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CONTINUING UNCERTAINTY OVER ROYALTY ABOLITION PUTS INVESTMENT IN NORTH SEA AT RISK

The continuing uncertainty created by the Government's unwillingness to nominate a prospective date for the abolition of Royalty taxes in the North Sea is threatening the timing of new investment in mature oil and gas fields of up to £2 billion, claims the UK Offshore Operators Association (UKOOA), the representative body for 30 exploration and production companies in the UK.

Until Royalty taxes are abolished, the marginal tax rate for these fields will rise from 69 percent to 74 percent.

Further investment is seen as crucial to prolonging activity in Britain's oldest offshore fields, now nearing the end of their commercial lives but which experts believe could hold a further 4 billion barrels of oil equivalent.

"Our position has been made consistently clear since the Budget," said Steve Harris, UKOOA director of communications. "There is no need for a consultation on Royalty abolition and this tax should be withdrawn as soon as possible. Delay will only prolong uncertainty and investors will think twice about committing new capital for drilling and redevelopment in mature fields until a firm date is set."

"As these fields approach the end of their commercial lives, the heavy tax burden can discourage fresh investment, reducing the life expectancy of the fields and leading to earlier cessation of production and decommissioning, " explains Beverly Mentzer, chairman of UKOOA's Fiscal Policy Group. "In addition, the infrastructure is no longer available for transportation of hydrocarbons from other areas."

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For further information, please contact:
Trisha O'Reilly Tel: 020 7802 2422/2400
UKOOA Communications Team Fax: 020 7802 2401
2nd Floor, 232-242 Vauxhall Bridge Road Email: toreilly@ukooa.co.uk
London SW1V 1AU Pager: 07659 153 069

Website: www.oilandgas.org.uk

<u>Note to Editors</u>

1. **The UK Offshore Operators Association (UKOOA)** is the representative organisation for the UK offshore oil and gas industry. Its 30 members are licensed by the British Government to explore for and produce hydrocarbons in UK waters.
2. **Royalty** is charged at 12.5 percent on the gross value of oil and gas produced from UKCS fields, less an allowance for the costs of conveying, treatment and initial storage. Royalty is only paid by fields which received development consent on or before 31 March 1982.
3. **There are around 30 pre-1982 fields** in the UK continental shelf (UKCS) paying Royalty on revenues in addition to Corporation Tax. They account for some 20 percent of total industry capital investment, which in 2001 stood at £3.5 billion. About a dozen fields also pay Petroleum Revenue Tax (PRT), which means that the aggregate marginal rate of tax paid by these fields is 74 percent.
4. **Delaying the abolition of Royalty taxes** could impact investment in each of the following years: 2002 - £680; 2003 - £520 million; 2004 - £440m and £540m – 2005.
5. **Examples of Royalty paying fields** include the Brent, Forties, Buchan, Claymore, Frigg, Heather and Viking fields.
6. **The two mature fields were granted Royalty remission in 2001**. There were Talisman's Beatrice Field and CNR International's Columba E Terraces.