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A STUDY OF THE RELATIONSHIPS
BETWEEN THE GOVERNMENT AND THE
PETROLEUM INDUSTRY IN SELECTED
FOREIGN COUNTRIES

UNITED KINGDOM

PREPARED BY THE
CONGRESSIONAL RESEARCH SERVICE

AT THE REQUEST OF

HENRY M. JACKSON, Chairman
COMMITTEE ON INTERIOR AND
INSULAR AFFAIRS

UNITED STATES SENATE

PURSUANT TO

S. Res. 45

THE NATIONAL FUELS AND ENERGY
POLICY STUDY

Serial No. 94-2 (92-92)



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SENATE RESOLUTION 45

NATIONAL FUELS AND ENERGY POLICY STUDY

This publication is a background document for the National Fuels and Energy Policy Study authorized by Senate Resolution 45, introduced by Senators Jennings Randolph and Henry M. Jackson on February 4, 1971, and considered, amended, and agreed to by the Senate on May 3, 1971.

The resolution authorized the Senate Interior and Insular Affairs Committee; and ex-officio members of the Committee on Commerce and on Public Works and the Joint Committee on Atomic Energy, to make a full and complete investigation and study of National Fuels and Energy Policies.

Subsequently, on March 1, 1974, in the furtherance of the purposes of Senate Resolution 45 (92d Congress), the Senate approved the addition of ex-officio members from the Committees on Finance, on Foreign Relations, on Government Operations, and on Labor and Public Welfare, also.

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(II)

MEMORANDUM OF THE CHAIRMAN

To Members and Ex Officio Members of the National Fuels and Energy Policy Study (S. Res. 45, 92d Congress), Committee on Interior and Insular Affairs:

The advent of the energy crisis has brought a vastly expanded Federal role in energy policy. The creation of the Federal Energy Administration and the Energy Research and Development Administration by the 93rd Congress symbolize this fact. The close relationship between energy, economic and foreign policy and the predominant Federal ownership of energy resources are among the factors which assure a greater Federal role in energy matters in the future.

As a new Federal role emerges it is inevitable that the traditional role of private industry must also change in response to new requirements and objectives of national energy policy. Dissatisfaction with the past performance of both industry and government in meeting national energy needs has led to a number of proposals that would change the relationship between public and private sectors on energy matters. These include Federal chartering of energy corporations and the creation of a Federal Oil and Gas Corporation to develop Federally-owned energy resources.

As Congress considers these and other proposals, it should be useful to consider the experience of other countries. With this in mind, the Congressional Research Service of the Library of Congress was asked to examine the relationships between government and the petroleum industry in selected foreign countries. In each case, these studies will attempt to describe the extent to which government has assumed traditional industry functions; the degree of regulation when such functions are still performed by industry; the institutional mechanisms used by government to regulate or control industry operations and the statutory basis for government action.

I have directed that the first study in the series dealing with the United Kingdom, by Edward Lampson, Analyst in European Affairs of the CRS, be published as a committee print for the use of Senators participating in the National Fuels and Energy Policy Study.

HENRY M. JACKSON, *Chairman.*

PREFACE

This study on the United Kingdom is the first in a projected series of country monographs intended to provide a brief narrative account of the relationships between Government and the petroleum industry in several industrialized oil consuming countries.

While there are, of course, wide variations in the practices and experiences of the various countries, each study will cover the following general topics:

Overall energy position.—As the framework for the more specific relationships with the petroleum industry, there is a brief summary of the country's energy posture, including a description of overall energy policy, energy use patterns, and the degree of dependence on petroleum, particularly on imports.

General industry-Government relationships.—The extent to which the government has assumed traditional industry functions is briefly described, including nationalization and/or special government-industry relationships to the energy industries or to some of the energy industries.

Government relationships with the petroleum industry by sector.—With adjustments to allow for adaptation of each country's individual patterns, the relationships are described in terms of policies and practices applied at each of the steps in the oil development process: Exploration; the production of crude oil; its transportation, both within country and importing arrangements; refining; marketing; and export-import policies.

As appropriate to each activity, the measures described may include regulations, tax policies, price controls, ownership or other forms of Government participation, and normal stockpiling practices. Where there are special legislative or other innovations that seem to provide interesting illustrative precedent for the United States, these may be described at somewhat greater length.

While every attempt is made to provide as up-to-date information as possible, the studies are not intended to cover recent developments in joint consumer country planning for emergency pooling of supplies, emergency stockpiling or financial balance of payments burden sharing arrangements. The focus is intended to be on those aspects of foreign country experience which might prove useful in examining our own longer-term national policies vis-a-vis domestic oil production and domestic petroleum needs.

Similarly, although environmental policies and practices clearly are affected by problems of pollution from petroleum in many forms at many levels of activities in the production cycle, none of the studies will attempt to cover this aspect of government policy in so brief a review.

Appendices may include statistical and country data, key policy statements and/or selections from basic legislation affecting the petroleum industry.

INTRODUCTION

This study on the United States is the first in a projected series of country monographs intended to provide a brief narrative account of the relationship between government and the petroleum industry in various industrialized oil-consuming countries.

While there is a lack of consensus with respect to the practices and ex-
periences of the various countries, each study will cover the following
general topics:

1. The role of the petroleum industry in the national economy.
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BRITAIN AND PETROLEUM—GOVERNMENT-INDUSTRY RELATIONS

By Edward Lampson, Analyst in European Affairs, Library of Congress

I. INTRODUCTION

Among European countries Britain finds itself in an unusual position. A highly developed industrial nation in the grip of a severe economic crisis, Britain relies heavily on imported oil to keep its industrial system running. Yet the cost of these imports contributes substantially to the large balance of payments deficit which is one of the major causes for its economic difficulties. At the same time increasingly successful exploration in the North Sea gives promise of total independence of foreign oil by 1980.

This unique combination of present famine and future plenty can hardly fail to influence the development of British petroleum policy. It explains the Government's determination as a first priority "to bring production of oil in as rapidly as possible."¹

II. THE SETTING

Britain is almost entirely dependent on imports to meet its petroleum requirements, and these requirements have been rising sharply. In 1975 consumption of foreign oil products amounted to roughly 100 million tons.² In 1970, 59 percent of British petroleum imports came from the oil-producing countries of the Middle East. In the first nine months of 1974 oil imports cost Britain roughly £2 billion in foreign exchange.³ This was a situation which placed the country at a grievous disadvantage in dealing with Middle Eastern oil-producing countries.

The same was true to a lesser extent of natural gas requirements, which have also been rising. But here the situation has been alleviated by the discovery of commercial fields of natural gas in the North Sea area which are already supplying gas in considerable quantities to the British Gas Corporation.

The prospects for oil in the North Sea in areas under British control are also promising. Oil from the North Sea is expected to flow in 1974-1975, and the British Government anticipates that "production in 1980, allowing for discoveries not yet made, could be in the range of 100-140 million tons." It believes that "there is therefore now a very good chance that in 1980, we can produce oil equivalent to our demand."⁴ The Minister of Energy estimates that "the total value of reserves on the U.K. Continental Shelf at present prices could with further probable discoveries amount to more than £100,000 million."⁵

¹ Balogh, Thomas, Minister of State for Energy, speech for Financial Times/Oil Daily Conference, 'Oil and Governments,' November 13-14, 1974, in New York, Washington, British Embassy Press Release, 1974, p. 12. Full text is attached as Appendix A.

² Ibid., p. 10.

³ Ibid., p. 11.

⁴ Department of Energy. Production of Reserves of Oil and Gas in the United Kingdom: A Report to Parliament by the Secretary of State for Energy, May 1974, London, Her Majesty's Stationery Office, 1974, p. 2.

⁵ Speech for Financial Times/Oil Daily Conference, op. cit., p. 4.

The situation of Britain as of 1970 in regard to petroleum and natural gas is set forth statistically in the two following tables:

UNITED KINGDOM, PRINCIPAL OIL STATISTICS ¹

	1966	1967	1968	1969	1970
Crude and process oils:					
Indigenous production.....	0.1	0.1	0.1	0.1	0.2
Imports.....	71.5	73.7	83.2	93.2	102.1
Total supply.....	71.6	73.8	83.3	93.3	102.3
Refinery intake.....	71.7	73.5	83.1	91.7	101.9
Exports.....	.1	.7	.1	.3	1.2
Total disposals.....	71.8	74.2	83.2	92.0	103.1
Petroleum products:					
Refinery output.....	66.3	68.0	77.1	85.1	94.7
Output from other sources.....	.4	.3	.3	.2	.2
Imports.....	21.7	23.9	22.6	20.6	20.1
Total supply.....	88.4	92.2	100.0	105.9	115.0

¹ Organization for Economic Cooperation and Development. Oil: "The Present Situation and Future Prospects," a report of the OECF Oil Committee, Paris. Organization for Economic Cooperation and Development, 1973. p. 249.

[In millions of metric tons]

	1966	1967	1968	1969	1970
Deliveries to inland consumption.....	69.1	74.6	79.0	85.1	90.8
Bunkers.....	5.0	5.1	5.3	5.6	5.5
Exports.....	12.6	11.9	14.5	14.3	17.4
Total disposal.....	86.7	91.6	98.8	105.0	113.7
Refinery capacity: Crude distillation capacity at end year.....	83.8	86.1	97.6	109.4	114.7

UNITED KINGDOM, PRINCIPAL NATURAL GAS STATISTICS ¹

[In billion cubic metres at 15° C and 760 mm. Hg.]

	1966	1967	1968	1969	1970
Indigenous production.....	0.17	0.62	2.19	5.23	11.21
Imports.....	.69	.81	1.08	1.08	.91
Total supply.....	.86	1.43	3.27	6.31	12.12
Inland consumption.....	.86	1.43	3.27	6.29	12.08
Losses.....				.02	.04
Exports.....					
Total disposals.....	.86	1.43	3.27	6.31	12.12

¹ Ibid., p. 251.

III. INDUSTRY-GOVERNMENT RELATIONSHIP: GENERAL

A. GENERAL CHARACTER

The British economy is in part privately owned and operated, and in part nationalized. Much the largest part of the system operates under private enterprise but the coal, electricity, gas, and steel industries are publicly owned. Large segments of the transportation system are also publicly owned in varying degrees. The railroads have

been nationalized. British Airways is a public corporation. Twenty-five percent of the ports and 80 percent of the waterways are publicly owned. A National Freight Corporation operates a nationalized road haulage system, and a National Bus company runs bus lines throughout Great Britain, while private companies also operate in these fields. The Bank of England, the Atomic Energy Authority, the British Broadcasting Corporation, and the Independent Broadcasting Authority come close to being nationalized industries.⁶ Moreover, the British Government holds shares in private companies. For example, it owns 48.6 percent of the stock of the British Petroleum Company (BP). In addition to specific powers in certain industries, the British Government has special powers for regulating the whole economy, particularly by establishing tax levels.

The newly elected Labour Government, which has a majority of 3 in the House of Commons, has included in its legislative program for 1974-1975 proposals for an extension of state ownership to include the shipbuilding and aircraft industries and the formation of a new national oil corporation to insure a larger share of profits from North Sea oil and more control over its exploration. The Government also proposed a new board to oversee nationalization projects.⁷

Nationalized industries in Britain are public corporations subject to ministerial control in varying degrees. The responsible minister chooses (and may dismiss) the chairman of the board and may give general directions as to how the industry should be run but does not interfere in day-to-day management.⁸ The public corporations are expected to be commercial enterprises in the normal sense, but successive governments have regarded it as important to keep energy costs down and therefore have made up losses from government funds; such subsidies have been regarded as social costs. The natural gas, coal, and electrical industries and the railroads and airways have been operating at losses totaling \$2.3 billion annually. On November 12, 1974, the Chancellor of the Exchequer announced that price increases in the industries were in store because the Government intended to phase out subsidies to most nationalized industries.⁹

B. INDUSTRY-GOVERNMENT RELATIONS IN THE FIELD OF ENERGY

As noted, Great Britain has nationalized the coal, electrical, and gas industries and holds a large block of stock in the leading private oil company, BP. The ownership of all petroleum reserves in territory under British jurisdiction is vested in the Crown, but the British Government itself neither explores for nor produces oil. Private companies handle production, refining, and marketing and explore for oil under Government license. The British Gas Corporation does participate in exploration and production and monopolizes marketing. The National Coal Board also participates in exploration as a member of a consortium.

⁶ Tivey, Leonard J. *Nationalization in British Industry*. London, Jonathan Cape, (revised edition) 1973, p. 11, and *Britain 1974: An official handbook*. London, Her Majesty's Stationery Office, 1974, p. 341-369.

⁷ *The New York Times*, October 30, 1974, p. 1.

⁸ *Britain 1974, An official handbook*, London, Her Majesty's Stationery Office, 1974, p. 256.

⁹ *The New York Times*, November 13, 1974, p. 1.

1. The Coal Industry

A 1946 statute vested the ownership of all the coal mines in Great Britain in the National Coal Board. It has a right to a monopoly of "working and getting the coal", but small mines (amounting to about 1 percent of the total) may be privately operated under license from the Board.¹⁰ Recent Government measures have assisted the coal industry in various ways. All coal imports are embargoed. The conversion of all coal-powered power stations to oil has been stopped. The manufactured gas industry has been asked to use as much coal as possible, and the additional costs thus incurred by the two industries are financed by public funds. The British Government has approved a special expenditure of some £60 million (at 1974 prices) over the period to 1985 for the coal industry. As a further protection for the coal industry Great Britain levies a tax of pence 2.2 per gallon on oil, which represents about 35 percent of the price of fuel oil to large users.¹¹ A duty on heavy oil imports provides some protection for the coal companies.

2. The Electrical Industry

A 1926 statute established the Central Electricity Board, which began operation the following year. The Board built and owned transmission lines, had full control of the main generating stations, and sold electricity to private and municipal distributors. Supervision was exercised by the Electricity Commissioners, but the Board was very largely autonomous in practice. In 1947 the nationalization process was completed. The ownership and control of the entire electrical industry was vested in a newly established British Electrical Authority which directs the distribution of electricity through a number of regional boards.¹²

3. The Gas Industry

The Gas Act of 1948 transferred the holdings and operations of all gas companies, whether owned privately or by municipalities, to twelve Area Gas Boards. The Labour Government, which introduced the legislation, argued that with the growth of demand larger units with clearly determined boundaries were required and that the only way to reorganize the industry quickly was to nationalize. The Liberal Party voted for the bill, and the Conservatives opposed it as establishing a non-competitive bureaucratic monopoly.

The Act charged each Area Board with the sole manufacture and supplying of gas within its territory. The result was a highly decentralized structure with some co-ordination supplied by a National Gas Council. Technological changes, however, in the 1960's required new legislation. The importation of natural gas from the Sahara, the production of gas from fuel oil or naphtha, and the discovery of large gas reserves in the North Sea necessitated the handling of gas in bulk on a national scale, including a system of trunk pipelines and a centralized administrative structure. Therefore, a new Gas Act was passed in 1972 which established a British Gas Corporation and made it the owner and controller of the entire gas industry. The Gas Boards have been reduced to "administrative units concerned mainly with gas distribu-

¹⁰ Tivey, *op. cit.*, p. 46.

¹¹ *The Petroleum Economist*, July 1964, p. 267.

¹² Tivey, *op. cit.*, p. 56-57.

tion," and their personnel is appointed and reassigned by the Corporation.¹³

Under the complex provisions of Section 9 of the Continental Shelf Act of 1964, the Gas Act of 1965 and the Gas Act of 1972 the consent of the Minister of Power is required before licensees may sell gas to anyone other than the Gas Councils (or their functional successor, the British Gas Corporation). The practical results of this arrangement are that the licensees must accept whatever price the corporation, acting on behalf of the government, cares to pay, and that virtually all gas brought ashore is sold to the British Gas Corporation.¹⁴ It has also participated in exploration in the North Sea and through its wholly owned subsidiary Hydrocarbons Great Britain it plans to drill two exploratory wells in the Irish Sea.¹⁵

4. *The Atomic Energy Industry*

The Atomic Energy Authority Act of 1954, introduced by the Conservative Government, established an Atomic Energy Authority. As regards the possibilities of industrial use of atomic energy it is chiefly concerned with prototypes. Other nuclear power stations are built by consortia of private-enterprise firms.¹⁶

5. *The Petroleum Industry*

The British Government played an important part in the development of the British petroleum industry from the early days of the industry. Mineral oil began to be used widely for lighting purposes well over a hundred years ago, but down to the end of the last century kerosene dominated the oil market. However, the situation changed with the invention of the internal combustion engine.

Naval requirements for petroleum products soon brought the British Government into the picture. "The extra speed and range of operations of oil-driven as compared with coal-driven vessels and the ease with which they could be refueled at sea . . . conferred tactical advantages which no Navy could afford to forego." Although a little oil was produced from Scottish shale, and there were limited reserves within the British Empire in Burma and off Borneo, the British Navy appeared to be dependent "for by far the greater part of its war needs" on foreign sources. "Though British capital had been widely invested in overseas petroleum production, only in Burma and Mexico was a British company predominant in the early years of the century." The major potential suppliers were the U.S. Standard Oil Company and Royal Dutch Petroleum Company "neither of them thought to be reliable when Britain was at war."¹⁷

Accordingly in the early 1900's the British Government took some basic policy decisions to improve the situation. First the Government sought to insure that any oil found within the British Empire would not fall into the hands of the foreign companies. In 1904 the Standard Oil Company was excluded from Burma. In the same year a joint Colonial Office-Admiralty committee drew up a set of principles to

¹³ Ibid., p. 59.

¹⁴ Dam, Kenneth, "The Pricing of North Sea Gas in Britain," 13 *J. of Law and Economics* 11 (April, 1970).

¹⁵ Petroleum Economist, August 14, 1974, p. 312.

¹⁶ Tivey, op. cit., p. 67-68.

¹⁷ Payton-Smith, Derek J. *Oil: A study of war-time policy and administration*. London, Her Majesty's Stationery Office, 1971, p. 5.

apply throughout the Empire. They provided that: the concessionaire company had to be British with a specified number of British directors; as far as possible the senior staff employed were to be British; the company was to undertake to establish a local refinery capable of producing fuel oil to Admiralty specification; and the British Government had a right of pre-emption in wartime.

The second method of meeting Admiralty demands was to give Government support to private British exploration for oil. In 1901 the British Government assisted William Knox D'Arcy in obtaining a license to prospect for oil through the whole of Iran except the five northern provinces. When Mr. D'Arcy's funds were exhausted in 1906, the Government pressed the Burmah Oil Company to come to his assistance. Oil was found in 1908; the Anglo-Persian Oil Company—the predecessor of the British Petroleum Company—was formed in 1909 as a subsidiary of Burmah Oil, and a refinery was built in 1912. By 1913–1914, Anglo-Persian was under strong pressure to amalgamate with Royal/Dutch Shell because its resources were too small to meet the competition of the major firms. The Company appealed for Government financial assistance. Payton-Smith described the Government response as follows:

The Government was very willing to see the Iranian oilfields developed by a company on which it could rely in time of war, but there was no precedent for giving a public subsidy to a commercial company—and the Admiralty made it clear that in return the Government would want a controlling interest [e.g. 51 percent]. This was procured by making a capital subscription [to the Anglo-Persian Co.] of £2 million (increased in 1919 to £5 million), with the Burmah Oil Company remaining as a minority shareholder. This unprecedented venture gave the Admiralty what it wanted: a Government-controlled company on which it felt able to rely. But it did not mean that the British Government had decided to go into the oil business itself. The Government made it clear that it did not propose to interfere in day-to-day business management. In the Agreement signed with the company on the 20th May 1914, it was agreed to limit government participation on the board to two *ex officio* directors representing the Treasury and the Admiralty. These representatives were to have a power of veto, but it was not intended that they should use it except when decisions of diplomatic or military significance, or affecting the British status of the company were under discussion. As part of the Agreement, the company signed a contract to supply fuel oil to the Admiralty at well below the current market price . . . In time of war the Admiralty was to have first call on the entire output.¹⁸

British diplomacy and British governmental financial support continued to play an active role in oil politics in the Middle East from 1918 to 1939. In the early 1920's negotiations were undertaken to bring the Royal Dutch/Shell Group permanently under British financial control but were finally blocked by the Admiralty because under the terms of the plan the Government would have lost its position as majority stockholder in the Anglo-Persian Company. In 1928 the formation of the Iraq Petroleum Company, in which Anglo-Persian had a 23 $\frac{2}{3}$ percent share, and the rights acquired in Kuwait greatly increased British access to Middle East oil.

During the same period the search for oil in Britain continued with only meager success. But the Government took steps which were to have an important result after World War II when oil was discovered

¹⁸ Ibid., p. 11–12.

in the North Sea. In order to eliminate the problems which private companies faced in negotiating royalty agreements with a multitude of private landowners, Parliament passed a Petroleum Production Act in 1934. The Act "conferred rights to entry on licensed prospectors and at the same time vested all property rights over petroleum in the Crown." It also renewed "a provision of a 1918 Act which had prohibited drilling without Government licence."¹⁹

The use of this licensing power in the exploration and development of petroleum reserves in the North Sea will be discussed in Section IV.

Up to the present the British Government has had a large part to play in the development of the British petroleum industry but has left the business management of the industry in private hands. However, the Labour Government has now drawn up plans for the extension of the Government's role in this field.

On July 11, 1974, the Secretary of State for Energy presented a report to Parliament setting forth the Labour Government's oil and gas policy. This calls for the establishment of a British National Oil Corporation (BNOC) which will represent the British Government in the North Sea consortia to which it now belongs or will belong. As a result of a new licensing policy the Minister expects that British Government participation in North Sea oil development will be greatly expanded.

No description of the relationship of the British Government to the oil industry would be complete without a brief description of its position in BP and the ramifications of that company itself.

The Government now owns 48.6 percent of the ordinary stock of the company. It retains the right to nominate two members of the board with power to veto any resolution, but it has pledged itself not to interfere in the Company's commercial affairs and not to exercise the right of veto except in regard to certain specific matters of general policy.²⁰

Thus the Government has an important financial interest in one of the major international oil companies. BP itself does not trade but is a holding company with investments in numerous subsidiary and associated companies. The parent and its subsidiary companies comprise the BP group, which is one of the largest integrated oil groups in the world, engaged in all phases of the oil industry, exploring for, producing, transporting, refining, and marketing crude oil, products, chemicals, and gas. In 1972 its total crude oil production and lifting amounted to 552 million metric tons. Its refining production in 1972 totaled 120 million metric tons. It produced 157,710 million cubic feet of natural gas. It owned 311 tankers. The group is exploring for oil in many parts of the world, notably in Alaska and in the North Sea. The commercial production of the Forties Field, which the British Government licensed to the BP Company, is expected to begin production by early 1975, rising to 250,000 barrels per day (12.5 million tons per annum) within 12 months and 400,000 barrels per day (20 million tons per annum) by one year later.²¹

¹⁹ Payton-Smith, *op. cit.*, p. 17.

²⁰ Gray, Lionel F. and Jonathan Love (editors), *Jane's Major Companies of Europe*, 1974 edition. London, Sampson Low, Marston & Co., 1974, p. F108.

²¹ *Ibid.*, p. F108-F109.

IV. PETROLEUM INDUSTRY-GOVERNMENT RELATIONS: SECTORAL

Given the relationship between Government and the oil industry outlined above, it seems logical to discuss questions of exploration and production in the same section.

A. EXPLORATION AND PRODUCTION

The British Government does not engage either in the exploration or production of crude petroleum. However, as the owner of 48.6 percent of BP stock it has a substantial interest in one of the seven largest private international oil majors. Through the National Coal Board and the British Gas Corporation it also has additional shares in some exploration undertakings in the North Sea. In addition, it exercises broad powers over oil exploration and production through licensing, taxation, and other mechanisms. The Labour Government has plans for expanding the role of Government in regard to North Sea oil which will be submitted in the new session of Parliament.

A good starting point for considering these matters is the position of the British Crown in regard to oil.

1. *The Position of the British Crown*

Section 1 (1) of the Petroleum Act of 1934 provided that:

The property in petroleum existing in its natural condition in strata in Great Britain is hereby vested in his Majesty, and His Majesty shall have the exclusive right of searching and boring for and getting such petroleum.

Section 2 (1) of the same Act reads:

The Board of Trade (now the Minister of State for Energy), in behalf of his Majesty, shall have the power to grant to such persons as they think fit, licences to search and bore for and get petroleum.²²

The Continental Shelf Act of 1964 vested in the Crown all "rights exercisable by the United Kingdom outside territorial waters with respect to the sea bed and subsoil and their natural resources except as they are exercisable in relation to coal" and extended the provisions of the Petroleum Production Act of 1934 "which relate to the granting of licences to search and bore for, and get petroleum" to petroleum exploration and production on the Continental Shelf.²³

In June 1964 the British Government ratified the Convention on the Continental Shelf of 1958, which guides the exercise of rights in these areas. Under the terms of the Convention, Great Britain and neighboring countries have established the boundaries between Great Britain and adjoining sectors.

2. *Licensing*²⁴

Pursuant to the above cited statutes of 1934 and 1964 as amended and ancillary regulations, the Secretary of State for Energy is authorized to prescribe how and by whom applications for licenses shall be made,

²² Public General Acts and Measures, 24 & 25 Geo V., 1933-34. London, Eyre and Spottiswoode, 1935, p. 320.

²³ Public and General Acts and Measures of 1964—Elizabeth II. London, Her Majesty's Stationery Office, 1965, p. 385-386.

²⁴ First Report from the Committee of Public Accounts together with the proceedings of the Committee, part of the minutes of evidence, part of the minutes of evidence of session 1971-1972 and appendices thereto. Session 1972-1973. North Sea Oil and Gas. London, Her Majesty's Stationery Office, 1973, p. viii-ix.

to charge application fees, to determine, with the consent of the Treasury, the consideration which will be payable, whether by way of royalty or otherwise, for these licenses, and to decide to whom licenses shall be granted.

A production license confers exclusive rights to search, bore and get oil in the specified area and covers all the operations of petroleum exploration and production. The license is granted for an initial period of six years and is renewable for not more than half of the original area for an additional 40 years. It may be terminated at any time on six months' notice by the licensee.

An exploration license authorizes only geological and geophysical surveys and the drilling of shallow wells. It is nonexclusive and applies to any designated part of the U.K. continental shelf not subject to a production license. It runs for three years at a cost of £1,000 per annum.

The Secretary of State is required to publish in the London, Edinburgh, and Belfast Gazettes the designation of a block (an area of roughly 100 square miles) for development and to invite applications. The applicant for a license is required to "be incorporated in the United Kingdom and the profits of the operation shall be taxed here."²⁵ The Secretary of State does not ask for competitive bids; licenses are granted on a discretionary basis. Foreign companies can receive licenses through branches incorporated in Great Britain.

That licenses are granted on a discretionary basis should not obscure the fact that more or less objective criteria are applied by the authorities in determining who shall obtain licenses over blocks receiving (as almost all do) multiple applications. Officially, these criteria have related to five factors:

. . . first, the need to encourage the most rapid and thorough exploration and economic exploitation of petroleum resources on the Continental Shelf. Second, the requirement that the applicant for a license shall be incorporated in the United Kingdom and the profits of the operations shall be taxable here. Thirdly, in cases where the applicant is a foreign-owned concern, how far British oil companies receive equitable treatment in that country. Fourthly, . . . the programme of work of the applicant and also at the ability and resources to implement it. Fifthly, . . . the contribution the applicant has already made or is making towards the development of resources of our Continental Shelf and the development of our fuel economy generally.²⁶

Applicants have been aware from the outset, however, that it is the first and fourth criteria that will in most cases determine who will obtain a license over any blocks receiving more than one application. It will be noted that both of these relate to the amount of effort the potential licensee commits himself to expend in developing the resource.²⁷

²⁵ Ibid., p. 26.

²⁶ *North Sea Oil and Gas: A Report to Parliament*. (Reprinted from "Trade and Industry" Vol. 10, No. 4, January, 1973.) Department of Trade and Industry (London: H. M. Stationer Office, 1973).

²⁷ See Also, Kenneth Dam, "Oil and Gas Licensing in the North Sea," 8 *J. of Law and Economics* 51 (Oct., 1965), and "Pricing of North Sea Gas in Britain," 13 *J. of Law and Economics* 11 (April 1970); Joseph W. Morris, "The North Sea Continental Shelf: Oil and Gas Legal Problems," *International Lawyer*, Vol. 2, No. 2, pp. 191-214 (especially pp. 201, 202); White, D. Kash et al., *North Sea Oil and Gas: Implications for Future United States Development*, (Norman: University of Oklahoma Press, 1973); *Report of the North Sea Study Group*, by the Labour Party, Transport House Smith Square, London, S.W. 1; and "Terms for North Sea Oil" in 40 *Petroleum Press Service* 122-124 (April, 1974).

As of 1973 the British Government had issued licenses to 227 companies including British Petroleum, Royal Dutch Shell, Exxon, Texaco, Gulf, Mobil, and Standard Oil of California.²⁸ The House of Commons Committee of Public Accounts figured that as of 1973 the British public and private interest in the territory licensed amounted to 32 percent of the total shares. Of this 5 percent belonged to the Gas Council, 3 percent to the National Coal Board and 4 percent to the Government as its portion of the holdings of British Petroleum.²⁹

3. *Financial Arrangements*

The compensation required for a production license comprises a royalty rate of 12½ percent, plus an initial payment covering the first 6 years of a license of about £6,250 per average year with annual added increments thereafter of £6,250 a year, to a maximum of £72,500 a year. These rates were developed in the early days of the development of North Sea exploration and before the quadrupling of oil prices in late 1973.³⁰

As early as February 1973 the Committee of Public Accounts of the House of Commons was critical of existing arrangements and stressed that U.K. terms "have tended to lag behind those of others right from the start."³¹

The Report of the Secretary of State for Energy to Parliament of July 1974 took even stronger exception to the existing arrangements. It read in part as follows:

. . . During the past year, the world price of oil has more than quadrupled: the average f.o.b. price of Middle Eastern Oil, a year ago about \$2.00 a barrel, is now \$9-10. If prices remain high and with the high production now expected in the North Sea, profits on our offshore oil will be enormous. If the current price of oil continues, and on a realistic estimate of output, annual pre-tax profits would total some £64,000 million by 1980. Under present arrangements, tax and royalty would take a relatively small proportion of profits in the early years, and would never take more than half. The result is that North Sea licensees would reap enormous and uncovenanted profits on their investment. A half or more of the post-tax profits are likely to be remitted overseas; by 1980 the cost of such remittances to our balance of payments could under present arrangements reach, or even exceed, £61,000 million annually.³²

The Secretary then outlined the Government's proposals for corrective action. These included proposals for greater Government participation and increased taxation.

4. *Government-Industry Partnership*

As already noted, the total government participation in North Sea exploration and development amounts to only about 12 percent of total investment. The Secretary of State for Energy's Report announced that the Government would take steps to increase Government par-

²⁸ Ibid., p. 96-100.

²⁹ Ibid., p. 89.

³⁰ The package was thought to be as favorable to the Government as any in completely unproved areas throughout the world, while not providing ammunition to OPEC in their demand for higher revenues from British oil companies operating in OPEC countries. Ibid., p. 25.

³¹ Ibid., p. 25.

³² Department of Energy. *United Kingdom Offshore Oil and Gas Policy: A Report to Parliament by the Secretary of State for Energy*, July, 1974, London, Department of Energy, 1974, p. 1.

ticipation but would not move retroactively against existing licensees. The report stated:

It will be made a condition of future licences that the licensees shall, if the Government so require, grant majority participation to the State in all fields discovered under those licences. This will broadly follow the "carried interest" pattern successfully developed in Norway under which the State has the option to acquire ownership of a specified proportion of oil or profits, meeting the same proportion of costs.

. . . It is the Government's belief that majority State participation in the existing licences for commercial fields provides the best means for the nation to share fully in the benefits of North Sea oil without unfairness to the licensees since the State contributes its share of the costs, including consent of the oil companies in almost every other major oil and gas producing country in the world, not only those in the Middle East. Indeed, public sector participation has worked successfully in the British Shelf without injury to oil company interests through the National Coal Board and British Gas—whose present shares will be accepted as a share in the total public participation. The Government hope that the companies continue to invest in the North Sea on profitable terms. They will be very ready to listen to what the companies say and consider with them how the common interest can best be served. They are sure the industry will want to submit their views at the earliest possible moment and to enter into talks on this basis. The Government will be inviting them to do so shortly.³³

Thus the British Government intends to discuss the renegotiation of existing licenses with the oil companies. The Minister for Energy has confirmed that "the Government would be inviting holders of current licenses to negotiations to discuss majority participation in them also."³⁴

The Minister then stated the Labour Government view in the following words:

Why do we think participation is the best way of achieving the interests of the State and the companies? For the State it has the enormous advantage of not only providing a fair share of profits, but also giving it direct knowledge and expertise in the operations of the oil industry. Regulation from without, by edict, can never be as satisfactory for us as direct participation, as a partner, in the licence. Virtually every other oil-producing country in the world has therefore adopted participation as the right way for the State to involve itself in the operations of its oil industry. . . .

I said that participation is also the best way from the company's point of view of involving the State in oil production. This is because the State contributes to costs, that is it increases the cash flow—a consideration of increasing importance in the North Sea today. Depending on the detailed terms agreed, the effect of participation on a company's rate of return can be much less than the effect of tax.³⁵

5. *Taxation*

The Report from the Committee of Public Accounts has described the British system of taxing the petroleum industry in the following terms:

1. Under the United Kingdom system of taxation there are no special rules applying only to oil companies.
2. Operations in the North Sea are carried out either by companies which are resident in the United Kingdom for tax purposes,

³³ Ibid., p. 2.

³⁴ Speech for Financial Times/Oil Daily Conference, op. cit., p. 7.

³⁵ Ibid., pp. 7-8.

or by non-resident companies trading through branches in the United Kingdom. Companies which are resident in the United Kingdom (i.e. companies which have their central management and control here) are liable to United Kingdom corporation tax on their worldwide profits. Non-resident companies trading through branches in the United Kingdom are liable to corporation tax on any trading income arising through United Kingdom branches and on capital gains arising on the disposal of assets connected with those branches.

3. The starting point in calculating the profit on which corporation tax is charged is the company's commercial profit from its liable operations. Expenditure such as royalties and licence fees is thus generally allowed, when incurred, as a deduction in computing taxable profits. Certain adjustments are, however, made to the commercial profit in arriving at the profits which are chargeable to tax, the most important of which is that the depreciation charged in the accounts is disallowed (i.e. the profits are increased by the amount of the depreciation charged) and relief is given for capital expenditure by means of a statutory system of capital allowances. The effect of this system is broadly to provide uniform arrangements for all companies for the writing off of capital expenditure.

4. The rules governing capital allowances for the various types of expenditure most likely to be incurred by oil companies in Continental Shelf activities are:

(a) *Machinery and Plant*

Capital expenditure on the provision of machinery and plant (which covers such items as drilling rigs and oil pipelines) qualifies under the Finance Act 1972 for a 100 per cent deduction from profits the year in which it is incurred or, if the company is not then trading, for the first year after it begins to trade.

(b) *Exploration*

The cost of searching for, discovering and testing new deposits normally qualifies for a 100 per cent deduction from profits. The deduction covers such expenditure as that incurred on the acquisition of exploration rights, on surveys, on the drilling of test holes and appraisal wells, etc. The deduction is made for the year in which the expenditure is incurred, or if the company is not then trading, for the first year after it begins to trade.

(c) *Extraction Work*

Capital expenditure on extraction works not coming within the definition of machinery or plant, for example, on the drilling of production wells, qualifies for an initial allowance of 40 percent, followed by annual writing-down allowances depending on the annual output and reserves of the field, with a minimum annual allowance of 5 percent on the reducing-balance basis.

(d) *Mineral Rights*

Capital expenditure on the acquisition of production rights qualifies for annual writing-down allowances depending on the annual output and reserves of the field with a minimum allowance of 5 percent on the reducing-balance basis.

5. The effect of the "posted price" system, which is in operation in most OPEC countries . . . is that the production companies' profits are increased because they sell their oil at "posted prices" rather than market prices, while the accounts of the group trading companies which purchase their oil are correspondingly reduced. The United Kingdom does not receive any tax on the profits of the production companies, because the credit for the foreign tax paid on those profits extinguishes any liability to United Kingdom tax there would otherwise have been.

6. When a United Kingdom company, or a United Kingdom branch of an overseas company, incurs a loss in its trading activities (which may be created or augmented by the capital allowances due under the provisions described in paragraph 4) there are three main ways in which it may obtain relief. First, it may carry its loss forward against future trading profits; secondly, it may set the trading loss against other profits liable to corporation tax for the same accounting period; thirdly, it may carry its loss back against its profit liable to corporation tax in the preceding accounting periods, and obtain repayment of the appropriate part of the corporation tax it has paid. If the loss is sufficiently large, it may obtain relief in more than one of these ways e.g. the loss may be used to cover other profits of the same accounting period and the balance carried forward to set against the trading profits of future accounting periods.

7. For corporation tax purposes the position of each company is usually considered separately; but where a company is a member of a group or consortium of companies which are resident in the United Kingdom, there is provision for the surrender of effective tax relief for losses of one member to another. For this purpose a group exists if one company is a subsidiary of another, or both are subsidiaries of a third, the parent-subsidiary relationship being determined according to the test of 75 percent ownership of the ordinary share capital. Relief can be given within a consortium if five or fewer companies own all the ordinary share capital of a trading company directly, or 90 percent indirectly, through a holding company. These provisions mean that where the North Sea operator is a part of a United Kingdom group or consortium, relief for its losses may be obtained against group or consortium profits; or conversely, group or consortium losses may be relieved against its profits.³⁶

The Labour Government has decided to segregate North Sea operations of a company or consortium and only permit losses from North Sea operations to be deducted from North Sea profits. Thus a so-called ring fence is to be built around the North Sea. Measures are also being introduced to close the loophole arising from the practice of basing tax estimates on the artificial "posted price" figure which has been described above.³⁷

Extracts from a statement by the Paymaster General Edmund Dell in the House of Commons on November 13, 1974, describing the

³⁶ First Report from the Committee of Public Accounts, *op. cit.*, pp. 57-58.

³⁷ *Ibid.*, pp. 4-5.

Government's proposed oil tax legislation are attached at Appendix II. The text of the Government Oil Taxation Bill and an Inland Revenue Release regarding it of November 19, 1974, are attached at Appendix III.

The Chancellor of the Exchequer announced on November 12, 1974, the value-added tax on gasoline would be raised beginning November 18, from 8 percent to 25 percent. "As a result the price will rise from roughly \$1.06 to \$1.20 for an American-sized gallon."³⁸

B. REFINING

The British Government does not operate oil refineries. Any controls over private refineries, including taxation, are generally no different from those applying to other manufacturing concerns, with the exception of environmental controls which are outside the scope of this report.

The crude oil refinery capacity of the 22 private refineries in Britain as of 1972 is set forth in the following table:

³⁸ The New York Times, November 13, 1974, p. 1.

UNITED KINGDOM CRUDE OIL REFINERY CAPACITY¹

[Capacity in thousands tonnes at Dec. 31 each year]

Company and plant	Completion	1938	1950	1955	1960	1965	1972	Estimated end 1975	Future
Esso Petroleum Co. Ltd.:									
Fawley Hants.....	1921	700	1,100	7,500	11,500	11,500	19,500	19,500	---
Milford Haven, Pembrokeshire.....	1960	---	---	---	4,500	6,300	6,300	15,000	---
Shell United Kingdom Ltd.:									
Stanlow, Cheshire.....	1924	---	1,200	5,000	5,250	10,350	10,750	18,750	---
Shell Haven, Essex.....	1916	---	2,000	3,700	8,050	9,350	10,000	10,000	---
Teesport, Yorkshire.....	1968	---	---	---	---	---	6,000	6,500	---
Heysham, Lancs.....	1948	---	1,800	1,800	1,800	1,950	2,200	2,200	---
Androssan, Ayrshire.....	1928	---	150	150	160	175	200	200	---
BP Refinery Ltd.:									
Isle of Grain, Kent.....	1953	---	---	4,600	9,000	9,500	10,900	11,300	---
Llandarcy, Glamorgan.....	1921	360	2,850	3,000	3,000	7,800	8,300	8,300	---
Grangemouth, Stirlingshire.....	1924	360	1,750	2,200	3,100	4,500	8,800	8,800	19,000
Belfast, Ulster.....	1964	---	---	---	---	1,300	1,500	1,500	---
Mobil Oil Co. Ltd.: Coryton, Essex.....	1953	---	---	1,000	2,000	2,400	7,000	9,000	---
Lindsey Oil Refinery Ltd.: Killingholme, Lincs.....	1969	---	---	---	---	---	8,400	8,800	---
Texaco Refining Co. Ltd.: Pembroke, Pembrokeshire.....	1964	---	---	---	---	5,100	7,000	9,000	---
Phillips-Imperial Petroleum Ltd.: Billingham, Teesside.....	1963	---	---	---	---	1,000	5,000	5,000	---
Amoco: Milford Haven.....	1973	---	---	---	---	---	---	4,000	---
Conoco Ltd.: South Killingholme, Lincs.....	1969	---	---	---	---	---	4,000	4,000	6,750
Gulf Oil Refining Ltd.: Milford Haven, Pembrokeshire.....	1968	---	---	---	---	---	5,000	5,000	---
Philmac Oils Ltd.: Eastham, Cheshire.....	1966	---	---	---	---	---	400	400	---
Berry Wiggins & Co. Ltd.: Kingsnorth, Kent.....	1930	70	95	100	160	285	285	650	---
Burmah Oil Trading Ltd.: Ellesmore Port, Cheshire.....	1934	100	120	160	210	250	1,500	1,500	---
William Briggs & Sons Ltd.: Dundee, Angus.....	1935	---	25	35	45	85	85	450	---

¹ The London Times, Nov. 19, 1974. p. 21.

Plans for additional refining capacity are set forth in the following table:

PROJECTS FOR NEW REFINERIES¹

[Expected crude capacities in thousand metric tons per year]

	Probable completion	Planned capacity
West Europe—United Kingdom:		
Canvey Island, Essex (ENI/Murco).....	1977.....	4,000
Canvey Island, Essex (Occidental).....	Mid-1975.....	6,000
Gravesend, Kent (Burmah/CFP).....	No date.....	12,000
Hunterston, Scotland (Chevron).....	do.....	7,000
Hunterston, Scotland (ORSI).....	do.....	24,000
Kingsnorth, Kent (Berry Wiggins).....	1978.....	5,000
Milford Haven, Wales (Amoco).....	Late 1973.....	4,000
Nigg Bay, Cromarty Firth (National Bulk Carriers).....	No date.....	(²)
Shetland Islands (Milford Argosy).....	do.....	15,000

¹ The London Times, Nov. 19, 1973, p. 21.

² Not known.

C. TRANSPORTATION

Almost all of the oil consumed in Great Britain today is transported by tankers which are privately owned. The tanker fleet under British flag amounts to 25.2 million deadweight tons, of which 200,000 tons belongs to the Government.³⁹ Three main crude oil pipelines are in operation in Britain between harbors capable of berthing very large tankers and refineries.⁴⁰ Plans are being made for the construction of pipelines in the North Sea for the delivery of oil and natural gas.⁴¹ Discussions are going on about how and to what degree the construction of the North Sea pipelines should be regulated by the Government.

D. MARKETING

The marketing and pricing of natural gas is handled entirely by the British Gas Corporation. The marketing and pricing of oil is handled by private companies. The British Government can of course exercise a strong influence on price levels by setting prices in the nationalized energy industries of gas, coal, and electricity and by its tax policy. The imposition of a new tax on gasoline has just raised the price per gallon by 14 cents. Parenthetically, the British Government did impose rationing in 1956 in the Suez crisis. In 1967 and 1973–1974 it set up machinery for rationing but did not use it.

E. IMPORTS-EXPORTS

As noted in Section I, the United Kingdom is a heavy importer of oil. The Government does not participate in the negotiations conducted between private British oil companies and the governments of OPEC countries regarding petroleum prices.⁴²

³⁹ Oil: The Present Situation and Future Prospects. *op. cit.*, p. 130.

⁴⁰ Britain 1974, *op. cit.*, p. 276.

⁴¹ Bexon, B. (General Manager, Exploration and Production, The British Petroleum Company Limited). The North Sea-Achievements and Prospects. *Financial Times, Petroleum Times and Fairplay International Shipping Weekly. International Offshore Technology Conference, London, 9th and 10th October, 1974, p. 6–7.*

⁴² However, a New York Times report of a delegation from the British Ministry of Trade signing a multi-million dollar agreement with Iran in January 1974 for 5 million tons of crude oil in return for textile fibres, steel, paper, petrochemicals, and other industrial goods, illustrates the role the Government can play in the oil picture, *New York Times*, January 28, 1974.

Britain looks forward to the possibility that by 1980 the country can produce from North Sea and Celtic Sea fields oil equivalent to the British demand plus possibly a substantial margin for export. The expectation that North Sea crude will be of high quality with a low sulphur content which can be sold profitably on the export market presents the British Government and the oil companies with a policy problem. The Report of the Committee of Public Accounts stated the problem as follows:

Insisting that all North Sea crude should be refined and used here would have the advantage of reducing our dependence on imported oil supplies even further, but would mean that we were using higher quality oil than we need; foreign exchange earnings would suffer and the cost of oil products (and hence our industrial costs) would go up.⁴³

V. RECENT DEVELOPMENTS IN NATIONAL PETROLEUM POLICY POSITIONS

It has been pointed out that in the past the British Government has not used its share holding to exercise control over the business management of private oil companies. The Labour Government indicated in July 1974 that it planned to introduce some controls but did not spell out in detail what it had in mind. The Report of the Department of Energy to Parliament of July 1974 contains the following passage on this subject:

The Government will extend their powers to control physical production and pipelines. Experience has shown that there are many weaknesses in the current system. The Government will, therefore, for current as well as future licenses, take power to control the level of production in the national interest. This does not affect their determination to build up production as quickly as possible over the next few years. The question of reducing the rate of depletion is unlikely to arise for some years but the Government believes that they should take the necessary powers now. They will also take powers to receive royalty in kind, and to remit royalty in certain circumstances; to control the development of undersea pipelines, in the same way as on land; to introduce tighter control over exploration and development; and to require licensees to provide more information about their activities than is now obligatory.⁴⁴ All these new proposed powers, together with existing powers, will enable the Government also to ensure that development is carried out with a proper care for the environment and for the planning of infrastructure. The detailed implementation of these and other changes will be discussed with the companies.⁴⁵

The Labour Party plan also calls for the establishment of a national oil corporation along the following lines:

A British National Oil Corporation (BNOC) will be set up, through which the Government will exercise their participation rights. This Corporation will represent the Government in the

⁴³ First Report from the Committee of Public Accounts, op. cit., p. 88.

⁴⁴ The Committee of Public Accounts had criticized the dearth of information from oil companies about their operations in 1973. Its report reads: "We consider that it is unsatisfactory that the Department should not have access to licensees' costs: this is an area where equality of information between the government and the licensee would be equitable." First Report from the Committee of Public Accounts. Op. cit., p. xxxii.

⁴⁵ United Kingdom Offshore Oil and Gas Policy, op. cit., p. 3.

present consortia (and will take over the present interests of the National Coal Board) and also build up a powerful and expert supervisory staff that will enable it to play an active part in the future development, exploration and exploitation of the Continental Shelf. It will also have powers to extend its activities ultimately to the refining and distribution of oil. . . .⁴⁶

The Conservative Party agreed with the Labour Government that under existing arrangements the private oil companies prospecting in the North Sea would be in a position to make an unjustified killing in profits when the oil began to flow. But they opposed the solutions which the Government proposed. They specifically rejected Labour's plan for majority participation in North Sea operations as "both irrelevant and harmful." The Conservative Party's Shadow Minister for Energy has stated that the Party supports instead establishment of a state regulatory body to provide control over the amount of off-shore oil produced. He proposed to recoup for the Treasury the wind-fall profits of the oil companies by making "all offshore operations subject to special taxes in addition to normal Corporation Tax."⁴⁷

The Labour and Conservative Parties share certain views regarding the relationship between Government and the petroleum industry. Both parties espouse policy changes to obtain greater benefits from a national resource for the people as a whole. Thus, both believe the Government must increase its share of North Sea profits although they differ on methods. The Labour Party prefers Government participation in oil consortia; the Conservative Party wants to proceed by way of taxation. Both agree that development must be as fast as possible. Both want controls available at a later date to prevent an irresponsible exhaustion of resources. The greatest point of difference arises over the issue of Government participation. The Conservatives oppose Labour plans for acquiring 51 percent ownership in North Sea oil enterprises and establishing a National Oil Corporation because they fear that Government meddling will drive private enterprise out of the North Sea. But both parties consider private companies essential to successful exploration. In the latest official statement of Labour Government policy in this field (which is attached at Appendix A) this point is emphatically made. Speaking in New York in November Minister of State Balogh said:⁴⁸

. . . we intend to leave the companies a rate of return on their investment sufficient to keep them active in the North Sea. We do not want to do anything to discourage the companies . . . we recognize and respect their considerable technical achievements in the North Sea and we hope we shall continue to have the benefit of their skill and expertise in developing it.

⁴⁶ Ibid., p. 2.

⁴⁷ The London Times, September 12, 1974.

⁴⁸ Speech for Financial Times/Oil Daily Conference, op. cit., p. 6.

APPENDIXES

APPENDIX A

Text of an address presented by the Minister of State for Energy, United Kingdom, at the opening session of the conference on "Oil and Governments," sponsored by the Financial Times and the Oil Daily on November 13 and 14, 1974, in New York City.

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APPENDIX A

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MINISTER OF STATE FOR ENERGY

SPEECH FOR FINANCIAL TIMES/OIL DAILY CONFERENCE "OIL AND GOVERNMENTS" NOVEMBER 13 AND 14, 1974, IN NEW YORK

Ladies and Gentlemen, it is an honour and a privilege to have been asked to deliver the Opening Address at the Financial Times and Oil Daily Conference.

Having been an obstreperous academic critic I have in my new incarnation acquired some first-hand knowledge of the subject of this conference from the Government side. The process of having become a junior Minister at a time when my advancing years would normally have called for me to become less rather than more responsible is a strange one. I apologize in advance to those whom my transformation to a model of reticence and circumspection will surprise.

The theme of the Conference "Oil and Governments" could hardly be more apposite or important at a time when producer countries, oil consuming countries, and not least those countries who are, or hope to be self-sufficient in energy, all face major problems.

Turning now to the "policy options open to new producers" their emergence reminds us of an important change taking place in the distribution of the oil-producing industry. Traditionally the consuming countries of Western Europe have drawn all or nearly all their oil supplies from unstable areas, with very low oil demand of their own, mainly in the Middle East. Recent discoveries in and around the North Sea—which we owe to the enterprise and technological skill of the oil industry—have transformed this prospect. It now looks as if the United Kingdom can become, by any standards, a major oil producer.

It is exceptionally difficult to estimate our future reserves and we are confronted here with the limits of technology and unforeseen difficulties may occur. On the other hand, we might have a breakthrough in being able to exploit more fully existing reserves and get access to new reserves at depth. This explains the very great discrepancies between estimates. My Department has been very conservative, and rightly so, as the plans must be founded on certainty rather than surmise. I myself have criticized this tendency when in opposition, but I quite understood it then and I understand it now that I have been transferred into a more responsible position.

We hope that by the beginning of the next decade we shall be able to produce 2-3 million barrels a day. That is to become more than self-sufficient. It will raise our status as oil producers to the level of Iraq, Libya and Canada. Professor Odell, whose estimates in the past have been surprisingly accurate, predicates an output of 8-10 [million] barrels a day for the whole of the shelf—that is including Norway and other countries. There is at the moment, however, no firm evidence that these estimates can in the foreseeable future be converted into reality. As I have said, the UK is not the only country in this newly discovered

territory. Norway will soon produce much more oil than she needs and has recently forecast production of 1 million barrels a day in the early 1980's; her ultimate potential is almost certainly much higher than this. The Netherlands have the biggest gas field in the world. As exploration intensifies, other neighbouring countries, like France, Denmark and Ireland, may also find substantial quantities of oil or gas.

If this change is important to the oil industry, it is vitally important to the countries themselves. Perhaps the most striking thing about the oil industry is the vast size of the sums involved. We expect by the beginning of the next decade to be producing, if current prices continue, oil to the value of £5,000 million a year or even more. The total value of oil reserves on the UK Continental Shelf at present prices could with further probable discoveries amount to more than £100,000 million. The balance of payments advantage we get will also be measured in thousand of millions of pounds. There will be big new opportunities too for our offshore supplying industry and encouragement for the growth of technologically advanced industries, like the petrochemical industry, in the UK.

In short, the discovery of North Sea oil is perhaps the most important economic development in the UK since the Industrial Revolution. It is something on which we must get our policies right. If we go too far one way or the other, the penalties we have to pay as a nation could be very great. Hence the intense public debate about it during the past two or three years and hence the high priority which the present Government has given to it.

The guiding principle of our policy is this. The nation as a whole must enjoy the participation in revenues furnished by the North Sea fields. There can be no doubt that at the moment there is considerable economic rent, largely created by the quadrupling of oil prices in the past year, which neither the Government nor the licensees foresaw when the licences were issued. And this rent has accrued on a scarce and valuable resource, and one which by an act of Parliament going as far back as 1934, belongs to the nation. We wish to end the period of uncertainty as soon as possible. We regret that the complexity of the problem has prevented us acting as quickly as we would have wished. I can assure the companies however that we shall do our utmost to be fair and say to the Americans companies in particular that their interests will be safeguarded in strict equality with those in which British involvement is present.

From this guiding principle two consequences flow. The first is that there must be a substantial increase in Government take. The Chancellor of the Exchequer will introduce into the House of Commons later this month a Bill to give effect to the new profits tax foreshadowed in the White Paper we published in July and in his Budget speech. The Secretary of State is inviting the companies to talks on participation, a subject I shall deal with separately. As to the rate of the tax, which has not yet been announced, it will be designed to get a fair share of benefits for the nation—while also giving the companies a fair deal. I hope that this assurance will be taken in the spirit it is given.

The second consequence—and this is one I want to emphasize now—is that we intend to leave the companies a rate of return on their investment sufficient to keep them active in the North Sea. We do not

want to do anything to discourage the companies. As I said earlier, we recognize and respect their considerable technical achievements in the North Sea and we hope we shall continue to have the benefit of their skill and expertise in developing it. Prospective profits even in the most conservative basis are such that this is, I am sure, consistent with a big increase in Government take and I would mislead you if I implied anything else. But we do not intend the increase to be so big that it will leave the companies with insufficient profits to retain their interest. Anything else would be against the interests of the United Kingdom. For the fact is that we and the companies have considerable identity of interest. We both, at least over the next years, want to see the North Sea developed as fast as is reasonably possible. In short, we intend to give a fair deal both to the nation and to the companies.

Our chosen method for doing so is participation. The White Paper issued in July said that it would be a condition of all future licences that the State should have an option of majority participation, and that the Government would be inviting holders of current licences to negotiations to discuss majority participation in them also. The Prime Minister announced when the new Parliament met that Mr. Harold Lever would be in charge of the detailed negotiations assisted by Mr. Edmund Dell, who chaired the Public Accounts Committee whose report on oil has become one of the classics of Government papers, and myself. I can now tell you that Eric Varley, the Secretary of State for Energy, wrote yesterday to each of the licensees for the oilfields so far declared commercial to invite them to such talks with Mr. Lever over the next few weeks. We naturally hope that the negotiations will be quick and successful.

Why do we think participation is the best way of achieving the interests of the State and the companies? For the State it has the enormous advantage of not only providing a fair share of profits, but also giving it direct knowledge and expertise in the operations of the oil industry. Regulation from without, by edict, can never be as satisfactory for us as direct participation, as a partner, in the licence. Virtually every other oil-producing country in the world has therefore adopted participation as the right way for the State to involve itself in the operations of its oil industry. I can mention, outside OPEC, such countries as Norway, the Netherlands, Denmark, Australia, New Zealand, and the Canadian provinces. All the oil- and gas-producing members of the European Economic Community have participation in oil and gas in one form or another. So we are doing nothing very new or radical. We are following, not setting, examples.

I said that participation is also the best way from the company's point of view in involving the State in oil production. This is because the State contributes to costs, that is it increases the cash flow—a consideration of increasing importance in the North Sea today. Depending on the detailed terms agreed, the effect of participation on a company's rate of return can be much less than the effect of tax. Indeed, we would really like to regard participation as a form of partnership between public and private sectors to which each has something to contribute and from which each has something to gain. Perhaps I can

emphasize one or two things about participation as we see it to dispel any possible misunderstandings. First we hope to establish successful cooperation with the companies on participation. Secondly, we shall not discriminate between companies. Thirdly, we shall be very willing to listen to any proposals the companies put forward designed to make participation work on a fair and equitable basis. Finally it must not be forgotten that capital depreciation which will be handled in an equitable way is perhaps the most important factor in determining internal rate of return.

This brings me to another topic which all new producers have to face: the problem of Depletion Policy. This is a subject which can raise a good deal of public interest because it is closely linked to that rather emotive word conservation. I do not wish to in any way underestimate the importance of conservation, but question whether it can ever be seen separately from broad aspects of economics. Oil and gas can only be used once. The objective of a depletion strategy is to ensure that they are used when they give the most benefit—this means balancing a high level of benefit over a shorter period against a lower level of benefit over a longer period. To do this, it is necessary to try to visualise the time when production of hydrocarbons is declining or has ceased, as well as the time when a high rate of production is possible.

But having stated the broad objective, it is essential to underline the importance of the problem of uncertainty. There is uncertainty about the sizes of the reserves: this is very well illustrated by a glance at the bottom row of figures in a table¹ produced by my Department for a report to Parliament in May of this year. It showed estimated United Kingdom reserves in the areas already licensed running from a proven total of 895 million tons through probable and possible figures to a total for the three categories of roughly 3000 million tons. We now know that we can count on much more than the lowest of these figures. But we are faced with great uncertainties in the range of reserves, as Professor Odell's recent calculations show, and the choices facing us could vary enormously between the extremes. Moreover there is uncertainty about medium and long-term trends in world oil and gas supplies and their prices. The events of the last couple of years make it unnecessary to elaborate this point further.

But whilst it is necessary to consider the objectives of depletion policy and to emphasize the problem of uncertainty, we must be realistic. That we need oil is undisputed; the industrialised countries used oil for 57% of their energy needs in 1973 and it accounted for 46% of Britain's energy consumption in the same year. Whilst some degree of substitution as between fuels can be undertaken, this tends to be a long term process. For example, one can decide to build more coal-fired or nuclear power stations in the future, to reduce dependence on oil for electricity generation. Such decisions have no effect on oil consumption now. One can also endeavour to save all forms of energy, oil amongst them by improving the efficiency with which it is used. That is why the Government has set up the Advisory Council on Energy Conservation, which held its first meeting recently.

¹ Department of Energy—Production and Reserves of Oil and Gas in the United Kingdom. Page 15.

None of this alters the fact that there is no alternative for us at present but to rely very heavily on oil for our energy needs. Last year we used around 100 million tons all of it imported. This dependence on imported oil puts the well-being of our industrialised society at risk in two ways——

First, as we found out last winter, a shortfall in supplies can cause very great difficulties; any prolonged shortfall poses a serious threat to the entire functioning of our society. But, as we also found out last winter, and have been finding out ever since, even assured supplies (and our present supplies are not assured even at the huge price we now have to pay) are a heavy burden on the balance of payments and thus on the standard of living of each and everyone of us. In the first 9 months of this year the cost of net oil imports was £2000 million.

Against this background, our first priority is to bring production of oil in as rapidly as possible. We reaffirm the Government's determination as expressed in our White Paper to ensure that oil production from the Continental Shelf is built up to a substantial level as quickly as possible. The reality is that we must have this build up to indigenous production to ease our balance of payments problem and to increase our security of supplies. But within this constraint we must be careful that we do not over prejudice our ability to control depletion rates later in the 1980's should we be fortunate enough to prove to have very large reserves, and should a conservation policy involving control over rates of depletion appear to be advantageous to Britain and her trading partners.

But all this is on the widest national and international plane, and I should now turn to another dimension which has a strong bearing on the options facing us or any other new producer of oil. If we are to contemplate the ability to control rates of depletion of oil and gas, this means taking powers to do so—every producing country does this.

At the moment our principal method of exercising choice has been in the timing and extent of licensing rounds. To this we must add the ability to control development and production. But the exercise of these powers must be harmonized both with the interests of the companies and the technical needs of maintaining and increasing recovery ratios. They will not be used in an arbitrary fashion. We are about to announce publicly how these powers will be used so that firms can plan sensibly and banks lend in the knowledge that their security will be safeguarded. We intend to minimize uncertainty about the Government's policy towards a great asset. We want to assure the maximum possible confidence about our intentions to those directly involved in the North Sea, to their creditors and our trading partners, but above all to the British people. We shall, therefore have regard to the interest of companies who have invested or who are contemplating investment in offshore oil. We must have regard to the interests of banks, who may be called upon to finance development. We must have regard to the industries supplying equipment. As I have said earlier, we intend to leave the companies a rate of return on their investment sufficient to keep them active in the North Sea and commensurate with the risks involved in these operations.

I should now like to make some brief reference to the International Energy Agreement—to be signed in a few days' time—in which most

of the major oil consuming countries will now be participating. We welcomed the initiative of Dr. Kissinger last year which resulted in the Washington Energy Conference being held. We welcomed too, the setting up at that Conference of the Energy Co-ordinating Group which has now resulted in this Agreement. We can derive some comfort that an Agreement of such complexity and detail should have been worked out in the space of nine short months and adhered to by so many countries.

The arrangements provide participants with equal ability to withstand the effects of major oil shortages for a very long period with the minimum of economic sacrifice. As you know, the Agreement provides a framework for further co-operation on energy conservation, the development of alternative sources of energy and related matters. And there are arrangements too for promoting co-operation between consumer and producer countries. We shall be looking for opportunities for purposeful discussions as well as for other forms of co-operation.

The British Government has always supported strongly the concept of international co-operation to deal with world energy problems, because it is clear that these can only be effectively tackled on a multinational basis. Even though we shall be self-sufficient in oil by the end of the decade, this co-operation is just as important for the UK as for other participants in the Agreement. It is vital to our economic interests that our trading partners should be strong. The Agreement gives powerful protection to the economies of all participants and that is why the Agreement is important to us.

May I sum up what was—because of the complexities of the problems—an unavoidably longish exposition.

We are determined—following the Manifesto on which we fought and won the recent election—to secure a large share for the nation of the discovery of British Shelf oil and gas. We shall, however, within this framework encourage oil companies to continue, indeed increase their activities in our waters, the excellence and inventiveness of whose activities we are the first to acknowledge. We have chosen participation as the main vehicle of a closer involvement in the work of exploration and development in order to secure knowhow and enable us to get automatic first hand information on production costs and financial results. To fashion the means of implementation of this policy we shall form a British National Oil Corporation which will administer the public share in the great licensee consortia. Our tax and depreciation policy will be conceived so as to enable the oil companies to face the future with confidence and benefit fairly from past and future effort.

We shall in this way contribute to the restoration of the balance of the international energy market which has been disturbed, indeed shaken, by the sudden price-hike of OPEC. In the meantime we are eager to participate in international physical and financial monetary arrangements to mitigate the immediate and unprecedented problems which have arisen as a result of that policy.

If my contribution to this expert forum has helped to a greater understanding and confidence in my Government's intentions and policies I shall be gratified.

APPENDIX B

Extracts from a statement by Paymaster General Edmund Dell
on the oil taxation bill in the House of Commons on November 13, 1974

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EXTRACTS FROM A STATEMENT BY PAYMASTER GENERAL EDMUND DELL
ON THE OIL TAXATION BILL IN THE HOUSE OF COMMONS ON
NOVEMBER 13, 1974

There are a number of matters about which I have to inform the House. I want to tell the House about the Oil Taxation Bill.

The Bill is intended to achieve two main purposes. First, it makes certain amendments to the corporation tax treatment of the profits of oil companies. Second, it introduces a new tax on North Sea profits—the petroleum revenue tax. I discuss the corporation tax amendments first.

The corporation tax amendments are again of two kinds. There are those primarily concerned with the profits of the oil companies in their trade outside the North Sea and there are those concerned directly with North Sea profits. Both kinds of amendments follow directly from the report of the Public Accounts Committee on North Sea Oil and Gas.

I deal first with those primarily concerned with the profits of the oil companies in their trade outside the North Sea.

The Finance Bill will amend the general transfer pricing legislation in Section 485 of the Income and Corporation Taxes Act 1970 so as to increase its effectiveness. Experience has shown that it is not difficult for a group to construct arrangements under which buying and selling companies, though not in fact at arm's length, are not "controlled" for the purpose of the section. A broader definition of "control" will therefore be introduced, together with adequate information powers for the operation and enforcement of the rules. That will be in the Finance Bill.

The Oil Taxation Bill will extend the scope of the transfer pricing legislation in relation to the petroleum industry to cover transactions between a United Kingdom resident company and an associate company wherever resident. At the moment Section 485 specifically does not apply to sales between two associates both resident in the United Kingdom and liable to tax on the profits from dealing in the property sold. It does not, therefore, apply to the situation where Middle East oil is sold at posted prices by a production company to a marketing company both of which are resident in the United Kingdom, and subject to tax on their profits.

Under the new legislation, if any such transactions take place at artificial transfer prices a realistic arms length price will be substituted. The concept of "arms length" price will also be clarified to meet the special circumstances of the oil industry. Following an announcement to that effect in the Budget introduced in March 1973 by the then Chancellor, the oil companies are expecting that strengthened transfer price provisions will apply from 1st January 1973, and this will be the effective date of the legislation that will be introduced.

The White Paper of 11th July introduced by the Secretary of State for Energy referred to the artificial losses which the oil companies had accumulated up to 31st December 1972 when the new transfer pricing rules take effect. It was proposed that these losses should be cancelled and that corresponding limitations should be imposed on the use of capital allowances for expenditure already incurred outside the Continental Shelf. This proposal raises particularly complex technical questions and we have decided to postpone the legislation until the spring Finance Bill so as to allow time to consider the problems further and to produce a workable solution.

I turn now to the Corporation Tax amendments concerned with profits from North Sea oil. It has already been announced that there will be a ring fence for corporation tax purposes round the profits from the United Kingdom, territorial waters and the Continental Shelf, so that they will not be reduced by allowances and losses from extraneous activities. These measures will apply to group relief and to similar set-offs within a single company and a company with losses or excess allowances will not be able to use them to claim payment of the imputation tax credit on dividends received from a company within its group and paid out of North Sea profits. The ring fence will apply to accounting periods ending after 11th July 1974.

I hope that it will generally be agreed that the corporation tax yield from the North Sea, which will be substantial in amount, should not be at risk of companies bringing all sorts of activities and expenditure into the United Kingdom tax net merely so as to get relief against North Sea profits. However, the ring fence will face only one-way: losses and allowances resulting from activities on the Continental Shelf will still be able to be set against profits from activities elsewhere.

The then Financial Secretary to the Treasury, the hon. Member for Worthing (Mr. Higgins), in reply to a debate on a report from the Public Accounts Committee in December 1973, said that it was not the intention of the then Government to take the action that I have just described, but we intend to take it.

I now turn to the petroleum revenue tax. It has been clear for some time, perhaps since the Public Accounts Committee Report, that the oil companies themselves, for the most part, accept the need for an additional tax on North Sea profits if the United Kingdom is to secure a fairer share of the benefits from the Continental Shelf and to maximise the gain to the balance of payments. I do not think anyone will have any difficulty in agreeing with this view. It is indeed necessary. The rules and structure of the tax will be set out in the Bill. As the Bill will be published next week, I think it is reasonable to ask the House to wait for publication for the details of this tax, but I will now set out the general scheme.

The tax will apply to the winning of hydrocarbons under licence in the United Kingdom and under the United Kingdom territorial waters and Continental Shelf. It will not apply to refining or other processing of oil and gas. For the purpose of the tax, allowable expenditure in a field will be available to be set against receipts from that field when it is incurred, subject to the procedures for claiming relief, and there will be relief for abortive expenditure. Certain capital expenditure, including capital expenditure on production and transportation will qualify for an unlift of 50 percent, but no allowance will be made for

interest. This allowance of 150 percent of capital expenditure is a substantial benefit to company cash flows. The tax will be a taxation prior charge on the profits—in other words, it will stand in front of corporation tax and will be deductible in computing profits for corporation tax purposes.

The tax will apply to oil and gas, but there will be special provisions for fields already in production, including the Southern Basin gas fields. Allowance will be made for past costs, but no account will be taken of pre-Budget day receipts from oil or gas.

The oil companies may have objections to aspects or details of the structure of the tax. The Government will certainly listen to and consider anything that they have to say. But I must make clear that the prior charge aspect and the field-by-field basis are fundamental elements in the conception of the tax.

The Bill will not state the rate of tax. The House will be asked to approve the rate in the Finance Bill next spring. But that does not mean that the announcement of the rate will necessarily have to wait till then. On the contrary, from the point of view of the oil companies, the sooner the uncertainties about the new tax can be resolved, the better. But this is new ground for all of us. Here we have an important new tax on profits, of which we have as yet no experience to guide us. It is designed to ensure that a proper share of the profits comes to the community as a whole, and also that the balance of payments benefits fully from the development of the major national resource represented by North Sea oil.

However, it is a tax which does not exist in isolation. The Government "take" from the revenues of the oil companies will now have four components: the existing royalties; corporation tax, computed in the normal way, but modified by the changes which I have indicated; the new petroleum revenue tax; and where applicable, the proceeds of direct State participation in oil licences, to be freely negotiated with the oil companies in the next few months.

Clearly, the oil companies are concerned as soon as possible to know their net position after all these different factors have been taken into account. The Government have already made their own calculations. We therefore have our own ideas about the appropriate rate. But there are still uncertainties in the picture. These arise, not from the nature of the tax system or of the other related changes, but from the physical facts of exploration in the North Sea and from the nature of the oil business.

There has been a good deal of comment recently, in the Press and elsewhere, about the increasing costs of North Sea development. Some of this simply reflects the increase in the level of prices generally. Some of it may represent an increase in real or constant price terms, due to previous over-optimism about the sheer technical difficulty of winning oil in such inhospitable waters.

We need to take into account the likely range of the various estimates in fixing the initial rate for the new tax. So, before the rate is finally settled, I intend to have further early and detailed discussions with the oil companies about their present and future level of costs, and about the effect of the tax proposals on the future profitability of North Sea operations.

APPENDIX C

Text of the British Government's proposed oil taxation bill and an Inland Revenue Press Release summarizing its provisions, as published November 19, 1974

Appendix O

Text of the British Government's proposed oil taxation bill and an
Ireland Revenue Press Release summarizing its provisions, as pub-
lished November 19, 1974

OIL TAXATION

A BILL to impose a new tax in respect of profits from substances won or capable of being won under the authority of licences granted under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964; to make in the law relating to income tax and corporation tax amendments connected with such substances or with petroleum companies; and for connected purposes.

ARRANGEMENT OF CLAUSES

PART I

PETROLEUM REVENUE TAX

Clause

1. Petroleum revenue tax.
2. Assessable profits and allowable losses.
3. Allowance of expenditure (other than expenditure on long-term assets and abortive exploration or development expenditure).
4. Allowance of expenditure on long-term assets.
5. Allowance of abortive exploration expenditure.
6. Allowance of abortive development expenditure.
7. Relief for allowable losses.
8. Interpretation of Part I.

PART II

PROVISIONS RELATING TO THE EXTRACTION OF PETROLEUM IN THE UNITED KINGDOM OR A DESIGNATED AREA

9. Treatment of oil extraction activities etc. for purposes of income tax and corporation tax.
10. Valuation of oil disposed of or appropriated to refining or other processing in certain circumstances.
11. Oil extraction activities etc.: charges on income.
12. Oil extraction activities etc.: restriction on setting advance corporation tax against income therefrom.
13. Corporation tax: deduction of petroleum revenue tax in computing income.
14. Interpretation of Part II.

PART III

MISCELLANEOUS AND GENERAL

15. Modification of certain provisions in relation to petroleum companies.
16. Citation, interpretation and construction.

SCHEDULES

Schedule 1—Determination of oil fields.

Schedule 2—Management and collection of petroleum revenue tax.

Schedule 3—Petroleum revenue tax: miscellaneous provisions.

Schedule 4—Provisions supplementary to sections 3 and 4.

Schedule 5—Allowance of expenditure (other than abortive exploration or development expenditure).

Schedule 6—Allowance of abortive exploration expenditure.

Schedule 7—Allowance of abortive development expenditure.

Schedule 8—Extension of section 485 of Taxes Act in relation to petroleum companies.

Most Gracious Sovereign,

We, Your Majesty's most dutiful and loyal subjects, the Commons of the United Kingdom in Parliament assembled, towards raising the necessary supplies to defray Your Majesty's public expenses, and making an addition to the public revenue, have freely and voluntarily resolved to give and grant unto Your Majesty the new tax hereinafter mentioned and to make such other provision as is hereinafter contained; and do therefore most humbly beseech Your Majesty that it may be enacted, and be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

PART I

PETROLEUM REVENUE TAX

1.—(1) A tax, to be known as petroleum revenue tax, shall be charged in accordance with this Part of this Act in respect of profits from oil won under the authority of a license granted under either the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964; and in this Part of this Act "oil" means any substance so won or capable of being so won other than methane gas won in the course of operations for making and keeping mines safe.

(2) For each oil field the tax shall, in the case of each participator, be charged at such rate as Parliament may hereafter determine on the assessable profit accruing to him in any chargeable period from that field, as reduced under section 7 of this Act by any allowable losses.

(3) In relation to any oil field—

(a) the first chargeable period is the period ending at the end of the critical half year (including an unlimited time prior to the beginning of that half year); and

(b) each subsequent half year is a chargeable period.

(4) In this section—

"the critical year", in relation to an oil field, means the first half year ending after 12th November 1974 at the end of which the total amount of oil ever won and saved from the field exceeds 1,000 long tons (counting 40,000 cubic feet of gas at a temperature of 15 degrees centigrade and pressure of one atmosphere as equivalent to one long ton);

"half year" means a period of six months ending at the end of June or December.

(5) Schedule 1 to this Act shall have effect with respect to the determination of oil fields, and Schedule 2 to this Act shall have effect with respect to the management and collection of the tax; and this Part of this Act shall have effect subject to the further provisions in Schedule 3 to this Act.

2.—(1) For the purposes of the tax the assessable profit or allowable loss accruing to a participator in any chargeable period from an oil field shall be computed in accordance with the following provisions of this section.

(2) The assessable profit or allowable loss so accruing in the period is the difference (if any) between the sum of the positive amounts for the period and the sum of the negative amounts for the period; and that difference (if any) is an assessable profit if the sum of the positive amounts is greater than the sum of the negative amounts, and is otherwise an allowable loss.

(3) For the period—

(a) the positive amounts for the purposes of this section are the following (as defined in this section), namely the gross profit (if any) accruing to the participator in the period, his license credit (if any) for the period, and any amount to be credited to him for the period in respect of expenditure; and

(b) the negative amounts for those purposes are the following (as so defined) namely the gross loss (if any) so accruing, his license debit (if any) for the period, and any amount to be debited to him for the period in respect of expenditure.

(4) The gross profit or loss (if any) accruing to the participator in the period is the difference (if any) between—

(a) the aggregate of the amounts mentioned in subsection (5) below; and

(b) two-thirds of the market value, at the end of the preceding chargeable period, of so much of his share of oil won from the field as he had then either—

(i) not disposed of and not appropriated to refining or other processing; or

(ii) disposed of but not delivered,

and the difference (if any) is a gross profit if the said aggregate is greater than two-thirds of the said market value, and is otherwise a gross loss.

(5) The amounts referred to in subsection (4) (a) above are—

(a) the price received or receivable for so much of any oil won from the field and disposed of by him crude in sales at arm's length as was delivered by him in the period (excluding oil delivered before 13th November 1974);

(b) the market value, three months before the end of the period, of so much of any oil so won and disposed of by him crude otherwise than in sales at arm's length as was delivered by him in the period (excluding oil delivered before 13th November 1974);

(c) the market value, three months before the end of the period, of so much of any oil so won as was appropriated by him in the period to refining or other processing without being disposed of (excluding oil so appropriated before 13th November 1974); and

(d) two-thirds of the market value, at the end of the period, of so much of his share of oil so won as he had then either—

(i) not disposed of and not appropriated to refining or other processing; or

(ii) disposed of but not delivered.

(6) The participator's licence debit or credit (if any) for the period is the difference (if any) between—

(a) the sum of the amounts mentioned in subsection (7) below; and

(b) the sum of—

(i) the amount taken into account under paragraph (a) of that subsection in computing his licence debit or credit for the preceding chargeable period; and

(ii) the amount of any royalty repaid to the participator in the period in respect of the field;

and the difference (if any) is a licence debit if the sum mentioned in paragraph (a) above is greater than the sum mentioned in paragraph (b) above, and is otherwise a licence credit.

(7) The amounts referred to in subsection (6) (a) above are—

(a) the amount shown in the return for the period made under paragraph 2 of Schedule 2 to this Act as the amount of royalty payable for the period in respect of the participator's share of oil won from the field;

(b) the amount of royalty paid in the period in respect of that share; and

(c) any amount paid in the period in respect of any periodic payment payable to the Secretary of State under any relevant licence otherwise than by way of royalty.

(8) The amount (if any) to be debited or credited to the participator for the period in respect of expenditure is the difference (if any) between—

(a) the sum of the amounts mentioned in subsection (9) below; and

(b) subject to subsection (10) below, any amount taken into account under paragraph (a) of the said subsection (9) in computing the assessable profit or allowable loss accruing to the participator in the last but one preceding chargeable period;

and that difference (if any) is an amount to be debited as aforesaid if the sum mentioned in paragraph (a) above is greater than the amount mentioned in paragraph (b) above, and is otherwise an amount to be credited as aforesaid.

(9) The amounts referred to in subsection (8) (a) above are—

(a) subject to subsection (11) below, an amount equal to 5 per cent of the aggregate of—

(i) the sum of the amounts which, in the participator's return under paragraph 2 of Schedule 2 to this Act for the period, are, in the case of deliveries falling within sub-paragraph (2) (a) of that paragraph, stated to be the price received or receivable for the oil or, as the case may be, its market value three months before the end of the period; and

(ii) the sum of the amounts which, in that return, are, in the case of appropriations falling within sub-paragraph (2)

(b) of that paragraph, stated to be the market value of the oil three months before the end of the period;

(b) the participator's share, as determined on a claim under Schedule 5 to this Act, of the aggregate of—

(i) any expenditure allowable under section 3 or 4 of this Act for the field which has been allowed on such a claim before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field; and

(ii) an amount equal to 50 per cent. of so much of that expenditure as has been so allowed on such a claim as qualifying for supplement under this sub-paragraph by virtue of subsection (4) of the said section 3.

so far as that share has not been taken into account in any previous assessment to tax or determination;

(c) any abortive exploration expenditure allowable in the case of the participator under section 5 of this Act which on a claim made by him under Schedule 7 to this Act has been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as that expenditure has not been taken into account in any previous assessment to tax or determination; and

(d) any abortive development expenditure allowable in the case of the participator under section 6 of this Act which on a claim made by him under Schedule 7 to this Act has been allowed under that Schedule before the Board have made an assessment to tax or a determination on or in relation to him for the period in respect of the field, so far as that expenditure has not been taken into account in any previous assessment to tax or determination; and

(10) If, for the period, the expenditure falling within paragraph (b) (i) of subsection (9) above includes an amount of expenditure ("the relevant amount") incurred in the preceding chargeable period, then—

(a) the amount which would otherwise be taken into account under subsection (8) (b) above for the first-mentioned period shall be increased by the smaller of the following amounts, namely the relevant amount and the amount (if any) taken into account under paragraph (a) of subsection (9) above in computing the assessable profit or allowable loss accruing to the participator in the preceding chargeable period; and

(b) the amount which would otherwise be taken into account under subsection (8) (b) above for the chargeable period following the first-mentioned chargeable period shall be reduced by an amount equal to that increase.

(11) If, for the period, the expenditure falling within paragraph (b) (i) of subsection (9) above includes an amount of expenditure incurred in the period, the amount mentioned in paragraph (a) of that subsection shall be reduced by that amount.

3.—(1) Subject to the provisions of this section and Schedules 4 and 5 in this Act, the expenditure allowable under this section for any oil field is any expenditure (whether or not of a capital nature) which, not being expenditure to which section 4 of this Act applies, is incurred by a person at or before the time when he is a participator in the field to the extent that it is incurred for one or more of the following purposes, namely—

(a) searching for oil anywhere within the area of the field as subsequently determined under Schedule 1 to this Act or not more than 1,000 metres beyond the boundary of that area;

(b) making to the Secretary of State any payment under or for the purpose of obtaining a relevant licence, not being a payment by way of royalty or other periodic payment;

(c) ascertaining (whether before or after the determination of the field under Schedule 1 to this Act) the extent or characteristics of any oil-bearing area wholly or partly included in the field, or what reserves of oil of any such oil-bearing area are;

(d) winning oil from the field;

(e) measuring the quantity of oil won or to be won from the field;

(f) in the case of oil won from strata in the sea bed and subsoil of either, the territorial sea of the United Kingdom or a designated area, transporting it to the place where it is first landed in the United Kingdom;

(g) closing down the field or any part of it, but only if and to the extent that the expenditure is incurred for the purpose of complying with a requirement imposed by or under any relevant licence or any enactment, being a requirement relating to safety or the prevention of pollution.

(2) Expenditure is not allowable under this section for any oil field if, or to the extent that, it has been allowed under Schedule 5 to this Act for any other oil field.

(3) The expenditure allowable under this section for any oil field does not include—

(a) expenditure in respect of interest or any other pecuniary obligation incurred in obtaining a loan or any other form of credit; or

(b) the cost of acquiring any land or interest in land, other than the cost of making to the Secretary of State any payment falling within subsection (1) (b) above; or

(c) the cost of acquiring or erecting any building or structure on land, except—

(i) a structure to be subsequently placed on the sea bed of either the territorial sea of the United Kingdom or a designated area; or

(ii) a building or structure used or to be used wholly in the process of winning oil from strata in or under land or of measuring quantity of oil won or to be won from such strata; or

(d) any expenditure wholly or partly depending on or determined by reference to the quantity, value or proceeds of, or the profits from, oil won from the field; or

(e) any payment made for the purpose of obtaining a direct or indirect interest in oil won or to be won from the field, other than a payment made to the Secretary of State.

(4) Expenditure allowable under this section for an oil field qualifies for supplement under section 2(9) (b) (ii) of this Act if and to the extent that it is incurred for one or more of the following purposes, namely—

(a) bringing about the commencement of the winning of oil from the field or the commencement of the transporting of oil won from it to the United Kingdom;

(b) ascertaining (whether before or after the determination of the field under Schedule 1 to this Act) any of the matters mentioned in subsection (1) (c) above; or

(c) carrying out works for substantially improving the rate at which oil can be won or transported to the United Kingdom from the field, or for preventing or substantially reducing a decline in that rate:

Provided that expenditure incurred in hiring any asset shall not so qualify.

(5) For the purposes of subsections (1) and (4) above expenditure incurred partly for one or more of the purposes there mentioned and partly not shall be apportioned in such manner as is just and reasonable.

(6) In this section "enactment" includes an enactment of the Parliament of Northern Ireland and any provision of a Measure of the Northern Ireland Assembly, and also includes any provision of any regulations, order, scheme, bye-laws or similar instrument made under an enactment.

4.—(1) This section applies to expenditure (whether or not of a capital nature) which is incurred by a person at or before the time when he is a participator in an oil field, being expenditure incurred in acquiring an asset which, or any interest in an asset which, is to be or is subsequently used in connection with the field and whose useful life continues after the end of the claim period in which it is first so used:

Provided that this section shall not apply to expenditure incurred in acquiring an asset or interest in any case where the Board consider that its application to that expenditure would have only a negligible effect on the total expenditure allowable under this Part of this Act for the field and so notify the responsible person.

(2) The following provisions of this section are subject to Schedules 4 and 5 to this Act.

(3) In the case of an asset other than a brought-in asset, the whole of the expenditure shall (subject to the following provisions of this section) be allowable under this section on a claim under Schedule 5 to this Act for the first relevant claim period if, but only if—

(a) after the acquisition of the asset or interest, the asset was in that period used (if at all) only in connection with the field; and

(b) at the end of that period it was reasonable to assume that the asset would from then until the end of its useful life be used only in connection with the field; and

(c) the asset is not a mobile asset.

(4) If the asset is a brought-in asset or if, in the case of an asset other than a brought-in asset, the whole of the expenditure is not by virtue of subsection (3) above allowable on a claim for the first relevant claim period, subsections (5) and (6) below shall apply as regards that claim period.

(5) Subject to the following provisions of this section, a proportion of the expenditure shall be allowable under this section on a claim for the first relevant claim period, and that proportion is—

(a) if at the end of that period, a reasonable estimate can be made of the proportion which the time during which the asset will eventually have been used in connection with the field in the period between its first use in that connection and the date on which its useful life is reasonably likely to end bears to the time between the acquisition of the asset or interest and that date, the same proportion as that estimated proportion;

(b) in any other case, the proportion which the time during which the asset has been used in that connection in the period between its first use in that connection and the end of the first relevant claim period bears to the time between the acquisition of the asset or interest and the date when the asset's useful life is reasonably likely to end.

(6) In the case of a mobile asset the proportion of the expenditure allowable by virtue of subsection (5) above on a claim for the first relevant claim period shall not exceed the proportion which the time during which the asset was used in connection with the field in the period between its first use in that connection and the end of that claim period bears to the time between the acquisition of the asset or interest and the end of that claim period.

(7) Whether or not, the whole of the expenditure is by virtue of subsection (3) above allowable under this section on a claim for the first relevant claim period, for each subsequent claim period up to and including that in which use of the asset in connection with the field permanently ceases, the proportion of the expenditure allowable under this section for the relevant period shall be computed by applying the provisions of subsection (5) and (6) above with the omission of the words "on a claim" (wherever occurring) and the substitution of references to the relevant period for references to the first relevant claim period.

For the purposes of this subsection "the relevant period", in relation to a claim period, means the period consisting of that claim period and each earlier claim period back to and including that in which the expenditure was incurred.

(8) If, as computed under subsection (7) above for any claim period, the proportion of the expenditure allowable for the relevant period exceeds the amount thereof which (taking into account any previous adjustments made under the following subsection) has been allowed on claims made for earlier claim periods falling within the relevant period, the excess shall be allowable under this section on a claim for that claim period.

(9) If, as computed under subsection (7) above for any claim period, the proportion of the expenditure allowable for the relevant period is exceeded by the amount thereof which (taking into account any previous adjustments made under this subsection) has been allowed on claims made for earlier claim periods falling within the relevant period, the total amount of expenditure allowable under this and the preceding section on a claim for the first-mentioned claim period shall be reduced by an amount equal to the excess.

(10) Subsections (2) to (4) of section 3 of this Act shall apply for the purposes of this section as they apply for the purposes of that section; and where in accordance with subsection (9) above the total amount of the expenditure allowable under this and the preceding section on a claim for any claim period is reduced, the amount failing to be taken into account under section 2(9)(b)(ii) of this Act by reference to that expenditure shall be reduced by a proportion equal to the proportion by which the total amount of that expenditure is so reduced.

(11) For the purposes of subsections (5) and (6) above (including those subsections as they apply under subsection (7) above) an asset which is throughout any period of time simultaneously used partly in connection with the field and partly otherwise shall be treated as being in connection with the field for a proportion of that period equal to the proportion which the extent of its use in the period in that connection bears to the extent of its use in the period in that connection and otherwise.

(12) For the purposes of this section—

(a) the asset is a brought-in asset if, between the time when the expenditure was incurred and the first use of the asset in connection with the field, the asset was used otherwise than in connection with the field; and

(b) “the first relevant claim period”—

(i) in the case of a brought-in asset, means the claim period in which the asset was first used in connection with the field; and

(ii) in the case of an asset other than a brought-in asset, means the claim period in which the expenditure was incurred.

5.—(1) Subject to the following provisions of this section and Schedule 6 to this Act, the abortive exploration expenditure allowable in the case of a person who is a participator in an oil field is any expenditure (whether or not of a capital nature) incurred on or after 1st January 1960 which—

(a) was incurred by that person or, if that person is a company, by that company or a company associated with it in respect of the expenditure; and

(b) was incurred wholly and exclusively for the purpose of searching for oil in the United Kingdom, the territorial sea thereof or a designated area; and

(c) is not and cannot become allowable under section 3 or 4 of this Act for any oil field,

but so that any expenditure to which subsection (2) below applies shall not be allowable under this section except to the extent that it falls by virtue of that subsection to be treated as incurred wholly and exclusively for the purpose mentioned in paragraph (b) above.

(2) Where any person has incurred expenditure in acquiring an asset which, or any interest in an asset which, is subsequently used by him for the purpose mentioned in paragraph (b) of subsection (1) above, then, if the useful life of the asset continues after the end of the twelve months beginning with the day on which he acquired the asset or interest, he shall be treated for the purposes of that subsection as having incurred wholly and exclusively for that purpose a fraction of

that expenditure on each day on which the asset is used by him wholly and exclusively for that purpose, and that fraction is the fraction of which the numerator is 1 and the denominator is the greater of the following numbers, namely 3650 or the number of days in the period beginning with the day on which he acquired the asset or interest and ending with the day on which the asset's useful life is reasonably likely to end.

(3) Subsection (3) of section 3 of this Act, shall apply for the purposes of this section with the following modifications, that is to say—

(a) in paragraph (c) the words from “except” to “such strata” shall be omitted;

(b) paragraph (d) shall be omitted; and

(c) in paragraph (e), the reference to oil won or to be won from the field shall be read as a reference to oil won or to be won from any area whatsoever.

(4) Paragraph 2 of Schedule 4 to this Act shall, with the omission of sub-paragraph (2) (b) and (c), apply in relation to this section as it applies in relation to sections 3 and 4 of this Act.

(5) Where any expenditure which would otherwise be allowable under this section gives rise to the receipt of any sum (whether or not of a capital nature) by the person who incurred the expenditure or any person connected with him, the expenditure allowable under this section shall be reduced by an amount equal to that sum.

(6) For the purposes of this section—

(a) “company” means any body corporate;

(b) section 533 of the Taxes Act (connected persons) shall apply; and

(c) a company which is a participator in an oil field is associated with another company in respect to expenditure incurred by the other company if—

(i) throughout that part of the relevant period in which both were in existence one was a 75 per cent subsidiary of the other and the other was not a 51 per cent subsidiary of any company; or

(ii) each of them was, throughout that part of the relevant period in which it was in existence, a 75 per cent subsidiary of a third company which was not itself a 51 per cent subsidiary of any company.

(7) For the purposes of subsection (6) (c) above—

(a) “the relevant period” is the period beginning immediately before the expenditure was incurred and ending with the end of the first chargeable period for the oil field in question; and

(b) section 532 of the Taxes Act (subsidiaries) shall apply.

6.—(1) Subject to Schedule 7 to this Act, the abortive development expenditure allowable in the case of a person who is a participator in an oil field is the relevant part of the expenditure mentioned in the following subsection.

(2) The expenditure referred to in subsection (1) above is—

(a) any expenditure which has been allowed under Schedule 5 to this Act on a claim for another oil field, being a field from

which the winning of oil permanently ceased before the total amount of oil ever won and saved from it reached the amount by reference to which the critical half year is defined in section 1(4) of this Act;

increased by—

(b) an amount equal to the relevant percentage of so much (if any) of that expenditure as was allowed on that claim as qualifying for supplement under section 2(9)(b)(ii) of this Act.

(3) For the purposes of this section—

(a) the relevant part of the expenditure referred to in subsection (1) above is the sum of—

(i) the participator's share, if any, of that expenditure (as determined under Schedule 5 to this Act) being a share to which he became entitled as a participator in the other field; and

(ii) if the participator is a company, the share, if any, of that expenditure (as so determined) which is the share of a company associated with it in respect of that expenditure, being a share to which the company so associated became entitled as a participator in the other field;

(b) "the relevant percentage" means the percentage mentioned in section 2(9)(b)(ii) of this Act;

(c) "company" means any body corporate;

(d) subsections (6)(c) and (7) of section 5 of this Act shall apply for the purposes of this section (the reference in the said subsection (7) to the oil field in question being read for this purpose as a reference to the oil field first mentioned in subsection (1) above).

7.—(1) Where the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field, then, subject to the following provisions of this section, the assessable profit accruing to him from the field in any succeeding chargeable period shall be treated as reduced by the amount of that allowable loss, or by so much of that amount as cannot, under this subsection or on a claim (if made) under subsection (2) below, be relieved against the assessable profit accruing to him from the field in any earlier chargeable period.

(2) Where the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field, the participator may make a claim requiring that the loss be in the first instance set against any assessable profit which accrued to him from the field in the two preceding chargeable periods; and the assessable profit which so accrued to him in either of those periods shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this subsection against any assessable profit accruing to him from the field in the later of those periods.

(3) Where—

(a) the Board have determined under Schedule 2 to this Act that an allowable loss has accrued to a participator in a chargeable period from an oil field; and

(b) the winning of oil from that field has permanently ceased, then so much of that allowable loss as cannot under subsection (1) or (2) above be relieved against assessable profits accruing to the participator from the field shall be relieved under this subsection by treating the assessable profit accruing to him from the field in any chargeable period as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this section against the assessable profit so accruing to him in a later chargeable period.

8.—(1) In this Part of this Act—

“chargeable period”, in relation to an oil field, has the meaning given by section 1(3) of this Act;

“claim period”, in relation to an oil field, has the meaning given by paragraph 1 of Schedule 5 to this Act;

“determination”, in a context relating to an assessment or determination on or in relation to a participator, means a determination under Schedule 2 to this Act that a loss is allowable to him or that neither an assessable profit nor an allowable loss has accrued to him;

“land” includes land in the United Kingdom covered with water;

“licence” means a licence under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964 authorising the winning of oil, and “licensee” and “licensed area” shall be construed accordingly;

“oil” has the meaning given by section 1(1) of this Act;

“oil field” shall be construed in accordance with Schedule 1 to this Act;

“participator” (except in paragraph 4 of Schedule 2 to this Act) means, in relation to an oil field and any chargeable period—

(a) a person who is or was at any time in that chargeable period a licensee in respect of any licensed area then wholly or partly included in the field; and

(b) a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field, but who was such a licensee at any time in either of the two chargeable periods preceding that chargeable period; and

(c) a person who is no longer a licensee in respect of any licensed area wholly or partly included in the field (and who does not fall within paragraph (b) of this definition), but who has or had at any time in that chargeable period a share of oil won (whether or not in that period) from the field, being a share with respect to any part of which either of the following conditions is or was satisfied at that time, that is to say—

(i) he has or had neither disposed of that part nor appropriated it to refining or other processing; or

(ii) he has or had disposed of, but not delivered, that part;

“relevant licence”, in relation to a participator in an oil field, means any licence held or previously held by him in respect of a licensed area wholly or partly included in the field;

“the responsible person”, in relation to an oil field, has the meaning given by paragraph 4 of Schedule 2 to this Act;

“royalty”, in relation to a participator in an oil field, means royalty payable to the Secretary of State under any relevant licence;

“tax” or “the tax” means petroleum revenue tax.

(2) In this Part of this Act any reference to the use of an asset in connection with an oil field is a reference to its use in connection with that field for one or more of the purposes mentioned in section 3(1) of this Act (excluding section 3(1)(b)).

(3) In this Part of this Act any reference (however worded) to the doing of anything in a chargeable period in connection with an oil field or with oil won from an oil field shall, as regards the first chargeable period for any oil field, be construed as including the doing of that thing in connection with the area of the field as subsequently determined under Schedule 1 to this Act or, as the case may be, with oil won from that area.

(4) In so far as a person is a participator in an oil field by virtue of a license under the Petroleum (Production) Act (Northern Ireland) 1964, references in this Part of this Act to the Secretary of State (except references in Schedule 1 or paragraph 3 of Schedule 3) shall be construed in his case as references to the Department of Commerce for Northern Ireland.

PART II

PROVISIONS RELATING TO THE EXTRACTION OF PETROLEUM IN THE UNITED KINGDOM OR A DESIGNATED AREA

9.—(1) Where a person carries on as part of a trade—

(a) any oil extraction activities; or

(b) any of the following activities, namely the acquisition, enjoyment or exploitation of oil rights; or

(c) activities of both those descriptions,

those activities shall be treated for all purposes of income tax, and for the purposes of the charge of corporation tax on income, as a separate trade, distinct from all other activities carried on by him as part of the trade.

(2) Relief in respect of a loss incurred by a person shall not be given under section 168 or 177(2) of the Taxes Act against income arising from oil extraction activities or from oil rights except to the extent that the loss arises from such activities or rights.

(3) Subject to the following subsection, a capital allowance which is to be given by discharge or repayment of tax shall not to any extent be given effect under section 71 or 74 of the Capital Allowances Act 1968 by deduction from or set off against income arising from oil extraction activities or from oil rights.

(4) The preceding subsection shall not apply to a capital allowance such as is there mentioned which falls to be made to a company for any accounting period in respect of an asset used in the relevant accounting period by a company associated with it and so used in carrying on oil extraction activities.

For the purposes of this subsection the relevant accounting period is that in which the allowance in question first falls to be made to the company (whether or not it can to any extent be given effect in that period under section 74(1) of the Capital Allowances Act 1968).

(5) On a claim for group relief made by a claimant company in relation to a surrendering company, group relief shall not be allowed against income of the claimant company arising from oil extraction activities or from oil rights except to the extent that the claim relates to losses incurred by the surrendering company that arose from such activities or rights.

(6) Subsection (1) above shall have effect as regards chargeable periods ending after 11th July 1974; subsections (2) and (5) above shall have effect as regards claims for relief in respect of chargeable periods so ending; and subsection (3) above, with subsection (4), shall have effect as regards capital allowances falling to be made for chargeable periods so ending.

10.—(1) Where a person disposes of any oil in circumstances such that the market value of that oil at a particular time falls to be taken into account under section 2 of this Act in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to him in any chargeable period from an oil field, then for all purposes of income tax, and for the purposes of the charge of corporation tax on income, the disposal of the oil and its acquisition by the person to whom it was disposed of shall be treated as having been for a consideration equal to the market value of the oil as so taken into account under section 2 of this Act.

(2) Where a person appropriates any oil to refining or other processing without disposing of it and does so in circumstances such that the market value of that oil at a particular time falls to be taken into account under section 2 of this Act in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to him in any chargeable period from an oil field, then for all purposes of income tax, and for the purposes of the charge of corporation tax on income, he shall be treated as having, at the time of the appropriation—

(i) sold the oil in the course of the separate trade consisting of activities falling within section 9(1)(a) or (b) of this Act; and

(ii) bought it in the course of the separate trade consisting of activities not so falling,

and as having so sold and bought it at a price equal to its market value as so taken into account under section 2 of this Act.

(3) Where a person disposes otherwise than in a sale at arm's length (as defined in paragraph 1 of Schedule 3 to this Act) of oil acquired by him in the course of oil extraction activities carried on by him or by virtue of oil rights held by him, then, if subsection (1) above does not apply in relation to the disposal, the following subsection shall apply in relation to it.

(4) For all purposes of income tax, and for the purposes of the charge of corporation tax on income, the disposal of the oil, and its acquisition by the person to whom it was disposed of shall be treated as having been for a consideration equal to the market value of the oil at the end of the first half of the accounting period in which the disposal was made.

(5) For the purposes of the preceding subsection "accounting period" means, in the case of a company, an accounting period of the company or, in the case of a person other than a company, a period for which his accounts have been made up; and paragraph 2 of Schedule 3 to this Act (definition of market value of oil) shall apply for the purposes of Part I of this Act, but with the following modifications, that is to say—

(a) for sub-paragraph (2)(b) there shall be substituted—

"(b) the contract is for the sale of the whole quantity of oil whose market value falls to be ascertained for the purposes of section 10(4) of this Act, and of no other oil."; and

(b) sub-paragraphs (3) and (4) shall be omitted.

(6) Section 485 of the Taxes Act (sales, etc. at undervalue or over-value) shall not apply in relation to any transaction in relation to which subsection (1) or (4) above applies.

11.—(1) Section 248 of the Taxes Act (allowance of charges on income) shall, as regards accounting periods ending after 11th July 1974, have effect subject to the following provisions of this section.

(2) Interest paid by a company shall not be allowable under the said section 248 as a deduction against that part of the profits of the company which consists of income arising from oil extraction activities or from oil rights except to the extent that it was payable in respect of money borrowed by the company otherwise than from a company associated with it and shown—

(a) to have been borrowed for the specific purpose of meeting expenditure incurred or to be incurred by the company in carrying on oil extraction activities or acquiring oil rights; and

(b) to be secured on assets used in or to be produced by such activities carried on by the company.

(3) If, as regards any interest paid by a company ("the paying company") to a company associated with it, it is shown—

(a) that the interest was paid by way of reimbursement of interest on money borrowed by that or any other company associated with the paying company otherwise than from a company so associated; and

(b) that the conditions mentioned in paragraphs (a) and (b) of subsection (2) above are satisfied as regards the money so borrowed in relation to the paying company,

that subsection shall have effect as regards the first-mentioned interest as if the money in respect of which it was paid had been borrowed from the lender directly by the paying company.

(4) Where a company pays to a company associated with it a charge on income not consisting of a payment of interest, the charge shall not be allowable to any extent under the said section 248 against that part of the profits of the first-mentioned company which consists of income arising from oil extraction activities or from oil rights.

12.—(1) Section 85 of the Finance Act 1972 (payments of advance corporation tax to be set against company's liability to corporation tax on its income) shall, as regards any distribution made by a company after 19th November 1974, have effect subject to the following provisions of this section.

(2) Where advance corporation tax is paid by a company ("the distributing company") in respect of any distribution made by it to a company associated with it—

(a) that advance corporation tax shall not be set against the distributing company's liability to corporation tax on any income of the distributing company arising from oil extraction activities or from oil rights; and

(b) if the benefit of any amount of that advance corporation tax is surrendered under section 92 of the Finance Act 1972 to a subsidiary of the distributing company, the corresponding amount of advance corporation tax which under that section the subsidiary is treated for the purposes of the said section 85 as having paid shall not be set against the subsidiary's liability to corporation tax on any income of the subsidiary arising from such activities or from oil rights.

(3) Where in the case of any accounting period of a company there is an amount of advance corporation tax which because of subsection (2) above is not available to be set against the company's liability to corporation tax for that period on income of the company arising from oil extraction activities or from oil rights, subsection (2) of the said section 85 (limit on amount of advance corporation to be set against liability to corporation tax under subsection (1) of that section) shall as regards that period have effect as if the reference to the company's income charged to corporation tax for that period were a reference to the company's income so charged exclusive of income so arising.

13.—(1) Where a participator in an oil field has paid any petroleum revenue tax with which he was chargeable for a chargeable period, then, in computing for corporation tax the amount of his income arising in the relevant accounting period from oil extraction activities or oil rights, there shall be deducted an amount equal to that petroleum revenue tax; and there shall be made all such adjustments of assessments to corporation tax as are required in order to give effect to this subsection.

For the purposes of this subsection the relevant accounting period, in relation to any petroleum revenue tax paid by a company, is the accounting period of the company in or at the end of which the chargeable period for which that tax was charged ends.

(2) If some or all of the petroleum revenue tax in respect of which a deduction has been made under subsection (1) above is subsequently repaid, that deduction shall be reduced or extinguished accordingly; and any additional assessment to corporation tax required in order to give effect to this subsection may be made at any time not later than six years after the end of the accounting period in which the first-mentioned tax was repaid.

(3) Where, because of a deduction made under subsection (1) above in computing for corporation tax the amount of a company's income of any kind, the amount of advance corporation tax which can be set against the company's liability to corporation tax for an accounting period is less than the amount of advance corporation tax which could have been set against that liability if the deduction had not been made, then, if a claim in that behalf is made by the company not later than two years after the end of that accounting period, an amount of ad-

vance corporation tax equal to the difference shall be repaid to the company.

(4) In this section the expressions "chargeable period," "oil field" and "participator" have the same meaning as in Part I of this Act.

14.—(1) In this Part of this Act—

"oil" means any substance won or capable of being won under the authority of a licence granted under either the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964, other than methane gas won in the course of operations for making and keeping mines safe;

"oil extraction activities" means any activities of a person—

(a) in extracting or causing to be extracted for him oil at any place in the United Kingdom or a designated area under rights held by him authorising the extraction; or

(b) in transporting or causing to be transported for him as far as dry land in the United Kingdom oil extracted at any such place not on dry land under rights held by him authorising the extraction;

"oil rights" means rights to oil to be extracted at any place in the United Kingdom or a designated area, or to interests in or to the benefit of such oil.

(2) For the purposes of this Part of this Act two companies are associated with one another if—

(a) one is a 51 percent, subsidiary of the other;

(b) each is a 51 percent, subsidiary of a third company; or

(c) one is owned by a consortium of which the other is a member;

and section 258(8) of the Taxes Act shall apply for the purposes of paragraph (c) above.

PART III

MISCELLANEOUS AND GENERAL

15.—(1) Schedule 8 to this Act shall have effect for the purpose of extending section 485 of the Taxes Act (sales, etc. at undervalue or overvalue) in its application to transactions by petroleum companies and shall apply in relation to—

(a) any transaction entered into after 31st December 1972; and

(b) any transaction entered into on or before that date and carried out wholly or partly after that date, unless carried out within the twelve months beginning with the date on which it was entered into.

(2) If and so far as the question in dispute on an appeal to the General Commissioners or, in Northern Ireland, to a county court against an assessment to tax made on a petroleum company as defined in the said Schedule 8 arises from a direction of the Board under the said section 485 and the assessment is for a chargeable period beginning after 31st December 1972, the question shall be referred to and determined by the Special Commissioners.

(3) Subsection (2) above is without prejudice to any other provision requiring questions in dispute on appeals to the General

Commissioners to be referred to and determined by the Special Commissioners.

16.—(1) This Act may be cited as the Oil Taxation Act 1974.

(2) In this Act—

“the Board” means the Commissioners of Inland Revenue;

“designated area” means an area designated by Order in Council under section 1(7) of the Continental Shelf Act 1964;

“the Taxes Act” means the Income and Corporation Taxes Act 1970.

(3) Parts II and III of this Act, so far as they relate to income tax, shall be construed as one with the Income Tax Acts and, so far as they relate to corporation tax, shall be construed as one with the Corporation Tax Acts.

(4) Except so far as the context otherwise requires, any reference in this Act to any enactment shall be construed as a reference to that enactment as amended, and as including a reference to that enactment as applied, by or under any other enactment, including this Act.

(5) Without prejudice to the generality of the preceding subsection, any reference in this Act to a licence granted under the Petroleum (Production) Act 1934 includes a reference to a licence granted under section 2 of that Act as applied by section 1(3) of the Continental Shelf Act 1964.

SCHEDULES

SCHEDULE 1

DETERMINATION OF OIL FIELDS

1.—(1) For the purposes of this Part of this Act an oil field is any area which the appropriate authority may determine to be an oil field, being an area of which every part is, or is part of, a licensed area.

(2) For the purposes of this Schedule the appropriate authority, in relation to any area—

(a) is the Secretary of State if the area is such that licenses can be granted for all of it under the Petroleum (Production) Act 1934;

(b) is the Department of Commerce for Northern Ireland if the area is such that licenses can be granted for all of it under the Petroleum (Production) Act (Northern Ireland) 1964; and

(c) is the Secretary of State and that Department acting jointly if the area is such that licenses can be granted for part of it under one and for part of it under the other of those Acts;

and any reference in this Schedule to the making of representations to the appropriate authority is, in a case falling within (c) above, a reference to the making of them to either the Secretary of State or the said Department.

2. Before determining an area to be an oil field the appropriate authority—

(a) shall give notice in writing of the proposed determination to every person who is a licensee in respect of a licensed area wholly or partly included in that area and to any other licensee whose interests appear to the authority to be affected; and

(b) shall consider any representations in writing which a person to whom a notice under this paragraph has been given may make to the authority within sixty days of receiving the notice, and the determination may be made either as proposed or with such modifications as appear to the authority to be appropriate after considering any representations made to the authority in accordance with this paragraph.

3. A determination under this Schedule shall be in such form as the appropriate authority thinks fit and shall for purposes of identification assign to the field to which it relates a distinguishing number or other designation.

4. The appropriate authority shall give notice of any determination made by the authority under this Schedule to each of the persons to whom notice of the proposed determination was given.

5. A determination under this Schedule may from time to time be varied by a new determination thereunder made by the appropriate authority, and paragraphs 2 to 4 above shall apply to any such new determination.

SCHEDULE 2

MANAGEMENT AND COLLECTION OF PETROLEUM REVENUE TAX

Management of tax

1.—(1) The tax shall be under the care and management of the Board; and the provisions of the Taxes Management Act 1970 specified in the first column of the following Table shall apply in relation to the tax as they apply in relation to a tax within the meaning of that Act, subject to any modifications specified in the second column of that Table and with the substitution, for references to Part IX of that Act or to the Taxes Acts, of references to this Part of this Act and, for references to chargeable periods within the meaning of that Act, of references to chargeable periods within the meaning of this Part of this Act.

TABLE.—*Provisions applied and modifications*

<i>Section</i>	
1 (3)-----	
4-----	In subsection (1), for the words from "year of assessment" to "in" substitute "chargeable period for".
33-----	In subsection (3), after "assessments made on" insert "or determinations made in relation to".
	In subsection (5), for the words following "profits" substitute "means assessable profits within the meaning of Part I of the Oil Taxation Act 1974".
34-----	
36-----	Omit the reference to section 41, after "default", wherever occurring, insert "or any neglect" and at the end add the following paragraph—
	"For the purposes of this section any fraud, wilful default or neglect committed at any time by a responsible person for an oil field in connection with or in relation to the tax shall be treated as having been committed on behalf of each of the participators in that field at that time."
48-----	
49 (1)-----	

TABLE.—*Provisions applied and modifications*—Continued

Section	
50 (1)–(5)-----	Omit the proviso to subsection (5).
51-----	
52-----	
53-----	
56-----	
58 (2)-----	
(3)-----	Omit the references to section 59 and, for paragraphs (a) and (b), substitute “proceedings in Northern Ireland means proceedings in respect of an oil field (within the meaning of Part I of the Oil Taxation Act 1974) which is wholly situated in an area for which licences can be granted under the Petroleum (Production) Act (Northern Ireland) 1964”.
60-----	In subsection (1), omit the words following “charged therewith”.
68-----	
69-----	In paragraph (a), substitute a reference to section 68 as applied by this paragraph for the reference to the sections there specified.
70 (1)-----	
(2)-----	For the reference to section 86 or 87 substitute a reference to paragraph 15 of this Schedule.
89 (2)-----	For the reference to the rate or rates of interest prescribed by subsection (1) of that section substitute a reference to the rate of interest mentioned in paragraph 15 of this Schedule.
(3)-----	
90-----	
98-----	Omit the Table, and for references to any of the provisions specified in the Table substitute references to section 51 as applied by this paragraph or to paragraph 7 of this Schedule.
99-----	
100 (1)-----	Omit the words from the beginning to “this section”.
(2)-----	
(3)-----	Omit the reference to the General Commissioners.
(6)–(9)-----	
101-----	For the reference to income or chargeable gains substitute a reference to assessable profits.
102-----	
103 (1)–(3)-----	Omit the proviso to subsection (2).
104-----	
105-----	
107 (1)–(3)-----	
108-----	In subsection (2), for the words from the beginning to “Acts” substitute “The tax chargeable”.
112-----	In subsection (1), after “assessment to tax” and “the assessment” insert “or determination” and after “duplicate of assessment to tax” and “duplicate of assessment” insert “or of determination”.
113 (1A)-----	
(3)-----	After “assessment” insert “determination” and after “notice of assessment” insert “notice of determination”.
114-----	After “assessment” wherever occurring insert “or determination”.
115 (1)–(3)-----	
118 (1)-----	
(2)-----	

(2) Any expression to which a meaning is given in this Part of this Act which is used in a provision of the Taxes Management Act 1970 applied by this paragraph shall, in that provision as so applied, have the same meaning as in this Part of this Act.

Returns by participators

2.—(1) Every participator in an oil field shall, for each chargeable period, prepare and, within two months after the end of the period, deliver to the Board a return complying with the following provisions of this paragraph; but nothing in this sub-paragraph shall require a participator to deliver a return under this paragraph before 31st August 1975.

(2) A return under this paragraph for a chargeable period shall give the following information in relation to oil which is or was included in the participator's share of any oil won from the oil field (whether or not in that period), that is to say—

(a) in the case of each delivery (other than one made before 13th November 1974) in the period of crude oil disposed of by him, the return shall—

- (i) state the quantity of oil delivered;
- (ii) state the person to whom the oil was disposed of;
- (iii) in the case of oil disposed of in a sale at arm's length, state the price received or receivable for the oil or, in the case of oil disposed of otherwise than in a sale at arm's length, state the market value of the oil three months before the end of the period; and

(iv) contain such other particulars of or relating to the disposal as the Board may prescribe;

(b) in the case of each appropriation of crude oil (other than one made before 13th November 1974) in the period to refining or other processing (not being oil disposed of by him), the return shall—

- (i) state the quantity of oil appropriated;
- (ii) state the market value of the oil three months before the end of the period; and

(iii) contain such other particulars of or relating to the appropriation as the Board may prescribe;

(c) in the case of crude oil which, at the end of the period, has either not been disposed of and not so appropriated or has been disposed of but not delivered, the return shall—

- (i) state the quantity of the oil;
- (ii) state the market value of the oil at the end of the period; and

(iii) contain such other particulars relating to the oil as the Board may prescribe.

(3) A return under this paragraph for a chargeable period shall state—

(a) the amount of royalty payable by the participator for that period in respect of his share of oil won from the field as shown in the return or returns made by him to the Secretary of State under the relevant licence or licences;

(b) the amount of royalty paid by the participator in that period in respect of that share;

(c) the amount of any royalty paid under any relevant licence in respect of the field which was repaid to the participator in that period; and

(d) the amount of any periodic payment made by the participator to the Secretary of State in that period under each relevant licence otherwise than by way of royalty.

(4) A return under this paragraph shall be in such form as the Board may prescribe and shall include a declaration that the return is correct and complete.

3.—(1) If a participator fails to deliver a return within the time allowed for doing so under paragraph 2(1) above he shall be liable, subject to sub-paragraph (3) below—

(a) to a penalty not exceeding, except in the case mentioned in sub-paragraph (2) below, £500, and

(b) if the failure continues after it has been declared by the court or the Commissioners before whom proceedings for the penalty have been commenced, to a further penalty not exceeding £100 for each day on which the failure so continues.

(2) If the failure continues after the end of six months from the time by which the return ought to have been delivered, the penalty under sub-paragraph (1)(a) above shall be an amount not exceeding the aggregate of £500 and the total amount of the tax with which the participator is charged for the chargeable period in question.

(3) Except in the case mentioned in sub-paragraph (2) above, the participator shall not be liable to any penalty incurred under this paragraph for failure to deliver a return if the failure is remedied before proceedings for the recovery of the penalty are commenced.

Appointment of responsible person for each oil field

4.—(1) For each oil field a body corporate or partnership shall be appointed in accordance with this paragraph as the responsible person for that field to perform, in relation to the field, any functions conferred on it as such by this Part of this Act; and the body or partnership which for the time being holds that appointment is in this Part of this Act referred to as “the responsible person”.

(2) No body corporate shall be eligible for appointment as the responsible person for an oil field unless it is resident in the United Kingdom, and no partnership shall be so eligible unless all its members are resident there.

(3) The participators in an oil field shall, by notice in writing to the Board within the initial period, nominate a body corporate or a partnership for appointment as the responsible person for that oil field and, if the Board approve the nomination, the Board shall appoint that body or partnership as the responsible person and give it notice that it has been so appointed.

(4) If—

(a) the participators have made no nomination within the initial period; or

(b) the Board do not appoint the body or partnership nominated under sub-paragraph (3) above,
the Board shall appoint one of the participators in the oil field as the responsible person for the field and shall give notice to that participator that he has been so appointed.

(5) For the purposes of the preceding provisions of this paragraph, the initial period of thirty days beginning with the latest date on which notice of determination of the oil field is given to any of the participators under paragraph 4 of Schedule 1 to this Act.

(6) The Board may, at any time, on the application of all the participators in an oil field, appoint a body corporate or partnership nominated by the participators as the responsible person for that field in place of the body corporate or partnership which is the responsible person at that time and shall give the body or partnership so appointed notice that it has been so appointed.

(7) The Board may, by notice in writing to the body corporate or partnership which is for the time being the responsible person for an oil field, revoke the appointment of that body or partnership as the responsible person for that field; and where they do so the Board shall appoint one of the participators in the oil field as the responsible person for that field and shall give notice to the participator that he has been so appointed.

(8) In this paragraph "participator", in relation to an oil field, means a person who is a licensee in respect of any licensed area wholly or partly included in the field.

Returns by the responsible person

5.—(1) The responsible person for an oil field shall, for each chargeable period, prepare and, within one month after the end of the period, deliver to the Board a return for that period complying with sub-paragraphs (2) and (3) below; but nothing in this subparagraph shall require the responsible person to deliver a return under this paragraph before 31st July 1975.

(2) A return under this paragraph for a chargeable period shall—

(a) state the quantity of oil won and saved from the oil field during the period;

(b) state the respective interests of the participators in the field in that oil;

(c) state what, in accordance with those interests, is each participator's share of that oil; and

(d) contain such other particulars of or relating to the field as the Board may require.

(3) A return under this paragraph shall be in such form as the Board may prescribe and shall include a declaration that the return is correct and complete.

6.—(1) If the responsible person fails to deliver a return within the time allowed for doing so under paragraph 5(1) above he shall be liable—

(a) to a penalty not exceeding £500, and

(b) if the failure continues after it has been declared by the court or Commissioners before whom proceedings for the penalty have been commenced, to a further penalty not exceeding £100 for each day on which the failure so continues.

(2) The responsible person shall not be liable to any penalty incurred under sub-paragraph (1) above for failure to deliver a return if the failure is remedied before proceedings for the recovery of the penalty are commenced.

Production of accounts, books and other information

7.—(1) Where a participator in or the responsible person for an oil field fails to deliver a return as required by paragraph 2 or, as the case may be, 5 above or the Board are not satisfied with a return delivered in pursuance of either of those paragraphs, the Board may, by notice in writing, require the participator or, as the case may be, the responsible person to do any of the following things, that is to say—

(a) to deliver to the Board copies of such accounts (including balance sheets) relating to the field or to oil won therefrom as may be specified or described in the notice within such period as may be so specified, including, where the accounts have been audited, a copy of the auditor's certificate;

(b) to make available, within such time as may be specified in the notice, for inspection by an officer authorised by the Board all such books, accounts and documents in his possession or power as may be specified or described in the notice, being books, accounts and documents which contain information about transactions relating to the oil field or to oil won therefrom.

(2) An authorised officer of the Board may take copies of, or make extracts from, any books, accounts or documents made available for his inspection under this paragraph.

Incorrect returns, accounts, etc.

8.—(1) Where a participator in an oil field fraudulently or negligently—

(a) delivers an incorrect return under paragraph 2 above; or

(b) makes any incorrect statement or declaration in connection with any claim under this Part of this Act for the allowance of any expenditure or for any relief in respect of the tax; or

(c) submits to the Board or the Special Commissioners any incorrect accounts in connection with the ascertainment of the participator's liability to the tax,
the participator shall be liable to a penalty not exceeding the aggregate of—

(i) £50, and

(ii) the amount or, in the case of fraud, twice the amount, of the difference specified in sub-paragraph (2) below.

(2) The difference is that between—

(a) the amount of tax payable by the participator—

(i) for the chargeable period to which the return relates; or

(ii) for the next chargeable period ending after the allowance of the claim; or

(iii) for the chargeable period or periods against which the relief is claimed; or

(iv) for the chargeable period or periods for which the accounts are relevant;

as the case may be; and

(b) the amount which would have been the amount so payable if the return, statement, declaration or accounts as made or submitted by him had been correct.

(3) Where the responsible person for an oil field fraudulently or negligently—

(a) delivers an incorrect return under paragraph 5 above; or

(b) makes any incorrect statement or declaration in connection with any claim under this Part of this Act for the allowance of any expenditure.

the responsible person shall be liable to a penalty not exceeding £2,500 or, in the case of fraud on his part, £5,000.

9.—(1) Where any such return, statement, declaration or accounts as are mentioned in paragraph 8 above were made or submitted by any person neither fraudulently nor negligently and it comes to his notice that they were incorrect, then, unless the error is remedied without unreasonable delay, the return, statement, declaration or accounts shall be treated as having been negligently made or submitted by the first-mentioned person.

(2) Where any such return, statement, declaration or accounts were made or submitted by the responsible person for an oil field neither fraudulently nor negligently and it comes to the notice of any person who subsequently becomes the responsible person for that field that they were incorrect, then, unless the error is remedied without unreasonable delay, the return, statement, declaration or accounts shall be treated as having been negligently made or submitted by the responsible person to whose notice the incorrectness came.

(3) For the purposes of paragraph 8 above, any accounts submitted on behalf of any person shall be deemed to have been submitted by that person unless he proves that they were submitted without his consent or connivance.

Assessments to tax and determinations of loss, etc.

10.—(1) Where it appears to the Board that, in accordance with the provisions of this Part of this Act, an assessable profit has accrued to a participator in a chargeable period from an oil field, they shall make an assessment to tax on the participator and shall give him notice of the assessment.

(2) Where it appears to the Board that, in accordance with those provisions, an allowable loss has accrued to a participator in a chargeable period from an oil field, they shall make a determination that the loss is allowable to the participator and shall give him notice of the determination.

(3) Where it appears to the Board that, in accordance with those provisions, neither an assessable profit nor an allowable loss has accrued to a participator in a chargeable period, they shall make a determination to that effect and shall give him notice of the determination.

(4) A notice of assessment for a chargeable period shall state the amount of any allowable losses which, in accordance with those provisions, have been set against the assessable profit for that period.

(5) A notice of assessment or determination shall state that the participator may appeal against the assessment or determination in accordance with paragraph 14 below.

(6) After the service of the notice of assessment or the notice of determination the assessment or determination, as the case may be, shall not be altered except in accordance with the express provisions of this Part of this Act (including the provisions applied by paragraph 1 above).

11.—(1) Where a participator has under paragraph 2 above delivered to the Board a return for a chargeable period and the Board are satisfied that the information given in the return is correct in so far as it is material for the purpose of computing his assessable profit or allowable loss (if any) for that period, the Board shall (in so far as the computation falls to be made by reference to the matters dealt with in the return) make the assessment or determination under paragraph 10 above in accordance with the return.

(2) Where the Board are not so satisfied in relation to a participator's return or a participator fails to deliver to the Board a return for a chargeable period as required by paragraph 2 above, the Board shall, in so far as the computation of his assessable profit or allowable loss (if any) for that period falls to be made by reference to the matters which were dealt with in the return or, as the case may be, ought to have been dealt with in a return, make the assessment or determination under paragraph 10 above to the best of their judgment.

(3) Nothing in sub-paragraph (2) above or in paragraph 5 above shall be taken, in a case where the participator has delivered a return as to which the Board are not satisfied as mentioned in sub-paragraph (1) above, to prevent the Board from basing their assessment or determination on the participator's having had an interest in oil won and saved from the field different from that on which he based his return.

12.—(1) Where it appears to the Board—

(a) that the assessable profit charged to tax by or stated in an assessment ought to be or to have been larger or smaller; or

(b) that the allowable loss stated in an assessment or a determination of loss ought to be or to have been larger or smaller; or

(c) that, where they made a determination that neither an assessable profit nor an allowable loss accrued in a chargeable period, they ought to have made an assessment to tax or a determination of loss for that period;

the Board may make such assessments or determinations or such amendments of assessments or determinations as may be necessary; and where the Board exercise any of their powers under this paragraph in relation to a chargeable period, they may make such adjustments in assessments or determinations for other chargeable periods as may be necessary in consequence of the exercise of those powers.

(2) Where under sub-paragraph (1) above it appears to the Board that the assessable profit for a chargeable period ought to have been larger by reason of an excessive allowable loss accruing in a subsequent period having been set against the profit for that period, the Board may (notwithstanding anything in section 34 of the Taxes Management Act 1970 (ordinary time limit for assessments)) make a

further assessment by virtue of sub-paragraph (1) above at any time not later than six years after the end of the chargeable period in which the allowable loss accrued.

Payment of tax

13. Subject to paragraph 14 below, the tax charged in an assessment made on a participator for any chargeable period shall be payable by him four months after the end of that chargeable period or, if later, thirty days after the date of issue of the notice of assessment; but no tax shall be payable by virtue of this paragraph before 30th April 1976.

Appeals

14.—(1) A participator may appeal to the Special Commissioners against an assessment or determination made on or in relation to him by notice of appeal in writing given to the Board within thirty days after the date of issue of the notice of assessment of determination.

(2) The notice of appeal shall specify the grounds of appeal, but on the hearing of the appeal the Commissioners may allow the appellant to put forward any ground not specified in the notice, and may take it into consideration if satisfied that the omission was not wilful or unreasonable.

(3) A participator who has given notice of appeal under sub-paragraph (1) above against an assessment charging him with any tax for a chargeable period may, if he delivered a return for that period as required by paragraph 2 above, withhold, until the determination or abandonment of the appeal, so much of the tax charged in the assessment as is the smaller of—

(a) the amount of the tax so charged; and

(b) tax on the difference between—

(i) the aggregate of the consideration received or receivable for oil as stated in the participator's return in pursuance of sub-paragraph (2) of that paragraph and, subject to sub-paragraph (4) below, the market value of oil as so stated; and

(ii) the aggregate of the corresponding consideration and value as included in the assessment.

(4) Subject to sub-paragraph (5) below, where the market value of all the oil for which a market value is stated in the participator's return is, as stated in that return, less than the value which is produced for that oil by applying it to the average price mentioned in sub-paragraph (6) below, sub-paragraph (3) above shall have effect as if, for the reference to the market value of oil as so stated, there were substituted a reference to the value which is so produced for that oil.

(5) The comparison of values and the substitution required by sub-paragraph (4) above shall, in the case of an appeal by a participator whose return relates both to natural gas and to other oil, be made separately for the gas and for the other oil.

(6) The average price referred to in sub-paragraph (4) above is the average price at which all oil included in the relevant returns as oil de-

livered in the period covered by the returns and disposed of in sales at arm's length was so disposed of.

(7) The relevant returns for the purposes of sub-paragraph (6) above are all the returns of all the participators in all oil fields which—

(a) were made for the chargeable period preceding that to which the appeal relates, and

(b) were delivered before the end of the chargeable period to which the appeal relates.

(8) The participator may at any time, if the Board do not object to his doing so, abandon an appeal instituted by him; and for this purpose he shall notify his desire to do so to the Board who may within thirty days after being so notified, object by notice in writing to the participator.

(9) Where, at any time between the giving of a notice of appeal against the assessment or determination or from a decision of the Board on a claim under section 33 of the Taxes Management Act of 1970 as applied by paragraph 1 above and the determination of the appeal by the Special Commissioners, the Board and the participator agree on the adjustments that should be made in the assessment or determination and on any consequential adjustments to other assessments or determinations, the Board may make the adjustments agreed on and thereupon the appeal shall be deemed to be abandoned.

(10) If, on the appeal, it appears to a majority of the Commissioners present at the hearing that the assessable profit charged to tax by or stated in the assessment ought to have been larger or smaller, they shall amend the assessment accordingly or substitute for the assessment any determination which could have been made by the Board under paragraph 10 above, but otherwise the assessment shall stand good.

(11) Save as otherwise provided by this Schedule (including the provisions applied by paragraph I above), the determination of the Special Commissioners in any proceedings under this Part of this Act shall be final and conclusive.

Interest on tax due

15.—(1) Subject to sub-paragraph (2) below, tax charged in an assessment for a chargeable period shall carry interest at the rate of 9 per cent from four months after the end of the period until payment.

(2) Nothing in sub-paragraph (1) above shall authorise or require interest to be charged from any time before 30th April 1976.

(3) Where, under paragraph 14(3) above, tax may be withheld until the determination or abandonment of an appeal, the interest on the tax may also be withheld until the determination or abandonment of the appeal.

SCHEDULE 3

PETROLEUM REVENUE TAX: MISCELLANEOUS PROVISIONS

Definition of sale of oil at arm's length

1.—(1) For the purposes of this Part of this Act a sale of any oil is a sale at arm's length if, but only if, the following conditions are satisfied with respect to the contract of sale, that is to say—

- (a) the contract price is the sole consideration for the sale;
- (b) the terms of the sale are not affected by any commercial relationship (other than that created by the contract itself) between the seller or any person associated with the seller and the buyer or any person associated with the buyer; and
- (c) neither the seller nor any person associated with him has, directly or indirectly, any interest in the subsequent resale or disposal of the oil or any product derived therefrom.

(2) For the purposes of the preceding sub-paragraph two persons are associated with one another if—

(a) one has, directly or indirectly, an interest in any business or property in which the other has, directly or indirectly, an interest: or

(b) a third person has, directly or indirectly, both an interest in any business or property of one and an interest in any business or property of the other.

Definition of market value of oil

2.—(1) For the purposes of this Part of this Act the market value of any oil shall be ascertained in accordance with this paragraph; and in this paragraph the time as at which market value is to be ascertained is referred to as “the relevant time”.

(2) Subject to the following provisions of this paragraph, the market value of any oil at the relevant time is the price at which the oil could have been sold to a willing buyer at that time in a sale at arm’s length under a contract of sale made at that time and satisfying the following conditions, that is to say—

(a) the contract requires the oil to be delivered—

(i) in the case of oil extracted in the United Kingdom, at the place of extraction; or

(ii) in the case of oil extracted from strata in the sea bed and subsoil of the territorial sea of the United Kingdom or of a designated area, at the place in the United Kingdom at which the seller could reasonably be expected to deliver it or, if there is more than one such place, the one nearest to the place of extraction;

(b) in the case of oil whose market value falls to be ascertained for the purposes of paragraph (b) of section 2(4) of this Act or, subject to sub-paragraph (3) below, of paragraph (b), (c) or (d) of section 2(5) of this Act, the contract is for the sale of the whole quantity of oil whose market value falls to be ascertained for the purposes of the paragraph in question, and of no other oil.

(3) If oil whose market value falls to be ascertained for the purposes of paragraph (b) of the said section 2(5) was not all disposed of to the same person then the market value, three months before the end of the period mentioned in that paragraph, of so much of that oil as was disposed of to any one person shall be ascertained in accordance with sub-paragraphs (1) and (2) above as if that were the only oil whose market value fell to be ascertained for those purposes (with sub-paragraph (2) (b) above applying accordingly).

(4) The provisions of sub-paragraphs (2) and (3) above shall apply for the ascertainment of the market value of oil in any case mentioned

in paragraph 2(2) of Schedule 2 of this Act as they apply in relation to the corresponding case mentioned in those provisions.

Disputes as to source of oil won

3.—(1) Any dispute arising under this Part of this Act as to which of two or more oil fields any oil was won from shall be referred to and determined by the appropriate authority; and where the appropriate authority determines any such dispute, the authority's determination shall not be questioned in any legal proceedings whatsoever.

(2) For the purposes of this paragraph the appropriate authority, in relation to any such dispute as to which of two or more oil fields any oil was won from—

(a) is the Secretary of State if each of those fields was determined by him under Schedule 1 to this Act;

(b) is the Department of Commerce for Northern Ireland if each of those fields was determined by that Department under that Schedule; and

(c) is, in any other case, the Secretary of State and that Department acting jointly.

Effect of transfer to an associated company of participator's rights etc. in connection with an oil field or relevant licence

4.—(1) This paragraph applies to any agreement or other arrangement between a participator in an oil field and a company associated with the participator whereby—

(a) ownership of all or any of the participator's share of the oil won and saved from the field is transferred to the company; and

(b) the company obtains or assumes all or any of the participator's other rights, interests and obligations in connection with the field or any relevant licence.

(2) As regards any chargeable period in which a participator in an oil field is a party to an arrangement to which this paragraph applies, the other party to the arrangement shall be treated for all purposes of this Part of this Act (except this paragraph) and for the purposes of section 13 of this Act as having been a participator in the field at all times when the actual participator was such a participator (including times before the arrangement was made), and shall be assessable and chargeable to tax and entitled to make any claim under this Part of this Act, and any deduction or claim under the said section 13, accordingly.

(3) Where a participator in an oil field is or has been a party to an arrangement to which this paragraph applies then for all purposes of this Part of this Act—

(a) anything done by or in relation to the participator in connection with the field or any relevant licence shall be treated as being or having been done by or, as the case may be, in relation to the other party to the arrangement; and

(b) all rights, interests or obligations of the participator in connection with the field or any relevant licence shall be treated as being or having been rights, interests or obligations of the other party.

(4) Where a participator in an oil field is or has been a party to an arrangement to which this paragraph applies, then, if any tax or interest payable under this Part of this Act by the other party to the arrangement is not paid within thirty days after the date on which it becomes payable, the Board may by notice in writing require the participator to pay that tax or interest; and where such a notice is served on the participator, the tax or interest in question shall be payable by him forthwith, but without prejudice to the Board's right to recover it from the other party.

(5) For the purposes of this paragraph "company" means any body corporate, and a participator in an oil field and another company are associated with one another if—

(a) the participator has control over or is under the control of the other company; or

(b) the participator and the other company are both under the control of the same person or persons; and in this sub-paragraph "control" has the meaning given by section 534 of the Taxes Act.

Oil owned by a person other than a participator in the oil field from which it was won

5.—(1) Where a proportion of a participator's share in the oil won and saved from an oil field (as distinct from a specific quantity of oil comprised in that share) is owned by another person (in this paragraph referred to as "the owner") who acquired it (whether directly or indirectly) under an agreement to which paragraph 4 above does not apply, the following provisions of this paragraph shall have effect.

(2) For the purposes of this Part of this Act the oil acquired by the owner under the agreement shall be treated in every case as having been disposed of to him by the participator otherwise than in a sale at arm's length.

(3) Where any oil which the owner owns in right of the agreement is in pursuance of the agreement—

(a) delivered to the owner by the participator; or

(b) delivered to a third person by the participator acting on behalf of the owner,

the delivery shall for the purposes of this Part of this Act be regarded as a delivery by the participator although he does not own the oil.

(4) This subparagraph applies to all such oil (if any) as, being owned by the owner in right of the agreement, is in any chargeable period delivered by the participator as mentioned in the preceding sub-paragraph and would accordingly, apart from the following subparagraph, fall to be brought into account under section 2(5)(b) of this Act in computing the assessable profit or allowable loss accruing to the participator in that period (in the following subparagraph referred to as "the relevant period").

(5) If on a claim made by the participator within two months after the end of the relevant period—

(a) it is shown that some or all of the oil to which subparagraph (4) above applies has been disposed of by or on behalf of the owner crude in sales at arm's length; and

(b) the Board are satisfied that the oil with respect to which it is so shown includes the whole of so much of the oil to which that sub-paragraph applies as has been so disposed of, then, in computing the assessable profit or allowable loss accruing to the participator in the relevant period, the oil with respect to which it is shown shall be brought into account by reference to the price received or receivable for it by the owner instead of by reference to its market value.

Exclusion from section 2(4)(b) and (5)(d) of offshore oil in transit to place of first landing in United Kingdom

6. In computing the assessable profit or allowable loss accruing to a participator in a chargeable period from an oil field, the market value of any oil won as mentioned in section 3(1)(f) of this Act—

(a) shall not be taken into account under section 2(4)(b) of this Act if and to the extent that at the end of the preceding chargeable period the oil was in the course of being transported to the place where it was first landed in the United Kingdom; and

(b) shall not be taken into account under section 2(5)(d) of this Act if and to the extent that at the end of the first-mentioned chargeable period the oil was in the course of being so transported.

Certain subsidised expenditure to be disregarded

7.—(1) Expenditure shall not be regarded for any of the purposes of this Part of this Act as having been incurred by any person in so far as it has been or is to be met directly or indirectly by the Crown or by the government or public or local authority, whether in the United Kingdom or elsewhere, or by any person other than the first-mentioned person, unless it is so met by a grant made under Part I of the Industry Act 1972 or a grant made under an enactment of the Parliament of Northern Ireland or Measure of the Northern Ireland Assembly and declared by order of the Treasury under section 84 of the Capital Allowances Act 1968 to correspond to a grant made under the said Part I.

(2) In considering, for the purposes of this paragraph, how far any expenditure has been or is to be met directly or indirectly by the Crown or by any authority or person other than the person incurring the expenditure, there shall be left out of account any insurance or compensation payable in respect of the loss or destruction of any asset.

SCHEDULE 4

PROVISIONS SUPPLEMENTARY TO SECTIONS 3 AND 4

Restrictions on expenditure allowable under section 3 or 4

1.—(1) Expenditure incurred by any person in the acquisition of, or of any interest in, an asset is not allowable under section 3 or 4 of this Act for an oil field if expenditure previously incurred by another person in the acquisition of that asset or interest is allowable under that section for that field.

(2) Sub-paragraph (1) above shall, with any necessary modifications, have effect in relation to expenditure incurred by a person—

(a) in renting or hiring an asset or any interest in an asset; or

(b) for the provision of services or other business facilities of whatever kind; or

(c) for the grant or transfer to him of any right, licence or interest (other than an interest in an asset), as it has effect in relation to expenditure incurred in the acquisition of, or of an interest in, an asset.

2.—(1) Where a person has incurred expenditure in the acquisition of, or of any interest in, an asset in a transaction to which this paragraph applies, he shall be treated for the purposes of sections 3 and 4 of this Act as having incurred that expenditure only to the extent that it does not exceed expenditure (other than expenditure in respect of interest or any other pecuniary obligation incurred in obtaining a loan or any other form of credit) incurred by another person in the acquisition of that asset or interest in a transaction to which this paragraph does not apply (or, if there has been more than one such transaction, the later or latest of them).

(2) This paragraph applies to any transaction between connected persons and to any transaction made otherwise than at arm's length; and for the purposes of this paragraph a person is connected with another person if—

(a) they are connected within the meaning of section 533 of the Taxes Act; or

(b) they are both participators in the oil field in question; or

(c) one of them is a participator in that field and the other is connected (within the meaning of the said section 533) with another participator in that field.

(3) Sub-paragraph (2) of paragraph 1 above shall apply in relation to sub-paragraph (1) above as it applies in relation to sub-paragraph (1) of that paragraph.

3.—(1) This paragraph applies in the case of any oil field from which oil began to be won in commercial quantities before 13th November 1974.

(2) Expenditure incurred before that date which, apart from this paragraph, would be allowable under section 3 or 4 of this Act for an oil field shall be so allowable only to the extent that it was incurred—

(a) in connection with that field for one or more of the purposes mentioned in paragraphs (a) to (c) of section 3(1) of this Act; or

(b) in acquiring or bringing into existence, or enhancing the value of, an asset used on or after that date in connection with the field.

Disposal of long-term asset formerly used in connection with an oil field

4.—(1) Where an asset is used in connection with an oil field in circumstances such that section 4 of this Act applies to any expenditure incurred in acquiring that asset or any interest therein, then if—

(a) the asset or interest is disposed of for valuable consideration within two years after use of the asset in that connection has permanently ceased; and

(b) the person making the disposal is either a participator in the field or a person connected with a participator, the total amount of the expenditure allowable under sections 3 and 4 of this Act on a claim for the claim period in which the consideration is received or receivable shall be reduced by the appropriate amount.

(2) For the purposes of sub-paragraph (1) above—

(a) if the proportion of the expenditure allowable under section 4 of this Act for the relevant period, as computed under subsection (7) of that section for the claim period in which use of the asset in connection with the field permanently ceased, is less than 100 per cent, the appropriate amount is that proportion of the amount mentioned in sub-paragraph (3) below;

(b) in any case, the appropriate amount is the full amount so mentioned.

(3) The amount referred to in sub-paragraph (2) above is the smaller of the following amounts, that is to say—

(a) the amount or value of the consideration received or receivable for the disposition; and

(b) the amount of the expenditure incurred in acquiring the asset or interest which would have been allowable under section 4(7) of this Act for the relevant period in relation to the claim period in which the use of the asset in connection with the field permanently ceased, if the useful life of the asset had ended when its use in that connection permanently ceased and it had been used in that connection throughout its useful life.

(4) Section 533 of the Taxes Act (connected persons) shall apply for the purposes of this paragraph.

Long-term assets used in connection with more than one oil field

5.—(1) Where in any claim period of long-term asset is used to a substantial extent in connection with an oil field (in this paragraph referred to as “the relevant field”) and is in that period also used in connection with one or more other oil fields, then, if any payments for the hire of that asset are receivable by all or any of the persons mentioned in sub-paragraph (3) below in respect of its use in the period in connection with the other field or fields, the following sub-paragraph shall apply.

(2) The use of the asset in the claim period in question in connection with the other field or fields shall be treated for the purposes of this Part of this Act as use in connection with the relevant field; but the total amount of expenditure allowable under sections 3 and 4 of this Act on a claim for that period in respect of the relevant field shall be reduced by an amount equal to the aggregate of the payments for the hire of the asset which are receivable in the period by all or any of the persons mentioned in sub-paragraph (3) below in respect of its use in connection with the other field or fields.

(3) The persons referred to in sub-paragraphs (1) and (2) above are the participators in the relevant field and every other person con-

nected with any of them; and section 533 of the Taxes Act (connected persons) shall apply for the purposes of this sub-paragraph.

(4) For the purpose of this paragraph an asset used in connection with an oil field is a long-term asset if its useful life continues after the end of the claim period in which it is first used in connection with the field.

Provisions supplementary to section 4(9) of this Act and paragraphs 4(1) and 5(2) above

6.—(1) Where in the case of an oil field, the total amount of the expenditure allowable under sections 3 and 4 of this Act on a claim for a claim period—

(a) is, under one or more of the relevant provisions, reduced to nil; and

(b) would, under one or more of those provisions, have fallen to be reduced by a further amount if the total amount of that expenditure had been sufficient to enable the maximum reduction thereunder to be made,

that further amount shall be apportioned between the participators in proportions corresponding to what for that claim period would be their respective shares of any expenditure falling within section 2(9)

(b) (i) of this Act; and in computing the assessable profit or allowable loss accruing to any participator in the earliest chargeable period which ends after the end of that claim period, the aggregate mentioned in section 2(4) (a) of this Act shall be increased by an amount equal to the amount apportioned to him under this paragraph.

(2) In this paragraph “the relevant provisions” means section 4(9) of this Act and paragraphs 4(1) and 5(2) above.

Insurance or compensation in respect of loss or destruction of long-term asset formerly used in connection with oil field

7.—(1) Where, in consequence of the loss or destruction at any time within the period mentioned in sub-paragraph (1) of paragraph 4 above of such an asset as is mentioned in that sub-paragraph, any insurance or compensation in respect of the loss or destruction is receivable by a participator in the field or a person connected with a participator, paragraphs 4 and 6 above shall apply as if at that time the person by whom the insurance or compensation is receivable had disposed of the asset or his interest in it for an amount equal to the insurance or compensation.

(2) Section 533 of the Taxes Act (connected persons) shall apply for the purposes of this paragraph.

Assets acquired jointly by participators in different oil fields

8. Where an asset was acquired jointly by persons who are participators in two or more different oil fields (whether or not any one of those persons is a participator in more than one of those fields), then in determining for the purposes of section 4 of this Act, in the case of any one of those fields, the use which has been, or which it is rea-

sonable to assume will be, made of the asset otherwise than in connection with that field, no regard shall be had to its use or possible use in connection with any other of those fields.

SCHEDULE 5

ALLOWANCE OF EXPENDITURE OTHER THAN ABORTIVE EXPLORATION OR DEVELOPMENT EXPENDITURE

Claim periods and claims

1.—(1) In relation to any oil field—

(a) the first claim period is whichever of the following periods the responsible person elects, namely the period ending at the end of June following the determination of the field or the period ending at the end of December following that determination (including, in either case, an unlimited time prior to that determination);

(b) each subsequent claim period is whichever of the following periods the responsible person elects, namely the period of six months or the period of twelve months from the end of the preceding claim period:

Provided that unless and until the responsible person elects the period of six months from the end of any particular claim period, the claim period next after that claim period shall be taken to be the period of twelve months from the end of it.

(2) An election under this paragraph must be made by notice in writing to the Board.

2.—(1) A claim for the allowance of any expenditure allowable under section 3 or 4 of this Act for an oil field must be made by the responsible person to the Board and, subject to the provisions of this Part of this Act, must be made in a claim or claims for the claim period in which the expenditure is incurred, but may not be made before the determination of the field or more than six years after the end of the claim period in which the expenditure is incurred.

(2) A claim for the allowance of any expenditure allowable under section 3 or 4 of this Act for an oil field which was incurred by a person before he became a participator in the field must be made in a claim for the claim period in which he became a participator.

(3) A claim must state—

(a) what part (if any) of the expenditure is claimed as qualifying for supplement under section 2(9)(b)(ii) of this Act; and

(b) the shares in which, in accordance with their respective interests in the oil field, the participators propose to divide between them, for the purposes of paragraph (b) of section 2(9) of this Act, the expenditure allowed on the claim and the amount which will arise under sub-paragraph (ii) of that paragraph if some or all of that expenditure is allowed on the claim as so qualifying.

(4) Where a claim for the allowance of any expenditure under section 4 of this Act for an oil field was made in relation to any asset for the claim period which, in the case of that asset, is the first relevant claim period (as defined in that section), then any claim with respect

to that field made under this Schedule for any subsequent claim period must give all such information as is relevant for the purpose of enabling the Board to carry into effect the provisions of that section in relation to that asset.

(5) A claim must be in such form as the Board may prescribe and must include a declaration that all statements contained in it are correct to the best of the knowledge and belief of the person making the claim.

3.—(1) The Board shall by notice in writing to the responsible person inform him of their decision on the claim, stating in the notice—

(a) the amount of the expenditure allowed by them on the claim;

(b) the amount, if any, of the expenditure allowed by them on the claim as qualifying for supplement under section 2(9)(b)(ii) of this Act; and

(c) the shares determined by the Board to be the shares in which, in the opinion of the Board, the amount stated under (a) above or, as the case may be, the aggregate of that amount and an amount equal to the relevant percentage of the amount stated under (b) above, is divisible between the participators for the purposes of section 2(9)(b) of this Act;

and where the decision relates to part only of the expenditure claimed, or claimed as so qualifying, the Board shall give a further notice or notices in relation to the remainder.

(2) In this paragraph “the relevant percentage” means the percentage mentioned in the said section 2(9)(b)(ii).

4. If, in a case where sub-paragraph (4) of paragraph 2 above requires a claim made for a particular claim period to give all such information as is relevant for the purpose there mentioned in relation to an asset, a claim satisfying the requirements of that sub-paragraph is not made within twelve months after the end of that period, then, in, carrying into effect the provisions of section 4 of this Act in relation to that asset for that claim period, the Board may proceed according to the best of their judgment, and may make any adjustments under any of the provisions mentioned in paragraph 6(2) of Schedule 4 of this Act accordingly.

Appeals

5.—(1) If—

(a) the amount or total of the amounts stated under sub-paragraph (1)(a) of paragraph 3 above in the notice or notices given by the Board under the paragraph on a claim, or the amount or total of the amounts so stated under sub-paragraph (1)(b) of that paragraph, is less than the amount claimed; or

(b) the shares so stated under sub-paragraph (1)(c) of that paragraph in the notice or latest of the notices so given differ from the shares stated under paragraph 2(3)(b) above in the claim,

the responsible person may by notice in writing given to the Board not less than six months or more than three years after the making of the claim appeal to the Special Commissioners; but the bringing of an appeal under this paragraph shall not affect the operation of any notice so given by the Board.

(2) On an appeal against a decision on a claim brought on the ground mentioned in sub-paragraph (1) (b) above, and in any proceedings arising out of such an appeal, any participator in the oil field to which the claim relates shall be entitled to appear and be heard.

(3) An appeal against a decision on a claim may at any time be abandoned by a notice in writing given to the Board by the responsible person.

(4) On an appeal against a decision on a claim, the Special Commissioners may vary the decision appealed against whether or not the variation is to the advantage of all or any of the participators in the oil field to which the claim relates.

6.—(1) Where the responsible person gives notice of appeal against a decision on a claim on one or both of the grounds mentioned in paragraph 5(1) (a) above and, before the appeal is determined by the Special Commissioners, the Board and the responsible person agree on—

(a) the amount of the expenditure that ought to be allowed on the claim; or

(b) the amount, if any, of the expenditure claimed which ought to be so allowed as qualifying for supplement under section 2(9) (b) (ii) of this Act,

the appropriate amount (if any) of the expenditure claimed or, as the case may be, claimed as so qualifying shall be treated for the purposes of this Part of this Act as having been allowed by the Board on the claim, and as having been so allowed on the date on which the notice of appeal was given.

For the purposes of this sub-paragraph the appropriate amount (if any) of the expenditure claimed or, as the case may be, claimed as so qualifying, is an amount thereof equal to the excess, if any, of the amount so agreed on over the corresponding amount or the total of the corresponding amounts allowed by the notice or notices previously given by the Board under paragraph 3 above.

(2) Where the responsible person gives notice of appeal against a decision on a claim on the ground mentioned in paragraph 5(1) (b) above and, before the appeal is determined by the Special Commissioners, the Board and the responsible person agree on the shares in which the amount of any expenditure allowed on the claim, or so allowed as qualifying for supplement under section 2(9) (b) (ii) of this Act, ought to be divided between the participators for the purposes of section 2(9) (b) of this Act, the shares so agreed on shall be deemed to be the shares stated in any notice previously given by the Board under paragraph 3 above on the claim, and shall apply in the case of any part of the expenditure claimed, or claimed as so qualifying, which is by virtue of this or the following paragraph treated as having been allowed on the claim.

(3) Where the Board and the responsible person agree on the matter mentioned in sub-paragraph (1) (a), sub-paragraph (1) (b) or sub-paragraph (2) above in the circumstances there mentioned, the corresponding ground of appeal shall be treated as having been abandoned; and where by virtue of this sub-paragraph all the grounds of the appeal fall to be so treated, the appeal itself shall be treated as having been abandoned.

7.—(1) Where on an appeal under paragraph 5 above the Special Commissioners determine that any amount or part of an amount in dispute is allowable under section 3 or 4 of this Act or qualifies for supplement under section 2(9)(b)(ii) of this Act, the following provisions of this paragraph shall apply.

(2) Subject to paragraph 8(2) below, the said amount or part shall be treated for the purposes of this Part of this Act as having been allowed on the claim to which the appeal relates, and as having been so allowed on the date on which the notice of appeal was given.

(3) There shall be made in any computation made under section 2 of this Act, and in any assessment to tax or determination, all such adjustments as are necessary in consequence of the determination of the Special Commissioners.

(4) Where, on an adjustment made under sub-paragraph (3) above in any assessment, any amount of tax previously charged by the assessment is required to be repaid, that amount shall carry interest at the rate of 9 per cent, from four months after the end of the chargeable period for which the assessment was made to the date of repayment.

8.—(1) Where—

(a) a case for the opinion of the court is stated under section 56 of the Taxes Management Act 1970 (as applied by paragraph 1 of Schedule 2 to this Act) in respect of a determination by the Special Commissioners on an appeal under paragraph 5 above; and

(b) in the proceedings on the case so stated, or in any proceedings arising out of those proceedings, any matter which was determined by the Special Commissioners on that appeal is finally determined otherwise than in accordance with their determination on that appeal,

the following provisions of this paragraph shall apply.

(2) Any expenditure allowable under section 3 or 4 of this Act, which, if the decision of the Board on the claim to which the appeal under paragraph 5 above related had been in accordance with the final determination of that matter, would have been allowed by that decision, or allowed by it as qualifying for supplement under section 2(9)(b)(ii) of this Act, shall be treated for the purposes of this Part of this Act as having been allowed by the Board on the claim to the extent that it has not been previously allowed on the claim, and as having been so allowed to that extent on the date on which the original notice of appeal was given under paragraph 5 above.

(3) There shall be made in any computation made under section 2 of this Act and in any assessment to tax or determination all such adjustments or further adjustments as are necessary in consequence of the final determination.

(4) Sub-paragraph (4) of paragraph 7 above shall apply in relation to any adjustment made under sub-paragraph (3) above and any such final determination as is mentioned in sub-paragraph (1)(b) above as it applies in relation to such an adjustment and determination as are mentioned in the said sub-paragraph (4).

(5) Any tax which becomes payable in consequence of any adjustment made under sub-paragraph (3) above in an assessment for a

chargeable period shall carry interest at the rate of 9 per cent, from four months after the end of that period to the date of payment.

(6) For the purposes of this paragraph a matter shall not be deemed to be finally determined in any such proceedings as are mentioned in sub-paragraph (1) (b) above until a determination thereof made in any such proceedings can no longer be varied or overruled by the order of any court.

SCHEDULE 6

ALLOWANCE OF ABORTIVE EXPLORATION EXPENDITURE

Claims

1.—(1) A claim for the allowance, in connection with an oil field, of any abortive exploration expenditure allowable under section 5 of this Act in the case of a participator in that field must be made by the participator to the Board, but may not be made after the end of the period of six years beginning with the later of the following dates, that is to say the date on which the expenditure was incurred and the date of the determination of the field under Schedule 1 to this Act.

(2) Where a claim under this Schedule has been made and the participator by whom it was made subsequently discovers that an error or mistake has been made in the claim, he may make a supplementary claim within the time allowed for making the original claim.

(3) The provisions of Schedule 5 to this Act specified in the first column of the following Table shall apply in relation to a claim under this Schedule as they apply in relation to a claim under that Schedule, subject to any modifications specified in the second column of that Table and with the substitution, for references to the responsible person, of references to the participator by whom the claim under this Schedule is made and, for references to section 3 or 4 of this Act, of references to section 5 of this Act.

Provisions applied and modifications

Paragraph :

2(5)-----	
3(1)-----	Omit paragraphs (b) and (c).
5(1)-----	Omit the words from "or the amount" to "(1) (b) of that paragraph" and paragraph (b), and for "six months" substitute "one year".
(3)-----	
(4)-----	For the reference to all or any of the participators substitute a reference to the participator by whom the claim is made.
6(1)-----	For "one or both of the grounds" substitute "the ground", and omit paragraph (b) and the words "or, as the case may be, claimed as so qualifying" (wherever occurring).
(3)-----	Omit "sub-paragraph (1) (b) or sub-paragraph (2)", and for the words from "the corresponding to "itself" substitute "the appeal".
7-----	In sub-paragraph (1), omit the words from "or qualities" to "2(9) (b) (ii) of this Act".
8-----	In sub-paragraph (2), omit the words from "or allowed by it" to "section 2(9) (b) (ii) of this Act".

SCHEDULE 7

ALLOWANCE OF ABORTIVE DEVELOPMENT EXPENDITURE

Reference and determination of question of abandonment of oil field

1. Where it appears to the responsible person for an oil field that the winning of oil from the field has permanently ceased and that the cessation occurred before the total amount of oil ever won and saved from it reached the amount by reference to which the critical half year is defined in section 1(4) of this Act, he may, by notice in writing given to the Board refer to them for their decision the question whether the winning of oil from that field has ceased permanently and in those circumstances.

2.—(1) The Board shall, by notice in writing given to the responsible person, inform him of their decision on the question and, if their decision is that the winning of oil has so ceased, shall state the date which they are satisfied is that on which the winning of oil from the field in question ceased.

(2) An oil field which the Board have under this paragraph decided is one from which the winning of oil has so ceased is in this Schedule referred to as an "abandoned oil field".

(3) The responsible person shall, within one month of his receiving a notice under sub-paragraph (1) above informing him of the Board's decision, furnish a copy of that notice to every person who was at any time a participator in the abandoned oil field.

3.—(1) The responsible person may appeal to the Special Commissioners against the Board's decision by notice in writing given to the Board within three months of his receiving the notice under paragraph 2(1) above informing him thereof.

(2) An appeal under sub-paragraph (1) above may at any time be abandoned by notice in writing given to the Board by the responsible person.

Claims by participators for allowance of abortive development expenditure

4.—(1) A claim for the allowance, in connection with an oil field, of any abortive development expenditure allowable under section 6 of this Act in the case of a participator in that field must be made by the participator to the Board and must be made within six years of the later of the following dates, that is to say, the date of the Board's decision on the claim under Schedule 5 to this Act for the abandoned oil field and the date of the determination under Schedule 1 to this Act of the oil field for which the claim is made under this Schedule.

(2) Where a claim under this Schedule has been made and the participator by whom it was made subsequently discovers that an error or mistake has been made in the claim, he may make a supplementary claim within the time allowed for making the original claim.

(3) The provisions of Schedule 5 to this Act specified in the first column of the Table set out in paragraph 1(3) of Schedule 6 to this Act shall apply in relation to a claim under this Schedule as they apply in relation to a claim under the said Schedule 5, subject to any modifications specified in the second column of that Table and with the substitution, for references to the responsible person, of references to the participator by whom the claim under this Schedule is made and, for references to section 3 or 4 of this Act, of references to section 6 of this Act.

SCHEDULE 8

EXTENSION OF SECTION 485 OF TAXES ACT IN RELATION TO PETROLEUM COMPANIES

Definition of petroleum company

1. For the purposes of this Schedule a company is a petroleum company if—

- (a) its activities include those specified in any of sub-paragraphs (a) to (e) of paragraph 2 below; or
- (b) it is associated with a company whose activities include those specified in any of those sub-paragraphs and its own activities include those specified in sub-paragraph (f) of paragraph 2 below.

2. The activities referred to in paragraph 1 above are—

- (a) the acquisition or disposal of petroleum or of rights to acquire or dispose of petroleum;
- (b) the importation into or exportation from the United Kingdom of petroleum products or the acquisition or disposal of rights to such importation or exportation;
- (c) the acquisition otherwise than for importation into the United Kingdom of petroleum products outside the United Kingdom or the disposal outside the United Kingdom of petroleum products not exported from the United Kingdom by the company making the disposal;
- (d) the refining or processing of crude petroleum;
- (e) the extraction of petroleum, either under rights authorizing it or under contractual or other arrangements with persons by whom such rights are exercisable; and
- (f) the ownership, operation or management of ships or pipelines (as defined in section 65 of the Pipe-lines Act 1962) used for transporting or conveying petroleum or petroleum products.

Petroleum company as resident buyer or resident seller

3.—(1) The application to a transaction of subsection (1) or (2) of section 485 of the Taxes Act shall not be excluded by the proviso thereto (resident buyer or resident seller) if—

- (a) either party to the transaction is a petroleum company or both are petroleum companies; and
- (b) the activities of either or both are or include activities with respect to which the conditions stated in sub-paragraph (2) (a) or (2) (b) below are satisfied; and

(c) the transaction is part of such activities or is connected with them.

(2) The conditions referred to in sub-paragraph (1) above are—

(a) that profits from the activities are or would be chargeable to overseas tax for which credit could be given under section 498 of the Taxes Act or in pursuance of arrangements having effect by virtue of section 497 of that Act; and

(b) that the activities are exploration or exploitation activities within the meaning of section 38 of the Finance Act 1973.

4. Where both the buyer and the seller are resident in the United Kingdom and the Board, in pursuance of the preceding paragraphs, direct that subsection (1) or subsection (2) of section 485 of the Taxes Act is to apply to the computation of the income, profits or losses of the one, the direction may extend the application of that subsection to the computation of the income, profits or losses of the other, and where it does so adjustments shall be made under subsection (3) of that section accordingly.

Modification of section 485 of Taxes Act in relation to certain sales to or by petroleum companies

5. Where any property is sold and either the buyer or the seller is a petroleum company or both are petroleum companies, then if—

(a) the sale is part of a transaction or series of transactions (whether or not between the same persons) and its terms are affected by those of the remainder of the transaction or transactions; or

(b) what is sold is petroleum extracted under rights exercisable by a company other than the buyer, and not less than 20 percent of that company's ordinary share capital was at the time of the sale owned directly or indirectly by one or more of the following, that is to say the buyer and any companies associated with the buyer,

section 485 of the Taxes Act shall apply in relation to the sale as if (a) were omitted.

Determination of arm's length price

6.—(1) Where a petroleum company was a party to a sale of property consisting of petroleum or petroleum products, then, in determining for the purposes of section 485 of the Taxes Act what price the property might have been expected to fetch had the parties to the transaction been independent persons dealing at arm's length and what consequences would have ensued in computing the income, profits or losses of the seller or the buyer for tax purposes if the property had been sold for that price, it shall be assumed—

(a) that the terms of the transaction would have been such as might have been expected to secure both to the buyer and to the seller a reasonable profit from transactions of the same kind carried out on similar terms over a reasonable period; and

(b) that the seller would not have been compelled by law or by executive action of any government to demand a price fixed by law or such action or a price not less than one so fixed; and

(c) that, if the transaction was part of a transaction or series of transactions (whether or not between the same persons), its terms would not have been affected by those of the remainder of the transaction or transactions; and

(d) in a case where the whole of the property sold is not delivered by the seller within twelve months after the date of the sale, that such part of the property as is delivered during any accounting period of the seller would have fetched a price equal to that which it might have been expected to fetch if sold under a contract for the sale of that part and of no other property, being a contract made at the end of the first half of that accounting period;

and no regard shall be had to the terms of similar transactions which were capable of being varied.

(2) If, in a case falling within paragraph (d) of the preceding sub-paragraph, the seller is not within the charge to corporation tax, that paragraph shall apply as if for the words "any accounting period of the seller" there were substituted the words "any accounting period of the buyer".

Supplementary

7.—(1) In this Schedule—

"petroleum" includes a mineral oil or relative hydrocarbon, and, except in the expression "crude petroleum", includes natural gas;

"petroleum products" means products derived from petroleum and wholly or substantially of a hydrocarbon nature.

(2) For the purposes of this Schedule—

(a) two companies are associated with one another if one is under the control of the other or both are under the control of the same person or persons, and "control" has the meaning given by section 534 of the Taxes Act;

(b) any question whether ordinary share capital is owned by a company directly or indirectly shall be determined as for the purposes of section 532 of the Taxes Act;

(c) rights are exercisable by a company if they are exercisable by that company alone or jointly with another company or companies;

(d) subsection (6) of section 485 of the Taxes Act (which extends the provisions of that section to transactions which are not sales) shall apply for the purposes of this schedule except those of paragraph 5(b).

[Press Release]

INLAND REVENUE,
November 19, 1974.

OIL TAXATION BILL

The Oil Taxation Bill, published today, gives effect to the Government's proposals for the taxation of the oil industry, as outlined in the Chancellor's Budget Statement (Hansard, 12 November 1974 col. 270) and in the Paymaster General's speech in the Budget Debate (Hansard, 13 November 1974 cols. 539/546). Parts I and II of the Bill apply to oil (including natural gas) production in the United Kingdom and the territorial sea and continental shelf of the United Kingdom; part I imposes a new tax, petroleum revenue tax (PRT) on the profits from such production; part II puts a ring fence round the profits from such production for corporation tax purposes. Part III strengthens the corporation tax transfer-pricing rules in their application to transactions in oil produced overseas, oil transportation and certain transactions in oil products. A brief description of the provisions of the Bill is given below; more detailed notes are attached.

PART I: PETROLEUM REVENUE TAX

Clause 1 imposes the tax on profits from winning oil (including natural gas) in the United Kingdom and the territorial sea and continental shelf of the United Kingdom. Each participator (licensee) for an oil field is charged on his profits from the field, computed for half-yearly periods.

Clause 2 sets out the rules for computing profits and losses. Briefly, there are deducted from the gross profit (receipts for arm's-length sales, plus the market of other disposals and of appropriations for refining, plus or minus two-thirds of any increase or decrease in stocks) the following outgoings: i. license royalties, ii. the participator's share of expenditure for the field, plus a 50 percent uplift for certain expenditure (broadly, capital expenditure) and iii. abortive exploration or development expenditure (Clauses 5 and 6) incurred by the participator or an associated company. Deliveries of oil before 13 November 1974 are exempt.

Clause 3 defines the allowable expenditure for a field, beginning with exploration in the field area and ending with certain closing down expenditure, and the expenditure which qualifies for uplift. Certain types of expenditure, including interest, are specifically disallowed.

Clause 4 provides modified rules for expenditure on assets with a life of more than 12 months. The allowance to be given at the outset will be based on the expected use of the asset, over its life, for the field; this allowance will be revised (up or down) in successive years if the facts change.

Clause 5 defines abortive exploration expenditure (which a participator can set against his profits from any field). The expenditure does not qualify for uplift.

Clause 6 defines abortive development expenditure (which a participator can set against his profits from any field).

Clause 7 provides for the carry-forward of losses; and to a limited extent for carry-back.

Clause 8 is an interpretation clause.

PART II: RING FENCE

The ring fence ensures that the corporation tax on profits from oil production in the United Kingdom (including the territorial sea and continental shelf) is not reduced by reliefs for losses and extraneous allowances on other activities. In general, these rules are to apply for accounting periods ending after 11 July 1974 (the date of the Government's White Paper on North Sea Oil and Gas Cmnd 5696).

Clause 9 treats United Kingdom oil production as a separate trade from any other activities (including refining), and prevents relief, including group relief, arising from such other activities from being set against the production profits.

Clause 10 affects the measurement of the profit within the ring fence by providing, in effect, that when oil crosses the ring fence the PRT rules for valuing it are to apply (in-substitution for the normal corporation tax transfer-pricing rules).

Clause 11 covers charges on income. The main provision is that interest paid is not to be allowed against profits within the ring fence unless paid on money borrowed specifically for activities within the ring fence.

Clause 12 provides that advance corporation tax paid by a company in respect of a distribution to an associated company is not to be set against the paying company's mainstream corporation tax liability in respect of income within the ring fence. Without such a provision the principle of the ring fence could be substantially breached if the associated company had extraneous losses or allowances which it could claim against the distribution made to it. The clause applies to distributions after 19 November 1974.

Clause 13 provides for PRT paid by a company to be deducted in computing its ring fence income for corporation tax purposes.

Clause 14 is an interpretation clause.

PART III: OVERSEAS OIL

Clause 15 strengthens the existing corporation tax transfer-pricing legislation, from 1 January 1973, in its application to petroleum companies. The main changes are set out in Schedule 8.

Clause 16 is an interpretation clause.

SCHEDULES

Schedules 1 to 7 are concerned with PRT; Schedule 8 applies to corporation tax.

Schedule 1 provides for oil fields to be determined by the Secretary of State for Energy, or, in Northern Ireland, by the Department of Commerce; and lays down the procedure for determinations.

Schedule 2 provides for the management and collection of PRT. In general, the corporation tax administration provisions are applied, with appropriate modifications (many of them under the Table in paragraph 1(1)). Provision is also made for the appointment of a "responsible person" for each oil field (paragraph 4) to make returns of oil production (paragraph 5) and also to make expenditure claims under Schedule 5. PRT is payable four months after the end of the half-yearly chargeable period to which it relates (paragraph 13) and arrears of tax carry interest at 9 per cent (paragraph 15). Participators have a right of appeal to the Special Commissioners (paragraph 14(1)) and to the Courts (Taxes Management Act 1970 Section 56 as applied in the Table in paragraph 1(1)).

Schedule 3 provides miscellaneous special rules for PRT including definitions of arm's-length sales and the market value of oil (paragraphs 1 and 2). Special provision is also made for arrangements under which a person other than a participator acquires an interest in the participator's right to oil (paragraphs 4 and 5).

Schedule 4 provides supplementary rules regarding allowable expenditure.

Schedule 5 sets out the procedure for claiming allowable expenditure for a field; in cases of dispute, the responsible person (by whom the claim is made) has a right of appeal to the Special Commissioners (paragraph 5(1)) and to the Courts (see paragraph 8).

Schedules 6 and 7 set out the procedure for claiming abortive exploration or development expenditure.

Schedule 8 strengthens the existing corporation tax transfer-pricing rules in relation to petroleum companies. Paragraph 3 enables those rules to be applied in certain circumstances even though both parties to a transaction are resident in the United Kingdom; and paragraph 5 enables them to be applied in certain cases even though the two parties are not under common control. Special provision is also made for determining the arm's-length price of oil (paragraph 6). The provisions of the schedule will not normally apply to United Kingdom oil, however, since this is provided for in Clause 10.

OIL TAXATION BILL—EXPLANATORY NOTES

PART I: PETROLEUM REVENUE TAX

Clause 1 imposes PRT, and defines the scope of the tax and the general basis of charge.

Subsection (1) provides for the tax to be charged on profits from mineral oil or related hydrocarbons, and natural gas, won in the United Kingdom and the territorial sea and continental shelf of the United Kingdom. These substances—comprehensively referred to in Part I of the Bill as "oil"—are defined by reference to the statutory provisions which vest the property in them in the Crown, and provide for them to be won under license.

Subsection (2) provides for each participator, normally a licensee (Clause 8(1)), in an oil field to be charged to the tax on his assessable profit from the oil field in each chargeable period, less any loss from the field carried forward or backward under Clause 7. The rate of tax is left to be fixed in a later bill.

Subsections (3) and (4) provide that chargeable periods (except the first) for an oil field shall be the half years ending 30 June and 31 December. The first chargeable period for a field is defined in such a way that it will not come into being—and therefore the machinery for charging the tax will not start to operate—until the total accumulated production of oil (including gas) from the field exceeds 1,000 long tons (or the gas equivalent). Once that point is reached the 30th June or 31st December (whichever comes first) next following it will be the terminal date for the first chargeable period. That period, however, will have no fixed starting date so that all past disposals and appropriations (see Clause 2) of oil from the field will fall within it. For an oil field where the total oil won and saved exceeded 1,000 long tons before 30 June 1974 the first chargeable period will end on 31 December 1974.

Subsection (5) provides for Schedules 1, 2 and 3 to have effect.

Clause 2 lays down the rules for computing a participator's assessable profit or loss from an oil field in any chargeable period (*subsection (1)*).

Subsections (2) and (3) provide for the computation to comprise a number of components; these components, positive or negative, are aggregated to arrive at the assessable profit or allowable loss. The components can be summarized as follows:

(i) Gross profit or gross loss, ie, the amounts receivable for deliveries, the value of appropriations, and two-thirds of the value of the closing stock, less two-thirds of the value of the opening stock;

(ii) A deduction for royalty and other periodic payments under the licence (with a corrective adjustment for preceding chargeable periods); and

(iii) A deduction for expenditure (plus a 50 per cent uplift for certain capital expenditure) together with a provisional deduction of 5 per cent of the amount of the receipts and appropriations for the chargeable period, and an adjustment for the provisional allowance given in preceding periods.

Subsections (4) and (5) provide for the computation of the first component—the gross profit or loss. First, the following are to be aggregated:

(a) The price for oil delivered in the chargeable period under arm's-length sales made by the participator;

(b) The market value at the mid-point of the chargeable period of oil delivered in the chargeable period under disposals made by the participator other than arm's-length sales;

(c) The market value, at the mid-point of the chargeable period, of oil appropriated by the participator to refining or other processing during the chargeable period; and

(d) Two-thirds of the market value, at the end of the chargeable period, of the participator's oil not disposed of or appropriated, or disposed of but not delivered.

(Deliveries and appropriations before 13 November 1974 are, however, excluded from the computation).

Subsections (6) and (7) provide for the computation of the second component—the deduction for royalties and other periodic payments under licences. Royalties for oil won in any 6 months period are payable 2 months after the period. The clause provides for the royalty

payable in respect of ie, due 2 months after) a chargeable period, as included in the participator's statement to the Department of Energy, to be deducted in the PRT computation for that chargeable period ((7)(a)). This amount will then be added back ((6)(b)(i)), and the actual amount paid in the following chargeable period will be deducted ((7)(b)), in the computation for the following period. In addition, the periodic payments under the licence, other than royalty, will be deducted for the chargeable period *in* which they are paid ((7)(c)); and any repayments of royalty will be added back for the period in which they are made ((6)(b)(ii)).

Subsections (8) to (11) deal with the third component of the computation—the allowance for expenditure. The procedure for claiming expenditure for a field is set out in Schedule 5. Briefly, the expenditure is claimed by the “responsible person” nominated to act for the participators as a body. As and when it is allowed (by agreement or on appeal)—together with any 50 per cent uplift attributable to it—each participator's share becomes allowable against the next assessment on him in respect of the field ((9)(b)). Each participator can claim separately for abortive exploration expenditure (Clause 5) or abortive development expenditure (Clause 6) under the procedure in Schedules 6 and 7; but the procedure for allowing these two types of expenditure in the PRT computation is similar to that for expenditure of the field ((9)(c) and (d)).

In addition to the deduction for expenditure claimed and allowed, there is a provisional deduction for each chargeable period, equal to 5 per cent of the amounts under headings (a) (b) and (c) of subsection 5, as shown in the participator's return for the period ((9)(a)). This provisional deduction will be reduced, however, by the amount of any field expenditure incurred in the chargeable period which has been allowed on a claim (as described in the preceding paragraph) in time to be deducted in the computation for the period ((11)).

The provisional allowance deducted in the computation for a period (period 1) is subsequently withdrawn by being added back in the computation for the next period but one (period 3) ((8)(b)).

Clause 3, supplemented by Schedule 4, lays down the rules for the expenditure (other than expenditure on long-term assets—see Clause 4) which is allowable for an oil field; Schedule 5 sets out the procedure for claiming the expenditure.

Subsection (1) sets out the categories of allowable expenditure (subject to the specific disallowance rules in (3) and in Schedules 3 and 4). In category (b), royalty and other periodic payments to the Secretary of State are excluded because they are separately deductible as described under Clause 2 (6) and (7) above.

Subsection (2) disallows any expenditure so far as it has been allowed for another oil field.

Subsection (3) specifically disallows certain types of expenditure, as follows:

- (a) Interest and similar expenditure;
- (b) The cost of land (but not so as to disallow the cost of a licence deductible under (1)(b));
- (c) The cost of buildings or structures on land, other than those used in onshore production, or to be used offshore;

(d) Any expenditure depending on the quantity, value or proceeds of production, or on the profits, of the field; and

(e) Any payment to obtain an interest in the field (other than a payment to the Secretary of State).

Subsection (4) lays down the types of allowable expenditure which are to qualify for the 50 per cent uplift (Clause 2(9) (b) (ii)) in computing assessable profits. Category (a) will in general cover expenditure falling within (1) (a) and (b), together with the cost of all the facilities to enable commercial production from the field to begin—for example, production platforms and offshore pipelines. Category (b) covers expenditure within (1) (c). Category (c) covers, for example, the cost of additional platforms or additional offshore pipelines, or booster installations. No payments for hiring assets will qualify for uplift.

Subsection (5) provides for appropriate apportionments of expenditure incurred for mixed purposes; and *subsection (6)* extends the meaning of “enactment” in (1) (g).

Clause 4 lays down general rules for expenditure on long-term assets; that is, expenditure on an asset used or to be used in connection with the field, whose useful life continues after the claim period in which it is first used for the field. “Claim periods” are periods of 6 or 12 months ending on 30 June or 31 December, at the option of the responsible person for the field; expenditure claims are to be made for claim periods (Schedule 5 paragraphs 1 and 2); and “use in connection with the field” means use in connection with the field for one or more of the purposes in Clause 3(1), except (b) (Clause 8(2)).

The general principle is that at the end of the claim period in which expenditure on a long-term asset is incurred an estimate is to be made, if possible, of its future use for the field and for other purposes; the whole of the cost, or an appropriate proportion of it, will then be allowable at the outset. Similar estimates will be made at the end of each successive claim period, and where necessary an adjustment will be made. Thus if an asset costing £m1 was acquired in claim period 1, and the estimated use (over the life of the asset) at the end of that period was $\frac{3}{4}$ for the field and $\frac{1}{4}$ for other purposes, £750,000 will be allowable on that claim. If the estimate remains the same for claim periods 2 and 3, no adjustment will be required; but if, at the end of claim period 4, the estimated overall use for the field (from the outset) is revised to $\frac{1}{2}$, the allowance will be adjusted to £500,000, and the total expenditure claim for the field for claim period 4 will be reduced by £250,000. This procedure continues up to and including the claim period in which the asset permanently ceases to be used for the field (paragraph 4 of Schedule 4 deals with subsequent disposals for valuable consideration).

Subsection (1) defines the expenditure to which the clause is to apply. The proviso enables the Board to dispense with its application (so that Clause 3 applies instead) where the effect of applying it would be negligible.

Subsection (2) provides for the clause to have effect subject to the supplementary rules in Schedule 4, and to Schedule 5 (claims procedure).

Subsection (3) applies these principles to an asset which is not a brought-in asset; a brought-in asset is an asset which, since acquisition,

has been used otherwise than in connection with the field (12(a)). Provided that, in the claim period in which it is acquired, it is not used otherwise than for the field, that it is not a mobile asset, and that at the end of that period it is reasonable to assume that throughout its useful life it will be used only for the field, the whole cost will be allowable on the claim for that claim period. If these conditions are not all met, or if the asset is a brought-in asset, *subsection (4)* provides that *subsections (5) and (6)* shall apply.

Subsection (5) provides that for the claim period in which the expenditure was incurred (or, in the case of a brought-in asset, in which the asset was first used for the field) a full or proportionate allowance for the cost shall be given; if no reasonable estimate can be made of the future use, it is in effect assumed that the future use will be otherwise than for the field (paragraph (b)).

Subsection (6) provides that in the case of a mobile asset, the allowance shall be based on the proportion which use for the field up to the end of the claim period bears to the total use up to that date, if this produces a smaller allowance than the proportion based on past use and estimated future use.

Subsection (7) provides for a recomputation of the allowance in each succeeding claim period, using the same principles as (5) and (6). If in any claim period this produces a larger allowance than the net allowance so far made for the asset *subsection (8)* provides for the excess to be allowable on the claim for that claim period; if it produces a smaller allowance, *subsection (9)* provides for the difference to be deducted from the other expenditure allowable on that claim.

Subsection (10) provides for the disallowances in Clause 3(2) and (3) to apply also for Clause 4; and for the definition of expenditure qualifying for uplift (Clause 3(4)) also to apply. It also provides that where the past allowance for a long-term asset is reduced under (9), there is to be a corresponding adjustment in the uplift allowed.

Subsection (11) provides a special rule for any period of time in which an asset is used simultaneously for the field and for other purposes; in such a period the asset is to be treated as used for the field for so much of the period as the extent of its use for the field in that period bears to its total use in that period.

Clause 5 provides an allowance for abortive exploration expenditure. This allowance is unlike the allowance for expenditure on the field—it has to be claimed separately by each participator, under the procedure laid down in Schedule 6.

Subsection (1) defines abortive exploration expenditure as expenditure which has been incurred on or after 1 January 1960 by a participator in a field (or by an associated company) on searching for oil in the United Kingdom or the territorial sea or continental shelf of the United Kingdom and which cannot qualify as allowable expenditure for an oil field under Clauses 3 and 4. The effect of this, broadly, is that abortive exploration expenditure incurred by a group can be allowed (see above) in the subsequent PRT computation of any member of the group which is a participator in an oil field.

Subsection (2) limits the allowance for expenditure on the acquisition of an asset with a life of more than 12 months. For each day on which the asset was used wholly and exclusively for the purpose in

subsection (1) a fraction of the cost will be deductible; the numerator of the fraction will be 1, and the denominator 3,650, or, if greater, the expected life of the asset (in days) from the date of acquisition.

Subsections (3) and (4) apply certain of the restrictions on expenditure allowable for a field to abortive exploration expenditure, with appropriate modifications.

Subsection (5) provides that if any expenditure which would otherwise be allowable under Clause 5 gives rise to any receipt by the person who incurred it or by any person connected with him, the allowable expenditure shall be reduced by that receipt.

Subsections (6) and (7) define, inter alia, an associated company for the purpose of subsection (1). A company which incurred any expenditure is connected with a participator in an oil field in respect of that expenditure if, throughout that part of the relevant period in which the two companies were in existence, one was the ultimate 75 per cent parent of the other; or if each of them, throughout that part of the relevant period in which it was in existence, had the same ultimate 75 per cent parent. The relevant period begins immediately before the expenditure was incurred, and ends at the end of the first chargeable period for the field against which the expenditure is claimed.

Clause 6 provides (subsection (1)) an allowance for abortive development expenditure; as in Clause 5 this has to be claimed separately by each participator under the procedure laid down in Schedule 7.

Subsection (2) defines abortive development expenditure as expenditure which has been allowed (with the 50 per cent uplift, where applicable) on a claim under Schedule 5, as allowable expenditure for another oil field where the winning of oil has been abandoned without reaching the cumulative quantity in Clause 1(4).

Subsection (3), inter alia, enables the participator who claims the relief against his profits from an oil field to claim both for his own share of expenditure on an abandoned field in which he was a participator, and for the share of an associated company which was a participator in such a field; the definition of associated company in Clause 5(6) and (7) is applied.

Clause 7 enables a loss accruing to a participator in a chargeable period to be carried forward against profits in subsequent periods, or, in some cases, to be carried back.

Subsection (1) enables a participator's losses to be carried forward without time limit against his subsequent profits from the field.

Subsection (2) allows a participator to elect to carry a loss back against his profits from the field in the two chargeable periods preceding the one in which the loss was incurred.

Subsection (3) provides that where production from a field ceases permanently, any allowable losses of a participator which have not been relieved under (1) and (2) shall be carried back against his profits from the field, without time limit.

Clause 8.—Subsection (1) provides definitions. In the definition of "participator" in relation to an oil field, paragraph (a) lays down the general rule that a participator, for a chargeable period, is any person who in that period was licensed to win oil in the oil field. Paragraphs (b) and (c) extend the definition, in certain circumstances, to

include a person who has ceased to be a licensee; this enables the PRT charge to continue in respect of the former licensee's final disposals and appropriations of his share of oil from the field, and for the recovery of the last provisional expenditure allowance made to him.

Subsection (2) explains references to the use of an asset in connection with an oil field.

Subsection (3) provides that anything done in connection with an area which is subsequently determined as an oil field, or in connection with oil won from that area, shall be construed, as regards the first chargeable period, as having been done in connection with the oil field or with oil won from the oil field.

Subsection (4) provides that, in general, references to the Secretary of State (who is responsible for licensing in Great Britain and on the continental shelf) shall be construed, in relation to licences in Northern Ireland, as references to the Department of Commerce (which is responsible for licensing there).

PART II: PROVISIONS RELATING TO THE EXTRACTION OF PETROLEUM IN THE UNITED KINGDOM OR A DESIGNATED AREA

Part II of the Bill contains the provisions for the corporation tax "ring fence", which will apply to accounting periods ending after 11 July 1974 (except for Clause 12, which will apply to distributions after 19 November 1974); and for the deduction of PRT in computing profits for corporation tax.

THE RING FENCE

The purpose of the ring fence is to prevent the corporation tax yield on United Kingdom oil production profits from being reduced by the set-off of losses and capital allowances from extraneous activities. The ring fence will operate in one direction only; it will not prevent any losses and capital allowances attributable to United Kingdom oil and gas production from being set off against non-North Sea profits where the normal corporation tax rules provide for this. Clause 9 deals with the set-off of losses and capital allowances; Clause 10 applies the PRT market value rules in computing ring fence income. Clause 11 deals with interest paid, and Clause 12 with advance corporation tax.

Clause 9 introduces the "ring fence" for "North Sea" profits. It provides that profits from oil extraction in the United Kingdom, its territorial waters and its continental shelf are to be treated as arising from a separate trade (see Clause 14(1) for definitions of "oil" and related terms). These profits will not be eligible for the set-off of reliefs (including group relief) and allowances from other activities. The clause is effective for accounting periods ending after 11 July 1974.

Subsection (1), read in conjunction with the definitions in Clause 14(1), treats as a separate trade the activities of a person, who has rights to win United Kingdom oil, in extracting the oil and transporting it (in the case of offshore oil) to the United Kingdom, or of having it extracted and transported on his behalf (ring fence activities). Income from oil rights, for example overriding royalties, is also

included in the fence. Contractors, however, are not within the scope of the clause.

Subsection (2) provides that trading losses (including losses attributable to trading capital allowances) may not be set against ring fence income unless the losses arise from ring fence activities.

Subsection (3) similarly provides that no relief is to be allowed against ring fence income for non-trading capital allowances, except (*subsection (4)*) capital allowances used by an associated company in its ring fence activities.

Subsection (5) provides that no group relief (Section 258 of the Taxes Act) is to be allowed against ring fence income of the claimant company, except to the extent that the relief consists of a loss incurred by the surrendering company in ring fence activities.

Subsection (6) provides for subsection (1) to apply to the computation of profits for accounting periods ending after 11 July 1974; the remaining rules apply to any claims for relief for accounting periods ending after that date.

Clause 10 supplements Clause 9 by providing that the special provisions in the PRT code for defining arm's-length transactions and for determining market value are also to apply as regards the ring fence; so that, for example, oil appropriated to refining by a licensee will be valued on the same basis for PRT and for the ring fence.

Subsection (1) provides for this as regards oil disposed of by licensees otherwise than at arm's-length, and *subsection (2)* as regards appropriations.

Subsections (3) to (5) make similar provision for oil disposed of otherwise than at arm's-length by persons other than licensees.

Subsection (6) excludes transactions to which the clause applies from the operation of Section 485 of the Taxes Act (sales etc. at under-value or overvalue).

Clause 11 is concerned with charges on income (interest etc.); under the normal corporation tax rules these are allowable against a company's profits from all sources.

Subsection (1) applies the clause to accounting periods ending after 11 July 1974.

Subsection (2) provides that no interest shall be allowable against ring fence income except to the extent that it is payable in respect of money which:

(i) Can be shown to have been borrowed from a lender (who is not an associated company) specifically for expenditure incurred in ring fence activities; and

(ii) Is secured on assets used in or to be produced by such activities.

Subsection (3) provides, however, that where interest is paid to an associated company to reimburse the interest which the associate pays on money borrowed as described in (2), the interest paid to the associated company can be allowed against the paying company's ring fence income.

Subsection (4) provides that charges on income other than interest (e.g. annuities or other annual payments) paid to an associated company shall not be allowed against ring fence income.

Clause 12 applies the ring fence principle to advance corporation tax (ACT). The clause provides that where a company makes a distribution to an associated company, it shall not be able to set off ACT on that distribution against the corporation tax on its own ring fence income. (It will be free to make the distribution to the associated company, without accounting for ACT at all, under the normal corporation tax rules.) ACT on distributions made otherwise than to an associated company will remain eligible for set-off against corporation tax on ring fence income (or any other income) under the normal corporation tax rules.

Subsection (1) applies the restrictions imposed by this clause to all distributions payable after 19 November 1974.

Subsection (2) provides that ACT paid in respect of a distribution made by a company to an associated company shall not be set against any liability to corporation tax on ring fence income. This rule is to apply both as regards a set-off against corporation tax on income of the company making the distribution, and as regards a set-off against corporation tax on the income of any company to whom the distributing company may surrender its ACT under the corporation tax rules.

Subsection (3). Under the general corporation tax rules there is a limit on the amount of ACT which may be set off any accounting period; the limit is the amount which, with the dividend to which it relates, equals the whole of the taxable income of the accounting period. The same principle is applied by subsection (3) to the new rule in the clause. The following examples illustrate this:

(i) The normal corporation tax rule:

A Ltd. has income	£100,000
Corporation tax	52,000
Net	48,000

The maximum ACT that may be set off is £33,000, i.e., the ACT on a "gross" distribution of £100,000, so that if A, drawing on reserves, pays a "net" dividend of more than £67,000 (on which the ACT is £33,000), the ACT on the excess will be surplus.

(ii) Application to the new rule as provided in *Clause 12*: A has ring fence income, £60,000; other income, £40,000; and corporation tax, £31,200; corporation tax, £20,800.

The maximum corporation tax against which ACT on a distribution to an associate is to be set, under *Clause 12*, will not be £20,800 but £13,200 (applying the normal corporation tax rule), taking a distribution of £40,000 on which ACT is £13,200.

Clause 13 provides for the PRT payable by a participator in an oil field to be deducted in computing, for corporation tax, his profits from United Kingdom oil production.

Subsection (1) provides for the PRT for a chargeable period to be deducted in computing, for corporation tax, the profits of the accounting period in which (or at the end of which) that chargeable period ends.

Subsection (2) provides for appropriate adjustments of the corporation tax liability if any of the PRT is subsequently repaid.

Subsection (3) provides a further relief, to take account of the fact that the reduction in the corporation tax payable, as a result of the deduction of PRT in computing profits, will in some cases diminish the amount of advance corporation tax (ACT) which the company can set against its mainstream corporation tax. In such a case, the company is to be allowed to claim repayment of the Act which, because of the deduction of PRT, it is unable to set against corporation tax, instead of having that amount of ACT carried forward under the normal corporation tax rules.

Clause 14 defines certain terms for the purposes of Part II.

PART III: MISCELLANEOUS AND GENERAL

Clause 15 provides for changes in the existing corporation tax rules in respect of transfer-pricing, so far as they affect petroleum companies.

Subsection (1) provides for the changes set out in Schedule 8 to apply to transactions entered into after 31 December 1972; and also to any earlier transaction carried out wholly or partly after that date, unless carried out within 12 months of the date on which it was entered into.

Subsections (2) and (3) provide that any question on transfer-pricing arising on an appeal by a petroleum company for a chargeable period beginning after 31 December 1972 is to be determined by the Special Commissioners.

Clause 16 provides for interpretation and construction of the Bill.

Schedule 1 provides machinery for the determination of oil fields.

Paragraph 1 defines an oil field as an area determined as such by the appropriate authority; the appropriate authority is the Secretary of State for Energy, or the Department of Commerce for Northern Ireland, or both, as appropriate.

Paragraph 2 provides for the appropriate authority to give notice of a proposed determination to the licensees concerned, and to make a conclusive determination after considering any representations received.

Paragraphs 3 and 4 provide for the form of the determination and for notice of it to be given.

Paragraph 5 provides that amended determination can be made under the same procedure.

Schedule 2 sets out the machinery for the management and collection of PRT.

Paragraph 1 applies to the tax certain provisions of the Taxes Management Act, modified where necessary.

Paragraph 2 requires each participator in a field to make a return within two months of the end of each chargeable period (half-year), giving details of his disposals and appropriations of oil, and of royalty and other payments under his license.

Paragraph 3 provides for penalties where the participator's return is not made within the time allowed.

Paragraph 4 provides for the appointment of a responsible person for each oil field, principally to make expenditure claims for the field under Schedule 5, and (*paragraph 5*) to make a return within one

month of the end of each chargeable period giving details of the oil won from the field and its allocation to the participators.

Paragraph 6 provides for penalties where this return is not made within the time allowed.

Paragraph 7 enables the Board to obtain further information about the oil field, or the oil produced from it, from a participator or from the responsible person.

Paragraph 8 provides for penalties where the participator, or the responsible person, makes an incorrect return or gives other incorrect information, either fraudulently or negligently.

Paragraph 9 provides that where a person makes an incorrect return neither fraudulently nor negligently, and subsequently discovers the error, the return shall be treated as negligently made unless he remedies the error.

Paragraph 10 provides for the Board to make assessments to tax, determinations of losses, and determinations that neither taxable profits nor allowable losses have arisen, and notify the participator.

Paragraph 11 requires the Board, where they are satisfied with a participator's return, to assess in accordance with it, and enables estimated assessments to be made in other cases.

Paragraph 12 enables the Board to make amending assessments or determinations.

Paragraph 13 provides for PRT to be payable four months after the end of the chargeable period to which it relates, or 30 days after the issue of the notice of assessment if that is later. No PRT, however, is to be payable before 30 April 1976.

Paragraph 14 provides for appeals to the Special Commissioners against assessments or determinations (there is a further right of appeal to the Courts under Section 56 of the Table in paragraph 1); and for the amount of tax which can be withheld pending determination of an appeal. The basic rule is that the participator may withhold tax on the amount by which the amounts included in the assessment exceed the amounts shown in his return (subparagraph (3)). In making this calculation, however, there is to be substituted for any market values shown in the participator's return the average price (if higher) for all arm's-length disposals by all licensees in the preceding chargeable period (subparagraphs (4) to (7)).

Paragraph 15 provides for interest at 9 per cent to be charged on PRT from four months after the chargeable period to which the tax relates up to the date of payment.

Schedule 3 contains miscellaneous provisions for PRT.

Paragraph 1 defines a sale of oil at arm's-length; if oil is disposed of by a participator otherwise than in such a sale, the market value of the oil, instead of the price receivable, is brought into his profit for PRT.

Paragraph 2 lays down rules for determining the market value of oil. Under subparagraph (2) the oil is assumed to be sold under a contract with a willing buyer, covering (subject to the modification below) the whole of the oil which has to be valued at that time; and providing, in the case of onshore oil, for delivery at the wellhead, and in the case of offshore oil, for delivery at the nearest reasonable

place onshore. The rule in subparagraph (2) is modified where not all of the oil disposed of by the participator in a chargeable period, otherwise than in sales at arm's-length, was disposed of to the same person. In such a case, the assumption that the contract covers the whole of the oil which has to be valued at that time is to be applied separately to the whole of the oil disposed of to any one person (subparagraph (3)).

Paragraph 3 provides for disputes as to the field from which oil has been won to be determined, as appropriate, by the Secretary of State, or the Department of Commerce (Northern Ireland), or both jointly.

Paragraph 4 provides for certain cases where a licensee's interest in a field is in effect assumed by an associated company. In such cases the associated company will be treated as a participator, and will be chargeable to PRT accordingly, as though he were the licensee; but if he fails to pay the tax (or any interest) it can be collected from the licensee.

Paragraph 5 provides for cases (other than those falling within paragraph 4) where a proportion of a licensee's share in a field has been acquired by some other person. In such cases, the licensee (the participator) is to be treated as having disposed of that part of the oil to the other person otherwise than in a sale at arm's-length, so that the market value of that oil will be included (under Clause 2(5)(b)) in the computation of the participator's assessable profit for the chargeable period in which it is delivered, whether delivered to that other person, or to some third person (subparagraphs (2) and (3)). Under subparagraphs (4) and (5), however, the participator may claim that there shall be substituted for the market value of the oil, in the computation of his assessable profit, the amount realised by the other person in sales of the oil, crude, at arm's-length, provided that the claim extends to all the oil sold by the other person at arm's length.

Paragraph 6 provides that oil won offshore shall be excluded from opening and closing stocks, in the computation of assessable profit, while in transit to the point of first landing in the United Kingdom.

Paragraph 7 provides that for the purposes of PRT expenditure shall be left out of account so far as it is met by the Government or by any other contributor, except as regards Government grants for development areas.

Schedule 4 contains provisions supplementary to the expenditure rules in Clauses 3 and 4.

Paragraph 1 provides that a person's expenditure on an asset is not allowable for an oil field if expenditure previously incurred by another person in the acquisition of an asset is allowable for that field. If, for example, one participator in a field acquires the asset, and the cost to him is allowable, any amount paid to him by another participator in the field for the asset (or an interest in it) will not be allowable. The same rule is to apply, with the necessary modifications, to other payments, such as payments for hiring or for services.

Paragraph 2 provides that where a person has incurred expenditure in acquiring an asset from a connected person, the amount of his expenditure is to be regarded, for Clauses 3 and 4, as not exceeding the cost of the asset to the connected person—or, where the asset has been transferred, through a series of connected persons, the cost in an ac-

quisition otherwise than from a connected person. This rule, like paragraph 1, is to apply, with the necessary modifications, for other kinds of payment.

Paragraph 3 restricts the expenditure which would otherwise be allowable for an oil field which was producing oil in commercial quantities before 13 November 1974 (deliveries of oil before that date are excluded from PRT—Clause 2(5)). Expenditure incurred before that date is to be allowable only to, the extent that:

(a) It falls within Clause 3(1) (a) to (c); or

(b) It was incurred on an asset which was used for the field on or after that date.

Paragraph 4 provides that where a long-term asset is disposed of for valuable consideration, within two years of permanently ceasing to be used for the field, by a participator or a person connected with him, a deduction shall be made from the expenditure allowable for the field on the claim for the claim period in which the consideration is receivable. The amount of the deduction is in proportion to the amount of the cost which was allowable for the field.

Paragraph 5 deals with receipts from the hiring-out of surplus facilities. Where a long-term asset is used to a substantial extent for an oil field in a claim period, and the participators (or persons connected with them) receive hire payments for the use of the asset for other oil fields (that is, oil fields within the scope of PRT), the use for the other fields is to be treated as use for the first field (so that the cost will be wholly allowable for that field); but the total allowable expenditure for that field will be reduced by the amount of the hire receipts.

Paragraph 6 provides for the case where the total expenditure allowable for a field in a claim period is insufficient to cover all the amounts that have to be deducted from that expenditure under any of the following provisions:

Clause 4(9) (reduction of previous allowance for long-term asset);

Paragraph 4(1) (disposal of long-term asset for valuable consideration); and

Paragraph 5(2) (hire receipts).

The excess amount is to be apportioned between the participators, and included in the computations of their assessable profit for the first chargeable period ending after the end of the claim period in question.

Paragraph 7 provides that insurance or compensation receivable for the loss or destruction of a long-term asset shall be treated in the same way as valuable consideration receivable on the disposal of such an asset (see paragraph 4).

Paragraph 8 provides that where a long-term asset is acquired jointly by the participators in two or more oil fields, Clause 4 shall be applied to each of those fields without regard to the use of the asset for the other oil fields; thus the participators in each of the oil fields will be able to obtain a full allowance for the cost of their share in the asset.

Schedule 5 sets out the machinery for claiming expenditure allowable for an oil field. The responsible person for the field makes a claim for the expenditure for the whole field; each participator's share of the expenditure is then deducted in his own PRT computation.

Paragraphs 1 and 2 provide for expenditure to be claimed for claim periods of six or twelve months (at the option of the responsible person). Each claim must state how much of the expenditure is claimed to qualify for the 50 per cent uplift, and how the expenditure is allocated between the participators (paragraph 2(3)); and must also give information for the recomputation, under Clause 4, of the allowance for long-term assets previously acquired (paragraph 2(4)). Expenditure incurred by a person before he became a participator must be included in the claim for the period in which he became one (paragraph 2(2)).

Paragraph 3 provides for the Board to notify the responsible person of the amount agreed as allowable on the claim (and of the amount qualifying for uplift); successive notifications may be issued on a claim.

Paragraph 4 provides that where the information needed for re-computing the allowance for long-term assets is not given within the time allowed, the Board can make estimated adjustments.

Paragraph 5 enables the responsible person to appeal to the Special Commissioners against the Board's decision or decisions on a claim, but not earlier than six months, or later than three years, after the claim was made; and *paragraph 6* enables an appeal to be settled by agreement.

Paragraph 7 provides the machinery for the adjustment of an assessment or a determination, and for the repayment of tax with interest, where the Special Commissioners determine that part or all of the expenditure in dispute is allowable.

Paragraph 8 provides similar machinery as regards a subsequent determination by the Courts; and also provides for the payment, with interest, of any additional tax resulting from the Court's determination.

Schedule 6 provides the machinery for a participator to claim for abortive exploration expenditure incurred by him, or a company in his group, against any subsequent PRT assessment or determination made on him.

Paragraph 1(3) applies parts (including appeals) of the claim procedure for the allowance of field expenditure to abortive exploration expenditure, modified where necessary (for example, the claim is to be made by the participator and not the responsible person).

Schedule 7 provides the machinery for a participator to claim for abortive development expenditure incurred by him, or a company in his group, against any subsequent PRT assessment or determination made on him.

Paragraph 1 provides that the responsible person for a field may refer to the Board a claim for the field to be classified as an abandoned oil field where production of oil has permanently ceased without reaching a significant amount (i.e., the amount in Clause 1(4)).

Paragraph 2 provides that the Board shall notify the responsible person of their decision, and that he shall then inform the participators. *Paragraph 3* enables the responsible person to appeal to the Special Commissioners against the Board's decision.

Paragraph 4 provides the machinery for a participator to claim his share of the expenditure on an abandoned oil field, against his profits from another field; and, like Schedule 6, applies (in subparagraph (3)) parts of the claim procedure for the allowance of field expenditure to abortive development expenditure, with any necessary modifications.

Schedule 8 strengthens the corporation tax rules governing transfer-pricing (Taxes Act Section 485) in their application to petroleum companies.

Under *paragraphs 1 and 2* a company is a petroleum company if it carries on any of the specified types of activity; these include (1(b) and 2(f)) the transportation of petroleum for an associated company.

Paragraph 3 widens the scope of Section 485, for petroleum companies, by removing the normal requirement that one of the parties to a transaction must be resident outside the United Kingdom if the section is to apply. The paragraph will apply if, as regards at least one of the parties, the transaction is part of an activity which (a) gives rise to tax credit relief for overseas tax, or (b) is an activity of exploring or exploiting the United Kingdom territorial sea and continental shelf. In practice, the application of (b) will be limited, in view of the special corporation tax transfer-pricing rules for United Kingdom oil production which are set out in Clause 10, and which override Section 485.

Paragraph 4 provides that where both parties to a transaction are resident in the United Kingdom (that is, a case within paragraph 3), and the Board direct that Section 485 is to apply so as to correct the price of the transaction in the tax computation of one party, the direction may extend the correction to the computation of the other party.

Paragraph 5 further widens the scope of Section 485 by removing, in certain cases, the requirement that the two parties to a transaction must be under common control if the section is to apply. The cases in question are those where at least one of the parties is a petroleum company, and either (a) the sale is part of a series of transactions which affect the terms of the sale, or (b) the buyer of petroleum, and any associated companies, own 20 per cent or more of the ordinary share capital of the company owning the extraction rights.

Paragraph 6 lays down special rules for determining the arm's-length price of petroleum or petroleum products, for Section 485, on a sale where at least one of the parties is a petroleum company.

(a) It is to be assumed that the terms would have been such as to yield a reasonable profit from such transactions over a reasonable period;

(b) Artificial pricing rules laid down by foreign governments are to be ignored;

(c) If the transaction was part of a series, that the other transactions in the series would not have affected it; and

(d) In the case of a long-term contract, that the sale was only for property delivered in the accounting period.

Paragraph 7 provides definitions; inter alia ((2)(c)) it extends certain of the preceding rules to transactions other than sales of property.

Paragraph 4 provides the machinery for a participant to claim his share of the expenditure on an abandoned oil field, against his profits from another field; and, like Schedule 6, applies (in subparagraph (3)) parts of the claim procedure for the allowance of field expenditure to abortive development expenditure, with any necessary modifications.

Schedule 3 strengthens the corporation tax rules governing transfer pricing (Tax Act Section 485) in their application to petroleum companies.

Under paragraphs 1 and 2 a company is a petroleum company if it carries on any of the specified types of activity; these include (1)(b) and 2(f) the transportation of petroleum for an associated company. Paragraph 3 widens the scope of Section 485, for petroleum companies, by removing the normal requirement that one of the parties to a transaction must be resident outside the United Kingdom if the section is to apply. The paragraph will apply if, as regards at least one of the parties, the transaction is part of an activity which (a) gives rise to tax credit relief for overseas tax, or (b) is an activity of exploring or exploiting the United Kingdom territorial sea and continental shelf. In practice, the application of (b) will be limited in view of the special corporation tax transfer pricing rules for United Kingdom oil production which are set out in Class 10, and which override Section 485.

Paragraph 4 provides that where both parties to a transaction are resident in the United Kingdom (that is, a case within paragraph 3), and the Board direct that Section 485 is to apply so as to correct the price of the transaction in the tax computation of one party, the direction may extend the correction to the computation of the other party.

Paragraph 5 further widens the scope of Section 485 by requiring, in certain cases, the requirement that the two parties to a transaction must be under common control if the section is to apply. The cases in question are those where at least one of the parties is a petroleum company, and either (a) the sale is part of a series of transactions which affect the terms of the sale, or (b) the buyer of petroleum, and any associated companies, own 20 per cent or more of the ordinary share capital of the company owning the extraction rights.

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(a) It is to be assumed that the terms would have been such as to yield a reasonable profit from such transactions over a reasonable period.

(b) Artificial pricing rules laid down by foreign governments are to be ignored.

(c) If the transaction was part of a series, that the other transactions in the series would not have affected it; and

(d) In the case of a long-term contract, that the sale was only for property delivered in the accounting period.

Paragraph 7 provides definitions: in this (3)(c) it extends the scope of the preceding rules to transactions other than sales of property.