boards</th>
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<td>EY</td>
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<td>PwC</td>
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<td>Oil and Gas UK</td>
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<td>ExxonMobil</td>
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<td>Shell</td>
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<td>BP</td>
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<td>Total</td>
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<tr>
<td>Centrica</td>
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<td>ConocoPhillips</td>
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<td>Apache</td>
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Appendix B: The Big Four Auditors as Lobbyists

The Big Four auditing companies maintain close professional relationships with the oil and gas industry. This research indicates that these auditing companies are advocating in the interests of the oil and gas industry for policy changes that would also benefit their auditing clients. The Financial Reporting Council’s (FRC), Ethical Guidelines, state that an auditor’s interaction with their clients should be defined by “integrity, objectivity and independence”. The FRC identifies “advocacy” as a potential threat to these three principles, whereby the “firm undertakes work that involves acting as an advocate [...] in order to act in an advocacy role, the firm has to adopt a position closely aligned to that of management [of the company employing their services].” To be independent means being free of relationships or situations that could lead a third party to conclude “objectivity either is impaired or could be impaired.”

In the UK there are two official UK lobbying registers; the Office of the Registrar of Consultant Lobbyists and the Association of Professional Political Consultants. Lobbyists only need to declare a client on the former register if they directly contact a minister or permanent secretary on behalf of a client. Lobbying by corporations and their trade associations is exempt as is lobbying anyone else in government. Deloitte is also registered as a consultant lobbyist, but has not recorded any clients. PwC has listed a number of clients including, Tata Steel, pharmaceutical organisations and Peter Henshaw. KPMG has only ever listed one client and EY has not registered. The Association of Professional Political Consultants is completely voluntary and none of the auditors have registered with it. Ed Roddis, a senior manager at Deloitte, has registered as an individual lobbyist on separate volunteer register: the UK lobbying register.

<table>
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<tr>
<th>Big Four Firm</th>
<th>External Audit Clients (2016 Financial year)</th>
<th>Summary of Potential North Sea Taxation Policy Influencing Activities</th>
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<tr>
<td>Deloitte</td>
<td>Wood Group</td>
<td>Deloitte is the statutory auditor of several of the largest oil and gas companies, although in recent years not the major North Sea oil operators. In 2009 George Osborne received support from Deloitte in the form of &quot;services and advice provided in connection with the Eggar report&quot;. This report informed the future government’s March 2010 energy paper Rebuilding Security, which promised to reform taxation and</td>
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23 Peter Henshaw is a long-term employee of BP.
24 In November 2016 BP proposed that Deloitte will be its external auditor from 2018 onwards.
licensing to promote offshore oil and gas development. Deloitte published a report in 2014, concluding that government tax breaks were increasing investment for oil and gas production. Deloitte have supported the reduction of the supplementary charge and increased investor allowances, and suggested that the Ring Fence Corporation Tax could be reduced.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Advocates</th>
<th>Notes</th>
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<tbody>
<tr>
<td>EY</td>
<td>BP, ConocoPhillips, Apache, Total, Royal Dutch Shell</td>
<td>EY was an outspoken advocate of the tax cuts to North Sea oil that happened in 2015 and 2016, although believes they did not go far enough. North Sea policy advocacy appears to be led by Derek Leith, EY's Head of Oil and Gas, who has repeatedly argued that taxes for the North Sea oil industry are too high. Derek Leith has attended Oil and Gas Industry Direct Tax Forum meetings with the Treasury where “he has served as the secretary and regularly leads technical groups.” EY’s Head of Tax policy, Chris Sanger, is notable for sitting inside the Treasury’s Tax Professionals Forum and running a Tax Policy Development team, which explicitly seeks to inform governments’ tax policies on behalf of its clients. He also appears to advocate for a lower North Sea oil and gas tax regime. EY serves 46 of the 2011 Petroleum Intelligence Weekly (PIW) top 50 global O&amp;G companies and has a close working relationship with Oil and Gas UK (OGUK), which includes writing reports on their behalf. In 2014 EY was fined $4m by the U.S. Securities Exchange Commission (SEC) for “violations of auditor independence” for lobbying on behalf of audit clients. EY’s advocacy North Sea oil advocacy positions are clearly described here and here.</td>
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<tr>
<td>KPMG</td>
<td>Total</td>
<td>KPMG has held joint seminars with OGUK on the future of the industry and published a report on decommissioning strategies. KMPG in 2015 advocated support for the investment allowance, the reduction in the supplementary tax rate from 30% to 20% and the Petroleum Revenue Tax (PRT) from 50% to 35%. It also believes that the headline rate of tax is too high, and is generally supporting a “lighter tax burden” for the North Sea.</td>
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<tr>
<td>PwC</td>
<td>Centrica, ExxonMobil, Chevron</td>
<td>PwC has well established links with OGUK, and was the principle sponsor of their June 2016 conference, which focused on strategies to recover oil from the North Sea. Alan McCrae, PwC’s most publicly vocal proponent of the industry has marketed his knowledge at an oil and gas tax event, including “traps to look out for”, in regards to the newly introduced Diverted Profits Tax. PwC in 2017 were advocating in favour of a decommissioning support scheme. In 2011 it opposed the Government increase in the supplementary charge. In 2014 it also supported the Government’s extension of the Ring Fence Expenditure Supplement (PFES). In 2016 PwC supported a reduction in the headline rate of tax, claiming it would have “minimal cost implications”.</td>
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25 PwC was Royal Dutch Shell’s external auditor from the 2005 to 2015 financial year.
26 Examples of Derek Leith’s advocacy positions on North Sea oil and gas taxation can be found here: 2013, 2014, 2015, 2016
27 Examples of Chris Sanger’s advocacy positions on North Sea oil and gas taxation can be found here: 2005, 2012
Appendix C: Industry Positions on North Sea Tax

Below is a summary of the positions key entities have taken in their public and private communications relating to North Sea tax policy. It draws upon evidence taken from consultations, company websites and from the media.

- In response to the 2014 consultation on industry fiscal reform, all sections of the industry including producers and support services, argued for the need for a lower tax regime. ExxonMobil wanted tax cuts, a reduction of PRT to 0% and a long-term commitment to Decommissioning Relief Deeds. GDF Suez (now Engie) talked about “unheralded dramatic tax increases”, asked that all companies receive decommissioning tax relief regardless of income, as well as an extension of RFES in timescale, rate and use. EnQuest called for an “immediate” cut in headline tax along with Dana Petroleum, as well as a road map for the abolition of the supplementary charge.28

- Deloitte, reflecting industry opinion, has suggested a reduction in the headline tax rate, the need for cashback to incentivise exploration and the easing on taxation of infrastructure to facilitate change in ownership.29 KPMG agrees with Deloitte on infrastructure taxation and overall thought the basin needed a “lighter tax burden”. EY wanted a reduction in the supplementary charge and PRT to 0% and extension in the use of Ring Fence Expenditure Supplement (RFES). Before every budget in the last two years, PwC has made repeated calls for a cut in Headline tax rate and tax on infrastructure and argued for need for government backed decommissioning fund. PwC has also expressed disappointment that the government hadn't been more “generous with allowances”.

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28 Responses to the consultation ‘Driving Investments, a plan to reform the oil and gas fiscal regime’, that InfluenceMap acquired through a Freedom of Information Request.
29 Deloitte’s response to the consultation ‘Driving Investments, a plan to reform the oil and gas fiscal regime’, that InfluenceMap acquired through a Freedom of Information Request.