

Second Reading Briefing: Offshore Petroleum Licensing Bill

Summary

- The [Offshore Petroleum Licensing Bill](#) (OPL Bill), effectively requires annual licensing rounds for offshore oil and gas extraction in the UK. The stated [aim](#) of the Bill is to ‘boost the UK economy, energy security and transition to net zero’.
- New licensing will have minimal impact on UK supplies of oil and gas: between now and 2050, new licences are expected to provide just four days worth of gas a year [1]. As a consequence, new licensing won’t significantly boost tax revenues, secure energy supplies, nor prevent the decline of jobs in the oil and gas sector. As the Secretary of State for DESNZ confirmed, the OPL Bill is not about lowering bills.
- The OPL Bill erodes the already weak measures that are in place to ensure the UK oil and gas industry is aligned with the UK’s climate targets. The new ‘tests’ in the OPL Bill, which licensing rounds will be subject to, override the climate checkpoint that came into force just last year, make no reference to industry emissions reduction targets, and are designed to be impossible to fail.
- The OPL Bill offers support for oil and gas at a time when the renewable energy sector should be the priority, and households enter another winter of sky high energy bills without plans being put in place to scale up energy efficiency and renewables to prevent the cycle continuing.

What does the Offshore Petroleum Licensing Bill do?

The OPL Bill requires the oil and gas regulator, the North Sea Transition Authority (NSTA), to invite oil and gas companies to apply for at least one licensing block each year. Yet the NSTA already has the power to issue licences when it sees fit and there have been annual [licensing rounds](#) for most of the past decade. The NSTA Board unanimously agreed that legislation requiring annual licensing rounds [was unnecessary](#).

[The Bill](#) includes two ‘tests’ which must be passed before licences are offered. Without amendments, these tests will be impossible to fail. Given the government does not currently produce all of the data required to carry out the tests, it is also unclear how they will be applied in practice [2]. The tests are:

- **Carbon intensity test:** this would be met if the carbon intensity (i.e. production emissions) of UK gas is lower than that of LNG imported into the UK. This is a disingenuous test which (a) compares UK gas to the [most polluting of imports](#), despite the fact that LNG imports are not the main source of gas imports, (b) compares carbon intensity at the point of production rather than combustion which [exaggerates the difference](#) [3], and (c) doesn’t consider the carbon intensity of oil, which makes up the majority (70%) of remaining North Sea reserves. Around a third of our gas comes from Norway, which is half as polluting as UK gas, and the Government’s line on imported gas emissions has been widely shown to be [misleading](#). The carbon intensity of UK-produced oil is higher than the global average.
- **Net importer test:** this would be met if the amount of oil and gas produced in the UK is less than the UK’s demand for oil and gas. Yet the UK will remain a net importer until decarbonisation policies are introduced to significantly cut fossil fuel demand.

1. Energy security

New licensing rounds will have minimal impact on UK supplies of oil and gas. After 50 years of drilling, the UK has burned most of its gas. The North Sea’s dwindling [reserves](#), which are predominantly oil not

gas, mean that significant new discoveries are unlikely. For example, new North Sea licences issued since 2010 have only led to [nine weeks](#) worth of gas being discovered and only 16 days worth of gas actually being produced. Between now and 2050, new licences are expected to provide just 103 days of gas - that's four days worth of gas a year on average [1]. Last year, the head of the NSTA said that new licences would only make a difference to gas production '[around the edges](#)'. Even the former [Executive Director of BP](#) has said that the government's decision to expand North Sea drilling is "not going to make any difference" to Britain's energy security.

Once oil and gas is licensed, it belongs to the companies that hold the licence, who export the majority of UK reserves. [According to official figures](#), around 80% of UK oil reserves are put in tankers and shipped overseas. The UK also exports a significant proportion of its gas, and [last year](#), during the energy crisis, the UK exported the equivalent of 61% of its gross gas production [4].

The only way to reduce gas imports is to cut domestic consumption by scaling up renewable energy and increasing energy efficiency - measures that would also lower bills. So far this year, British renewables have [displaced](#) the equivalent of 170 LNG gas tankers. Similarly, ensuring homes have [basic insulation](#) cuts household gas demand by up to a fifth. Given the impact on households of volatile gas prices - with the average energy bill still double what it was two years ago and an [estimated six million households](#) now living in fuel poverty this winter - recent [polling](#) shows strong public support for renewables, as well as measures to improve energy efficiency in homes, over new oil and gas drilling.

2. Net zero and nature protection

The OPL Bill seems to override the already weak, non-binding '[climate compatibility checkpoint](#)' and seeks to lower the bar even further. Since 2022, new licensing rounds have been subject to a 'climate compatibility checkpoint', which includes three tests: performance of the sector against emissions reduction targets; oil and gas production emissions benchmarked internationally; and the status of the UK as a net importer of oil and gas. The checkpoint does not consider the emissions produced when oil and gas is combusted, and its result is not binding.

The OPL Bill does not help the UK oil and gas sector to meet its voluntary emissions reduction targets of cutting production emissions by 50% by 2030, as set out in the North Sea Transition Deal (NSTD). The Climate Change Committee (CCC) has described these targets as "[weak](#)", and recommended they be increased to 68%. The industry is already off [track](#). There is no reference in the new legislation to how annual licensing will be judged against the NSTD emissions reductions targets, let alone emissions from combustion.

New oil and gas developments put the goal of the Paris Agreement to limit the global average temperature increase to 1.5°C at serious risk, according to the [International Energy Agency](#), [UN Secretary-General](#), [Intergovernmental Panel on Climate Change](#) and numerous [climate scientists](#). The [Production Gap 2023](#) found that governments plan to produce 110% more fossil fuels in 2030 than is consistent with limiting warming to 1.5°C. The [CCC](#) has confirmed that the expansion of fossil fuel production is not in line with net zero. While it acknowledged that the UK will continue to need some oil and gas until it reaches net zero, the CCC was clear that: "this does not in itself justify the development of new North Sea fields". Questions have been raised by the [UK's COP26 president](#) about contradictions between the OPL Bill and the outcome of COP28.

The UK has become a less attractive place to invest in renewables, according to [analysis by EY](#), in part due to recent "diminishing of green policies". While the OPL Bill is a clear signal from the government to the oil and gas industry that they can continue to drill, the UK government has undermined confidence in

its renewables sector. The oil and gas industry is not significantly investing in the UK's transition to renewable energy: around three quarters of North Sea oil and gas operators invest nothing in UK renewables, with the UK's largest operator ruling it out altogether [5]. Analysis by [IEEFA](#) found that "stimulating increased offshore oil and gas activity in the UK threatens its renewable power ambitions"

Over a third of the 900 locations in the latest offshore oil and gas licensing round overlap with Marine Protected Areas, contradicting the Government's commitment under the Global Biodiversity Framework to protect 30% of UK waters for nature by 2030. Oil and gas operations can have [negative impacts](#) on the marine environment, including oil spills, release of chemicals and microplastics.

3. Jobs and the economy

New licensing will not stem the decline in oil and gas sector jobs. Over 200,000 jobs supported by the UK's oil and gas industry [have been lost in the past decade](#), despite hundreds of drilling licences being issued by the government. According to industry data, [441,000 jobs](#) were supported by the oil and gas sector in 2013, falling to just [213,000](#) jobs this year, during which time the government has issued roughly 400 new drilling licences in five separate licensing rounds. Today, [30,000](#) people are directly employed in the industry, with the rest supported through the supply chain or in jobs that are supported by oil and gas workers' spending. Around [Aberdeen](#), this decline in jobs has not been effectively offset by increased jobs in other parts of the energy sector, revealing a failure to invest in transitioning the workforce.

Tax revenue from new licensing would be negligible. While the Office for Budget Responsibility expects around £40 billion from oil and gas revenues in the next five years, half of this is due to the temporary windfall tax that will [expire in 2028](#), after which the UK tax rate will revert to being one of the lowest in the world. Given the marginal impact of new licensing on production, further licensing rounds will provide little for UK taxpayers.

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Endnotes

[1] Uplift analysed [North Sea Transition Authority projections for UK oil and gas production](#), which estimate the total amount of gas projected to be produced without the development of any new fields, as well as with the development of undeveloped discoveries, and the development of future discoveries. Projections for gas production from the development of future discoveries were compared against gas demand estimates under the [Climate Change Committee's Balanced Net Zero Pathway](#) to quantify the relationship between estimated production and demand.

[2] On demand assessments, the government does not currently produce estimates of oil and gas demand factoring in its Net Zero Strategy commitments beyond carbon budget horizons which prevents an assessment over a 15 year period. The Government does energy projections factoring in currently funded policy until 2040. The CCC's oil and gas projections may possibly be used, but these follow a different path to net zero than the Government's. On supply assessments, the NSTA's production projections are not modelled and instead based on an "[informed judgement](#)" that is "deliberately stylised to avoid the impression of spurious accuracy." On carbon intensity assessments, the UK government does not collate benchmarked data on LNG imports, meaning a third-party data provider would need to be used to draw comparisons.

[3] Note that poor drafting means it's also unclear whether emissions from transporting LNG to the UK are included in this assessment.

[4] Official gas export figures include imports that are then re-exported. The government does not publish UK-production-only export figures.

[5] Uplift used publicly available data to identify renewable investments for a wider group of UK oil and gas companies. A list of 49 active producers operating on the UKCS was obtained through Rystad Energy. Of these, all 49 had a publicly available website. Websites and relevant policy documents were reviewed for current investments in renewable energy across their UK and global operations. This research was last updated in 2022.