

North Sea oil companies to be helped with £450m of tax breaks

George Osborne says move shows commitment to jobs in the industry, but some experts say tax rates still much too high

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An oil rig in the North Sea. Greenpeace says it is misguided to support the oil industry rather than helping renewable technologies. Photograph: Danny Lawson/PA

The government has introduced £450m of tax breaks to help North Sea oil companies at a time of plunging prices, rising costs and steep output declines, but some industry experts have warned the money is too little, too late.

George Osborne said he would cut a “supplementary charge” rate from 32% to 30%, extend other breaks from six to 10 years and provide a new allowance targeted on certain areas, at a time of increasing redundancies in Aberdeen.

“This demonstrates our commitment to the tens of thousands of jobs that depend on this great industry,” the chancellor said in his autumn statement on Wednesday. Further support plans for the North Sea are to be announced by Danny Alexander, the chief secretary to the Treasury, during a visit to Aberdeen on Thursday.

Maersk Oil said the cluster allowances should help it move ahead with a planned new gas field in the central North Sea while the industry’s lobby group, Oil & Gas UK, also welcomed the moves.

But Malcolm Webb, the chief executive of Oil & Gas UK, warned there was still a “crisis” in exploration. “These can only be seen as first steps towards improving the overall fiscal competitiveness of the UK North Sea. We will certainly need further reductions in the overall rate of tax to ensure the long term future of the industry.”

Liane Smith, managing director at service company Wood Group Intetech, believed the chancellor had done “too little to have the kind of impact needed” after oil prices had dropped 30% since June.

“The UK has to be competitive in a global market. We have to do more to support the industry. If operations are suspended, the costs of recommissioning can be prohibitive,” she said.

Ian McLelland, analyst at Edison investment research, also warned that tax rates were still far too high at a time of plunging crude prices, which could backfire on the Treasury. “As well as hitting investment, we anticipate this could lead to a tax hole of £2bn in 2015 unless prices recover or costs fall significantly,” he said.

Roman Webber, energy expert at accountants Deloitte, said: “With a number of UK North Sea fields up for sale the risk remains that the current low exploration activity will continue, with companies choosing to invest in countries where financial returns may be more robust and the upstream tax system is more predictable. We will need to see the detail of the proposals tomorrow to understand if today’s measures and the future proposals are enough to safeguard North Sea jobs and future tax flows to the exchequer.”

Meanwhile, Greenpeace argued that it was misguided to support the oil industry rather than helping renewable technologies which were needed to tackle global warming. Doug Parr, the organisation’s chief scientist said: “Tax breaks for fossil fuel giants ... will entrench the high carbon economy we should be moving away from.”