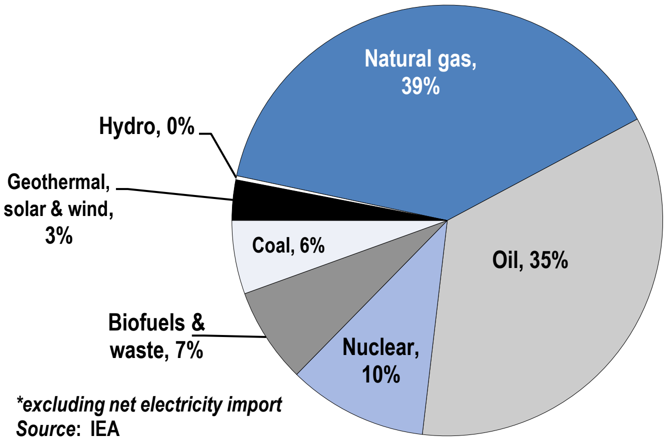
United Kingdom

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Total Primary Energy Supply* in 2017



**excluding net electricity import*
Source: IEA

The United Kingdom (UK) has been a major producer of oil and natural gas since the 1980s, though the long-term trend is of declining output from the continental shelf in the North Sea as its reserves deplete. Historically, the country was a big coal producer too, but production declined sharply in the 1990s with the phasing out of state aid. From 1999, natural gas was the top fuel used in power generation, exceeding coal and oil during most years.

The United Kingdom has been a pioneer in deregulating and liberalising energy markets through price decontrol, the closure of inefficient coal mines, the removal of subsidies, privatisation and the introduction of competition, and open access to electricity and natural gas networks regulated by an independent regulatory body. Today, there is virtually no state ownership of energy assets and all markets except the high-voltage transmission grid are open to competition. Only the high-voltage transmission grid throughout Great Britain is operated by the National Grid. Similarly, in Scotland the transmission system is owned by the Scottish Power and Scottish and Southern Energy, and the Northern Ireland network by Northern Ireland Electricity Networks. Through the process of unbundling and privatisation of the energy sector in the 1990s well over half of all retail customers have switched away from the incumbent natural gas and electricity supplier.

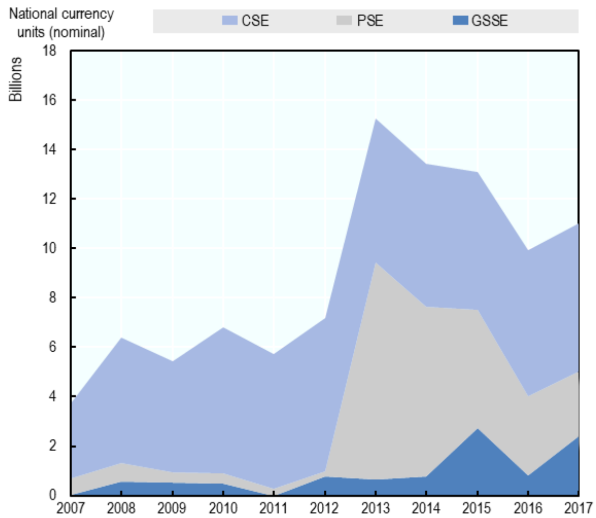
Energy prices and taxes

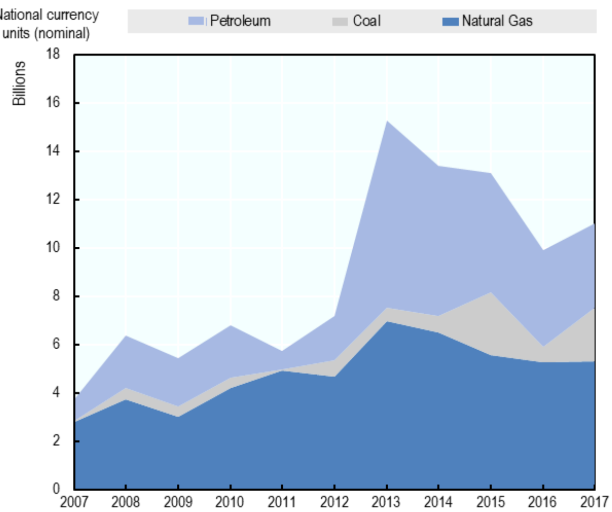
All retail energy prices in the UK are set freely by the market. The Office of Gas and Electricity Markets (Ofgem) regulates electricity and gas network access charges through five-year price control periods that set the maximum amount of revenue energy network owners can take through the charges they levy on customers. These prices are meant to cover their costs and earn them a return, while providing incentives to be efficient and to innovate technically.

Oil and gas production is subject to three taxes: *(i)* the Petroleum Revenue Tax (PRT), levied on the gross profits made on fields that were approved for development before 16 March 1993 (it was permanently reduced to 0% from 35% in March 2016); *(ii)* the Ring-Fence Corporation Tax (at a rate of 30%); and, *(iii)* a Supplementary Charge (which was cut to 10% from 20% in March 2016).

Energy sales are subject to VAT (at a rate of 20%), excise taxes, and a Climate Change Levy (CCL). A reduced VAT rate of 5% is applied to household fuel and power, as well as to the installation of certain energy-saving materials in residential properties. Excise taxes are levied on oil products used for both commercial and non-commercial purposes. Businesses and public sector organisations are charged the CCL on consumption of electricity, natural gas, LPG and other solid fuels (e.g. coal, ignite). Discounts and exemptions exist depending

Total support by for fossil fuels in the United Kingdom by support indicator (left) and fuel type (right)





Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

on the source and use of the fuel (power generators are exempt, for example). Household users are exempt from paying the CCL.

Energy generators are also subject to Carbon Price Support rates which must be paid for each tonne of carbon emitted via the burning of fossil fuels to produce energy.

Recent developments and trends in support

Heating fuel and power consumed by UK households have been subject to a much lower rate of VAT than that applied to regular products (20% as of January 2011). Domestic fuel and power were initially zero-rated when VAT was first introduced in 1973 but subsequently became liable to a rate of 8% with the VAT Act of 1994. The rate was eventually lowered to 5% (the EU minimum) in 1997. Several support measures exist to reduce the tax burden on the upstream sector. In 2015, the UK Government, in order to simplify the tax regime applied to the oil and gas industry, discontinued new field allowances and the brownfield allowance and replaced them with the Investment Allowance. In 2018, the Government announced the introduction of a transferable tax history (TTH) mechanism to remove tax barriers to new investment in the North Sea and amended Petroleum Revenue Tax rules to simplify the process by which older fields are sold. Over the five-year period, 2013-2018, the cost of decommissioning tax relief to the UK Government was around GBP 4.5 billion.

Examples of measures	
Transferable Tax History (2018 -)	In 2018, the UK Government introduced a mechanism allowing buyers of equity interests in the UK continental shelf oil and gas fields to transfer part of the tax histories of the sellers in order to be able to carryback and fully utilize tax deductions for the costs of decommissioning. This mechanism is known as Transferable Tax History (TTH). The OBR-verified estimate of the Exchequer impact of TTH is a yield of GBP 65 million to 2023-24.
Investment Allowance (2015 -)	In 2015, the UK Government introduced a new investment allowance to reduce the amount of adjusted ring fence profits subject to the Supplementary Charge. The measure allows deducing 62.5% of field-specific investment expenditures from the ring-fenced profits subject to Supplementary Charge. It replaced the historic new field and brown field allowances.
Onshore Allowance (2014-)	In 2014, the UK Government introduced a so-called pad allowance in order to encourage investments into shale gas projects at the pad level (the term refers to the drilling and extraction site). The measure deducts a portion of a company's capital spend on a 'pad' against that company's taxable profits subject to the Supplementary Charge.