THE NORTH SEA
MEMORANDUM
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KEY CHANGES AND UPDATES

**Supplies of Oils for Drilling (Tied Oils)**
The guidance has been updated to highlight that an Operator needs to look to the terms of their contract with the oil supplier to decide if the Operator needs to be registered for Tied Oils. It also highlights the requirement for a full customs entry to be lodged when the oils move offshore.

**Importation into the UK of Goods from outside the EU for use offshore – Shipwork End Use Relief (SEU)**
More detail has been included to ensure that the general understanding throughout the industry is on the same basis. It was noted that there were differing treatments being applied by different Operators. In particular, clarity has been given about the treatment of insurance and strategic spares as well as returned goods relief.

**Format of the Memo**
We have reformatted the document which hopefully results in a visually more readable and accessible document.
INTRODUCTION

The primary purpose of the North Sea Memorandum is to provide indirect tax guidance in respect of the supply of goods and services associated with UK oil and gas exploration and production. It is not a document where pieces within can be taken out of context to affect the intent of the legislation or HMRC guidance and it is specific to the unique circumstances applying to North Sea Oil operations.

Please respect that this document is prepared in good faith to assist companies operating in the North Sea and needs to be read in that context. It does not have any standing that can be used to achieve a different interpretation than that described.

This Memorandum has been prepared to assist in the understanding of HM Revenue & Customs’ published guidance. It is not designed to comprehensively cover all aspects of this specialist and complex industry or necessarily be the definitive guide where the circumstances of the transaction differ from the details as described in this document.

This document has been reviewed by representatives of HMRC who have also assisted in its preparation. However, it is NOT an official HMRC publication but rather represents UKOITC-ITC’s understanding of the relevant law and practice as at the date of publication.

Where the views expressed herein are subsequently overtaken by a change of law, the decision of a tribunal or court, the up-dating of an official publication, or where there remains any doubt as to the correct VAT treatment of a supply, members must consult HMRC’s National Advice Centre. They should not rely on this document where any doubt exists. UKOITC-ITC makes every effort to keep the document updated but cannot be held responsible for any errors or omissions.

UKOITC-ITC have been advised by HMRC that, should one of their Officers disagree with any interpretation contained in the Memorandum, the Officer should be asked to consult the Oils Unit of Expertise before taking any action.

Unless indicated otherwise, the references in this Memorandum are to the Value Added Tax Act 1994 (VATA).

Contributors to the North Sea Memorandum include UKOITC-ITC, Deloitte, EY, PWC, KPMG and HMRC. Neither these parties nor the individual member companies of UKOITC-ITC can be held responsible for any errors or omissions in this document.
PART I
UPSTREAM OIL AND GAS BUSINESS

1. GENERAL BACKGROUND INFORMATION
For both onshore and offshore oil and gas exploration/exploitation purposes, a specified area is licensed, often to a consortium of companies. One of the participating companies in a consortium usually acts as “the Operator member” (OP) under what is known as a Joint Operating Agreement (JOA). The other members of the consortium are referred to in this Memorandum as “participator members” (PM’s). The Operator buys in goods and services and either carries out, or commissions, the necessary work, such as drilling and well-head construction. Each participating company normally contributes towards the cost of these operations according to its percentage share of the licence interest. Likewise, if oil or gas is discovered, each participating company is usually entitled to that percentage share of any oil or gas that is produced.

A licence is granted by the Secretary of State under the terms of regulations made under Section 4 of the Petroleum Act 1998, as extended by the Continental Shelf Act 1964 to petroleum in situ in the seabed and subsoil of the continental shelf outside UK territorial waters, broadly the twelve-mile limit.

The most recent regulations are The Petroleum Licensing (Seaward Areas) Regulations 2008. Earlier licensing rounds would have been covered by a series of different regulations. Generally regulations make a distinction between landward and seaward areas. Broadly, landward areas reach as far as the low water mark but also include river estuaries and certain partly enclosed waters, such as The Solent and The Wash and the waters between the Outer Hebrides and the west coast of Scotland. Seaward areas lie outside the landward areas and include the remainder of the territorial sea together with designated areas. For licensing purposes, the seaward areas are divided into “blocks” formed by lines running east-west at intervals of 10 minutes of latitude and north-south at intervals of 12 minutes of longitude, producing an area of between 200 and 250 square kilometres per block.

Exclusive rights are granted to search and bore for and get “petroleum”. Licences are granted under specific terms and conditions and cannot be sold, transferred, assigned or otherwise dealt in without the consent of the Secretary of State.

All licences within the twelve-mile limit whether above or below high watermark, represent an interest in land for VAT purposes. Rules covering the VAT liability of supplies associated with offshore exploration and production activities are outlined in Part II of this Memorandum. Particular issues affecting onshore exploration and production activities are outlined in Part III of this Memorandum.
PART II
OFFSHORE EXPLORATION AND EXPLOITATION

2. THE SUPPLY CHAIN

North Sea operations, because of their diversity, involve a number of different areas of activity, each of which may be run by a separate Operator. For example, the Operator responsible for the construction and operation of the shore terminal might receive the oil from two or more pipelines, each of which is the responsibility of a further consortium and Operator. Each pipeline in turn might service several oil fields, these in turn being run by different Operators. Costs incurred at any part of the chain are invoiced to the next OM up the line, with the net result that the PMs at the well-head normally contribute their precise percentage shares of all costs involved in the operation. The oil may, in some cases, be loaded from the platform into ships, and then either shipped directly abroad or transported to a UK shore terminal.

3. GLOBAL CHARGE FOR MONTHLY INVOICES

The OM pays all the bills in respect of the consortium and the cost of the shares relating to the other participating companies is charged to the PM's, normally monthly.

A billing statement, the front page of which constitutes an invoice or monthly bill is usually issued by the OM each month, giving details of payments made by the OM in the previous month in accordance with the JOA. The front page will normally constitute a VAT invoice, where relevant. Where the front sheet is not a VAT invoice, the tax point is created by the receipt of payment from the PM.

Under some Joint Operating Agreements (JOAs), there is the provision for “cash calls” to be made on each participating entity. These are requests for cash payments by partners for future Joint Venture operations to ensure that monies are available to meet significant development costs as they arise. The money is normally paid into a separate account and is managed by the Operating Member. As and when money is “drawn down” against this account to pay for the agreed expenditure, this is then accounted for on the monthly billing statements.

In principle, HMRC would see the “cash calls” as advance payments for development costs, and as such, the payments would create a VAT tax point. However it is appreciated that JOAs are complex and can vary in their precise terms. It is therefore recommended that where cash calls feature in a JOA, and these include standard rated costs (i.e. “on shore” or within the 12-mile limit), companies seek an individual ruling regarding the tax point rules to be applied.

In instances where the OM does not make a cash call but instead makes a charge for the resultant cash flow disadvantage, this amount will be included either in the schedule of costs which forms the detail supporting the monthly bill or on the invoice itself. The VAT liability of this amount will follow that of the overall supply.

The liability of that single composite supply depends on the overall nature of the services being provided by the OM under the relevant JOA, according to the rules described elsewhere in this Memorandum. It is not necessary to apportion the monthly bills between its separate cost components. The amount shown on the monthly bill, i.e. the total of the billing statement, is considered to be a global charge by the OM for a single supply in its own right.

These global charges will generally be taken to cover the land-related services of exploration/exploitation in relation to a specific site of area of land, or, in the case of pipelines together with related shore installations, the transportation of the oil or gas. In other cases, the charge may represent storage or construction services. For further details, see Section 8 of the Memorandum.

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4. **UNITISATION**

When an oil field stretches under two or more licensed blocks operated by different consortia, those consortia will almost certainly pool their resources in order to obtain the oil, i.e. unitisation will take place. In such circumstances, wells may be drilled in one or more blocks. Before unitisation occurs, each consortium will usually have incurred certain exploration, etc. costs. The unitisation agreement provides for all costs, past and future, to be apportioned between the consortia on the basis of the shares of oil beneath each block. Thus, if it is estimated that the shares of oil in three blocks are 20%, 30% and 50% respectively of the total oil beneath the blocks, then the costs will be shared between the consortia using the same proportions. The costs incurred before unitisation will therefore be shared in accordance with the formula, and balancing payments will usually be made between the consortia. Each consortium then owns an undivided share of all the physical assets, and has also contributed to all the intangible elements in the overall cost. A new consortium is created, but each participant still owns its share of the oil under the block.

In these circumstances, the initial balancing payments between the consortia are regarded as the consideration for a supply of a service relating to land. To determine the liability of the supply, the place of supply has first to be determined by reference to VATA Schedule 4A. Thus:

- If the block is wholly outside UK territorial waters, the supply will be treated as taking place outside the UK and will be ignored.
- If it is wholly within the twelve-mile limit, the place of supply will be in the UK and it will be taxable at the standard rate.
- Otherwise, the place of supply will be determined by the location of the majority of the wells within the particular block. No apportionment will be necessary.

The normal rules will then apply in respect of any subsequent payments made between the OM and PMs of the new consortium. If at a later stage the initial balancing payments are adjusted, e.g. because more oil than was expected is under one block, then the payments will be treated as either an increase or a reduction in the consideration for the original supply of a service relating to land.

5. **VAT REGISTRATION**

The VAT registration of a PM, or a company intending to become a PM, is important. This is to enable accounting for output VAT and for the recovery of input VAT. Before registration can occur, however, the PM must either:

- make or intend to make, taxable supplies in the UK or,
- if the PM has its business establishment or some other fixed establishment in the UK, make or intend to make, supplies outside the UK, which would be taxable supplies if made in the UK

Applications for registration in advance of making supplies may be made by PMs, or by companies intending to become PMs in offshore oil and gas consortia, where the arrangements provide, or will provide, for the participating companies to have shares in kind of the oil or gas recovered. This can be on two bases:

- VATA, Sch.1 Para. 9 which applies for companies not liable to be registered (i.e. who make taxable supplies below the registration limit or who are carrying on business and intend to make taxable supplies); or
- VATA, Sch.1 Para. 10 which applies for companies not liable to be registered where they have a fixed establishment such as a branch or agency in the UK and who make supplies outside the UK which would be taxable if made in the UK or are carrying on business and intend to make such supplies.
For some PMs, or intending PMs, VATA, Sch. 1 Para 10 will apply because of the special rules on supplies in duty suspension (see Part V of this Memorandum) or because oil or gas is, or would be, sold at the well-head outside UK territorial waters or delivered for sale to some other place than the UK (albeit special rules exist for gas sold in a natural gas system situated within the territory of a member State or any network connected to such a system). Those intending traders who seek registration before they commence making supplies are usually required to demonstrate genuine business intent. This may require production of a copy of the relevant operating/production agreement under the terms of which they are shown to be participants and entitled to a share in any oil or gas recovered.

6. **DEDUCTION OF INPUT TAX INCURRED ON GOODS AND SERVICES PRIOR TO REGISTRATION**

This may be recovered in accordance with the VAT Regulations 1995 - SI 1995/2518 - Reg. 111 (1)-(4). In summary, input tax may be recovered on services received up to six months prior to registration and on any goods purchased (subject to four-year cap provisions), which have not been onward supplied or consumed before the date of registration.

When exploration does not result in the making of taxable supplies by a PM (e.g. because no oil is found), HMRC will not normally seek to recover any of the input tax reclaimed by a PM during the period of registration. However, it will be a standard condition of registration that no PM should reclaim the VAT on inputs related to exempt supplies, which it makes or intends to make (subject to the normal rules).

7. **PLACE OF SUPPLY OF SERVICES**

**Services**

**General Rule and Special Rules**

The place of supply of services is determined by VATA Section 7A (General Rule) and Schedule 4A (Special Rules).

The General Rule determines the place of supply of services as being where the recipient is established or “belongs”, provided that person is a relevant business person. VATA Section 7A defines who is a “relevant business person”.

The Special Rules determine the place of supply for specific types of services. Other rules deal with recipients who are NOT “relevant business persons.”

**Place of Belonging for VAT Purposes**

In order to properly determine the place of supply of services for VAT purposes, it is essential to determine in which country the supplier and the recipient are established (or have a fixed establishment) AND the nature of the service being provided. VATA Section 9 defines whether a person belongs in one country or another and Notice 741A sets out the tests to be applied.

It should be noted that a fixed or floating rig/platform\(^1\) can be regarded as being a fixed establishment of an OM of an offshore installation if the conditions set out in the Notice 741A are met. If you have establishments in more than one country/place please refer to Section 3.6 in Notice 741A.

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\(^1\) HMRC have further advised that only if a floating rig/platform is attached to the seabed via flowlines etc (and not simply anchored) and effectively has a high degree of permanence will they see it as capable of being a fixed establishment for the purpose of the place of supply. It also should be noted that this does not automatically make a rig or platform (fixed or floating) or otherwise a fixed establishment for the purpose of any supply of services; that still has to be determined by the facts and the tests set out in Notice 741A and the relevant legislation.
Generally supplies of services take place where the customer belongs regardless of where the service is physically performed. However, in some circumstances, the place of supply of services performed at or in relation to an offshore licence area, platform, rig or well-head might be determined by Schedule 4A Para 1 Services Relating to Land.

HMRC Notice 741A. “Place of Supply of Services” provides more information on this area.

If the place of supply is outside the UK twelve-mile limit the supply will be outside the scope of UK VAT.

8. LIABILITY OF PRINCIPAL SUPPLIES AND IMPORTS
STEP 1: The starting point is always to determine the place of the supply.

STEP 2: Determine the nature of the supply (e.g. goods, service or no supply).

STEP 3: Do the supplies in question have special treatment under the legislation?

The following discusses supplies that relate to the Oil Industry in the North Sea.

8.1 Gas and Electricity Distribution Systems

- The provision of access to and of transport or transmission through:
  - a natural gas system situated within the territory of a member state or any network connected to such system; or
  - an electricity distribution system

and the provision of other ‘directly linked services’.

- General Rule applies when made to a Relevant Business Person,
- Special Rules (VATA Schedule 4A Para 16(2)(f)) apply when made to a person who is NOT a Relevant Business Person and who belongs in a country which is not a Member State.
- Place of supply is where the customer belongs.
- ‘Directly linked services’ is not defined in the legislation, however HMRC has confirmed that the following typical services are included:
  - Provision of data on network usage;
  - Storage of gas within the natural gas distribution system; and
  - Services involving injection of gas into the system.

Companies should seek advice from HMRC in cases where it is not clear whether services are taking place within a gas system situated within the territory of a member state or any network connected to such a system, or the electricity distribution system and/or are considered a directly linked service.

Where services are supplied which are ancillary to the wholesale supply of gas or electricity, the VAT treatment should follow the treatment applicable to the supply of the goods (see below under “Supplies of Gas (and Electricity)”).

8.2 Goods – General

- Usually decided by reference to their physical location at the time of supply (VATA, Section 7(2)) although there are a variety of exceptions (see below).
- Goods imported from third countries. Where the person responsible for accounting for import VAT is the supplier (depending on the shipping terms), rather than the customer/consignee, the place of supply is the country into which the goods are imported (VATA, Section 7(6)).
Where the person responsible for accounting for import VAT is the customer (depending on the exact shipping terms and commercial arrangements – including who is acting as the “importer” – please refer to Glossary) the place of supply is outside the UK (VATA: Section 7(2) – if the supplier or customer ships the goods into UK territory as part of the sale, prior to import entry).

- Installed goods, if a person is contracted to supply and install goods in the UK (including within the twelve-mile limit), the supply is liable to VAT in the UK and the supplier must register for and charge UK VAT. However, if the supplier is not otherwise required to be VAT-registered in the UK but is VAT registered in another Member State, the supply and installation/assembly of the goods can be dealt with using a simplified VAT procedure under which the customer accounts for the VAT due, as acquisition VAT. The simplified procedure can only be used if the customer is registered for VAT in the UK and the supplier is not registered for VAT in the UK but is registered for VAT in another member state. Further details of the scheme and the address for NETPU can be found in HMRC Notice No. 725 “Single Market”. Suppliers who are not VAT registered in any Member State and suppliers who are registered in a Member State other than the UK who have opted not to use the simplified procedure will be required to register for VAT in the UK subject to the normal rules.

- For goods supplied in a tax warehouse, the place of supply is covered by the special rules in VATA Section 18 (see Part V of this Memorandum).

### 8.3 Supplies of Gas (and Electricity)

Following the implementation into EU legislation of the Anti-VAT Fraud package enabling Member States to extend the supplies to which the reverse charge can be applied to domestic wholesale supplies of gas and electricity, and the subsequent changes to UK VAT law as of 1 July 2014, the following rules now apply to supplies of gas (including LNG) through the natural gas distribution network or any connected network and of electricity (‘relevant goods’).

Where relevant goods are supplied under a wholesale agreement for onward resale, the place of supply is where the recipient’s business is established for the purposes of that supply or where the recipient has a fixed establishment to which the supply of relevant goods is most directly connected.

- Where the recipient is a taxable dealer and is established in a different Member State to that of the supplier, the reverse charge mechanism applies, even if the non-established supplier is VAT-registered (for reasons unconnected with that supply) in the Member State in which the recipient is established;

- Where the recipient is a taxable dealer established outside the EU, the supply is outside the scope of VAT;

- Where the supply is made under a wholesale agreement between a UK supplier and a counterparty who is established for the purposes of that supply in the UK, the supply will fall under the domestic reverse charge provisions.

In relation to supplies between UK established counterparts, following discussions between Industry and HMRC, ‘wholesale supplies’ do not include supplies of embedded generation or by unlicensed electricity generators. (cf. Revenue & Customs Brief 28/14).

Additionally, trades of gas and electricity between UK established businesses and UK exchanges which are treated as zero rated under the Terminal Markets Order are not affected by the domestic reverse charge and remain zero-rated.

Supplies of natural gas and LNG that are not supplied through the Natural Gas Distribution System (refer to Glossary) (e.g. LNG that has not been entered into free circulation in the EU and that is traded FOB on board ship) should be treated as outside the scope of UK VAT.
Where supplies are made to final consumers, these will be taxed where the relevant goods are consumed.

- Where the final consumer is a taxable (VAT-registered) person in the Member State of consumption but the supplier is located in a different Member State, the reverse charge mechanism will apply;
- Where the final consumer is not a taxable person, the supplier will need to register and account for VAT on these supplies in the relevant Member State(s).

For gas sold wholly for consumption the place of supply is where the recipient of the supply has effective use and consumption of the goods. However for any part of the goods not consumed, the place of supply is where the recipient of the supply has established his business or has a fixed establishment most directly connected with the goods supplied. Therefore where the intention of the customer is either unclear or the gas is to be partly consumed and partly resold you are advised to contact HMRC for advice as to the correct VAT treatment.


8.4 Exploration and Production Charges

- Charges by an OM relating to exploring for oil and the production of oil and gas at the well-head (including charges to recoup the costs initially incurred by the OM on the construction of the platform) are consideration for supplies of exploration/exploitation services relating to a specific area of land or the sea bed.
- The place of supply of services rules applicable to land related services are contained in VATA Schedule 4A Para 1. HMRC Notice 741A Section 6 provides further information.
- Where this exploration/exploitation takes place offshore (outside UK territorial waters) the supply is outside the scope of UK VAT.
- Where it takes place onshore or inside UK territorial waters, the supply is standard-rated.

8.5 Tariffs used for Pipelines

- Charges made in respect of the use of a pipeline for the conveyance of oil or gas are regarded as the consideration for the transport of goods. Tariff receipts accrue to the OM and PMs in one field, from the OM and PMs in another, for the use of a pipeline and associated facilities in order to bring oil or gas onshore and these are also consideration for transportation services.
- Where the pipeline commences at a point outside UK territorial waters the supply is zero-rated under VATA Schedule 8, Group 8, para 5
- Where the charge relates to a pipeline wholly onshore or wholly within UK territorial waters the place of supply is determined under the General Rule and will be determined according to where the supplier and the recipient are established.
- The same rules apply to charges for transportation by vessels.
- Charges by outside contractors for the construction of pipelines, shore terminals and tank farms are discussed later at 9.3 below.
- Charges made by an OM to PMs with field interests, for the maintenance of the pipeline up to the shore installation and in the operation and maintenance of the shore installation itself, may be included in an overall charge for the transportation of the oil and gas from a point outside the EU.
8.6 On-shore terminals - storage, handling and processing

a) Storage and Handling
   - Separately invoiced charges for storage and/or handling of goods such as oil, LPG and natural gas at shore installations are zero rated when:
     1) The goods are carried by ship and are stored in a port or on land adjacent to a port in the UK (VATA, Schedule 8, Group 8, Item 6(b)),
     2) The goods are imported by pipeline from outside the EU into the UK (VATA, Schedule 8, Group 8, Item 11(a)),
   - Otherwise the charges will be fall under the General Rule.

b) Processing
   - Separately invoiced charges for services such as crude or gas separation, which change the nature of goods subject to a warehousing regime, are eligible for zero-rating under VATA, Section 18C.

   Where a process is undertaken on goods in a warehouse which creates a new product, then any VAT on such services that would otherwise be payable when the goods leave the warehouse is extinguished. For further information see HMRC internal guidance, VWRHS-VAT Supplies in Warehouse and Fiscal Warehousing.

   Separately invoiced charges for processing in the UK where the goods are not held in a tax warehouse, or where no processing has occurred in the tax warehouse fall under the General Rule.

c) Combined Charge for Storage and Handling, Processing and Transportation of Goods
   invoiced supplies covering a combined supply of storage, handling, transportation, and processing of goods:
     - Transportation begins outside UK territorial waters, the whole supply will generally be zero-rated for VAT purposes on the basis that the majority of costs associated with the supply are covered by VATA, Schedule 8, Group 8, Item 11(a) or VATA, Section 18c.
     - When undertaken wholly within UK territorial waters and/or on UK land, the whole supply falls under the General Rule.

   Where there is any doubt that zero-rating provisions cover the majority of costs associated with the supply, it is important to consult HMRC.

d) Oil and Gas Consumed by the On-shore Installation
   - Oil or gas consumed in the operation of shore installations is not supplied for VAT purposes provided it is in the ownership of the participating members at the time of consumption. Most shore installations are in joint beneficial ownership between the participators and are operated by an OM on their behalf. Consequently, there is no supply when oil or gas is consumed.
   - Supplies by a 3rd party to the participators for consumption would be subject to the usual rules for the supply of gas (see Section 8).
8.7 Imports - General
Import VAT and, where applicable, customs duty are normally due on imports. These may be suspended by employing one of the available Customs duty reliefs. The most relevant relief is shipwork end-use, which is detailed in Part VI of the Memorandum.

Where import VAT is due (whether at the time of entry into the UK or on removal from warehouse), payment may be deferred by holders of an HMRC deferment authorisation. Payment of the VAT is then made by direct debit on the 15th day of the month following either import (for non-dutiable goods) or removal from a tax warehouse (for dutiable goods), whichever is applicable. A similar deferment is available for VAT due on the last supply in warehouse of UK or EU produced excisable oil.

Further information on deferral and recovery of import VAT can be found in Public Notice 101 Deferring duty, VAT and other charges.

8.8 Gas Imports
Since 1 January 2011 imports of gas by all means (e.g. by pipeline, by tanker), and/or in all forms (including Liquefied Natural Gas) have been relieved of import VAT. Although import VAT is not payable, there is still a requirement for the Importer to submit customs entries electronically through CHIEF, C88s, to HMRC.

Further information on gas imports is detailed in Appendix B.

8.8.1 Liquid Petroleum Gas (LPG)
Where a gas stream contains LPG, as the LPG's are not separately identifiable at the time of import, they are treated as a component of the wet gas stream and therefore form part of the wet gas import valuation - see Appendix B.

Under the Excise Warehousing (Energy Products) Regulations 2004 SI 2204/2064 LPG's may be imported into a tax warehouse. However this Regulation does not impact on how LPG's contained within the gas stream are handled for import purposes - see above.

Where a crude oil stream contains LPG, it is not separately treated for import or acquisition purposes but is treated as being immediately taken into duty suspension as part of the excisable crude. When separated out, LPG in producers’ premises may be warehoused and benefit from the rules applying to tax warehouses (see Part V of this Memorandum). LPG stored for intra-EC dispatch must be held in a tax warehouse.

8.8.2 Natural Gas Liquids (NGLs)
NGLs imported as part of a gas stream are treated in the same way as LPGs. NGLs imported as part of a crude stream are treated as being inseparable from the crude. Import VAT is thus suspended when the crude goes into a duty suspended regime.

8.8.3 Liquefied Natural Gas (LNG)
LNG is a natural gas that has been cooled to become a clear, colourless and extremely cold liquid. The liquefaction process reduces the volume of gas to liquid by about 600:1. The only difference between natural gas and LNG is the physical status of the product. On receipt of LNG carriers into UK receiving terminals, the LNG is transferred into specially designed storage tanks. It is then turned into a gaseous state by applying heat and power and delivered into the national gas transmission system. Imports of LNG are relieved of VAT at import.
8.8.4 Condensate

Natural-gas condensate is a low-density mixture of hydrocarbon liquids present as gaseous components in raw natural gas produced from many natural gas fields. It condenses out of the raw gas if the temperature is reduced to below the hydrocarbon dew point temperature of the raw gas.

As condensate is a by-product from the processing of natural gas, it is a requirement that the production premises are entered as a Producers Premises in accordance with CEMA s108. Notice 179 paragraph 3.3.2 confirms that warehousing at production premises is not required although subsequent movements of condensate for processing would be under duty suspension under cover of a W8. This reflects the fact that removals from entered Producers Premises are treated as if they were from warehouses under Hydrocarbon Oil Regulations Reg 4.

Condensate is not subject to EMCS,

Condensate is classified as a light oil under HODA and classified under tariff heading 27090010 and under that tariff heading it is subject to excise duty.

8.9 Crude Imports

Crude oil is a mixture of hydrocarbons that is extracted from an underground reservoir along with any associated gas. As crude oil will be used in the manufacture of other finished products, no import VAT is payable when product is taken into a tax warehouse - see also Section 22.1

8.10 Goods Returned from the Continental Shelf

Offshore operations require that, from time-to-time, goods, which have previously been exported from the EU to the continental shelf, are returned to the UK, sometimes to be scrapped. For customs duty purposes, RGR (Returned Goods Relief) may be available. A brief summary of the Customs reliefs available for the importation of goods for use off-shore or where they have been used off-shore is at Part VI and Appendix D of this Memorandum.

8.11 Direct Exports of Crude to Preference countries from the UK Continental Shelf

Background:
Clarification has been sought with HMRC as to whether an export declaration is required in respect of crude oil being exported direct from the wellhead of an oil platform on the UK Continental Shelf. This has become more important with respect to certain Free Trade Agreements (FTA) such as that between the EU and South Korea. In that agreement Approved Export status is required to declare EU origin of Crude Oil. The issue being could someone be “exporter” and show EU Origin if no formal “export” takes place. If this is the case what evidence could be required as there is no “export” through the CHIEF system? This occurs because the goods are not landed in the UK and re-loaded for export, in the way for example that forties Crude is, i.e. it would come in via pipeline, be stabilised and then loaded for export. Instead, at some fields the crude goes from the FPSO directly to tankers without entering the 12 mile limit and is, therefore, outside the Customs Territory of the Community and a customs export declaration would not be required.

Articles 23 2(h) of the Customs’ Code and 99 of the implementing regulations address origin of goods for certain customs purposes and confirms that products extracted from the UK Continental shelf are considered as originating in the UK. (See also Commission Regs. 2454/93/EEC Article 68 (j)).

Crude oil obtained within the UK territorial waters or Continental Shelf is considered wholly obtained in the UK and therefore of UK origin under article 4 of the EU-South Korea FTA. In these circumstances, the cargo does not therefore need to be landed in the UK to obtain UK origin status.
To qualify for Origin preference under the EU-South Korea FTA for a consignment of goods with a value exceeding 6000 Euros, the exporter must be authorised by HMRC and must provide an origin declaration on the invoice or other commercial document using the exact text specified in annexe 111 of the decision (and shown in Notice 827 Para 12.1).

This invoice declaration is the evidence of origin, but if further evidence is required, commercial documentation such as Certificates of Quality, Quantity and Origin “CQQO” can be used as part of an audit trail.

The relevant commercial documentation at time of loading from the Floating Storage Unit (FSU) through the delivery point can be part of an audit trail to origin supported by evident of the crude oil “signature” which identifies the crude to a particular field. This signature is often called the Crude Oil Assay or Whole Crude Property.
9. SUPPLIES TO OMS BY THIRD PARTY CONTRACTORS

The liability of supplies to an OM by third party contractors is determined by VATA Section 7A and Schedule 4A. See Section 7 of this Memorandum, for the determination of the place of “belonging” (relevant establishment) of an OM of an offshore installation such as a fixed or floating rig/platform in most circumstances, the place of supply of services performed at or in relation to an offshore licence area, platform, rig or well-head will be determined by Schedule 4A para 1, as land-related services. If the relevant establishment receiving the supply is situated outside the twelve-mile limit, or the particular area of land where the service is performed is outside the twelve-mile limit, the supply will be outside the scope of UK VAT.

Examples of supplies an OM may receive on behalf of the consortium are included in the following sections.

9.1 Rigs and Platforms

The following details the VAT liability of the main types of supply associated with fixed rigs and platforms:

- The construction of fixed rigs and platforms in the UK sold to an OM is a standard-rated supply of goods in the UK where title to those goods passes to the OM within the UK (e.g. at the dockside or within the twelve-mile limit). Fixed oil and gas installations do not qualify for zero rating as a “qualifying ship”, even though they may be transported to a site as a floating structure.

- Where the supply is a single supply consisting of the construction, and delivery of the rig/platform and the delivery is to a place outside of UK territorial waters, this is a zero-rated export of goods (VATA, Section 30(6)) subject to the conditions in HMRC Notice 703 Export of goods from the United Kingdom. Fixing in place, if part of a single contract, would also carry the same treatment.

- Where the supply is a single supply consisting of the construction, and delivery of the rig/platform and the delivery is to a place within the territorial waters of another EU member State, this will be a “despatch” of goods from the UK and may be zero-rated for VAT purposes, provided certain conditions are met (VATA, Section 30(8)). In order for zero-rating to apply, the customer (OM) must be registered for VAT in the Member State concerned and provide a valid VAT registration number to the supplier of the goods. The acquirer/OM will then account for VAT in the EU Member State concerned using the acquisition procedure.

- Where a third party is responsible only for fixing the rig/platform in place, this is a supply of services. As the service relates to “land”, the place of supply is where the land is situated (VATA Schedule 4A). If the land is situated outside UK territorial waters, the supply would be outside the scope of UK VAT. If the land is situated within the UK (or UK territorial waters), and the supplier belongs in the UK, the supply would be liable to VAT at the standard rate. If the land is situated within the UK (or UK territorial waters) and the supplier belongs outside the UK the supply may be zero-rated subject to the conditions detailed in the previous bullet point, with the recipient/OM accounting for VAT using the reverse charge procedure under (VATA Section 8).

- Where a UK third party is commissioned to deliver a rig/platform the VAT liability of the supply will depend on the destination. If the destination is within UK territorial waters, the supply will be standard-rated (provided the recipient is UK established, following the General Rule). Where the destination is outside UK and EU territorial waters, the supply will be zero-rated (VATA, Sch.8, Group 8, Item 5).

- Where a third party is commissioned to tow rigs/platforms from the UK port to the final destination, the supply of towage services (to the extent they are within the UK) is a zero-rated supply irrespective of the final destination (VATA, Sch.8, Group 8, Item 8).
The lease of a fixed platform depends on its location as “immovable property”, i.e. land (VATA Schedule 4A). For the purposes of VAT, the term ‘land’ includes any buildings or structures permanently affixed to it. Where the platform is situated outside the twelve-mile limit, the lease will be outside the scope of UK VAT. Leases within the twelve-mile limit will be exempt from VAT (VATA Sch 9 Group 1, Item 1). Exempt supplies can put at risk the right of the supplier (the owner of the fixed platform) to deduct input VAT previously incurred on the platform or in going forward, thus incurring additional costs. To avoid this, an election to waive exemption, or “option to tax” may be made under VATA Sch.10 Para 2. Once an option to tax has been made, all subsequent supplies by that person of the interest in the land or buildings, i.e. the platform, will be standard-rated and the supplier will be able to recover any VAT incurred in making those supplies. In practice it is unlikely that a fixed platform would be leased out. However for completeness the correct VAT treatment should this happen has been included.

9.2 Rigs and Platforms (Mobile / Floating)
Where the oil or gas installation for use in exploration of oil and gas resources is:

- designed to be moved from place to place;
- not permanently moored;
- readily capable of navigation;
- of a gross tonnage of not less than 15 tons; and is
- neither designed or adapted for use for recreation or pleasure,

It will be classed as a “qualifying ship”. The supply and hire of a qualifying ship is zero-rated for VAT purposes (VATA, Sch.8, Group 8, Item 1).

Supply in this case includes the charter or hire of the “qualifying ship”.

9.3 Construction of Pipelines, Shore Terminals and Tank Farms
These services of construction are a land-related service and will be chargeable with VAT at the standard rate or outside the scope of UK VAT following the rules on place of supply of services under VATA Schedule 4A (see Para. 7 of this Memorandum).

An apportionment will normally be required where the construction services relate to a pipeline that is constructed partly in UK territorial waters and partly outside: UK VAT being chargeable on the former, and the latter being outside the scope of UK VAT.

However, HMRC will, in certain circumstances, be prepared to accept that the supply of construction of a pipeline (both inside and outside of UK territorial waters) can be treated as wholly outside the scope of UK VAT. No apportionment would be required where all of the following criteria are met:

- The pipeline is not coming to the UK from another EU country;
- The proportion of the UK land element is minimal within the overall contract;
- The work beyond UK territorial waters is more time consuming, requires additional specialist equipment, involves more human resources and costs more in comparison to the work carried out within UK territorial waters;
- Apportionment would be difficult for suppliers to calculate and HMRC to verify; and
- Any UK VAT that would be charged on the work performed in the UK would be reclaimable by the customer.

On this basis, the UK element can be regarded as incidental to the overall supply, which is outside the scope of UK VAT. Where one or more of the above criteria are not met, an apportionment is required between the standard-rated and outside the scope elements.
Services relating to the construction of a shore terminal and/or tank farm wholly within the UK would be standard-rated.

9.4 **Repair and Maintenance of Pipelines and Platforms**
These services of repair and maintenance are a land-related service and will be chargeable with VAT at the standard rate or outside the scope of UK VAT following the rules on place of supply of services under VATA Schedule 4A (see Para. 7 of this Memorandum). Work done outside UK territorial waters is outside the scope of VAT in accordance with VATA Schedule 4A. Where a contract for repair and maintenance relates to a complete pipeline part of which is outside UK territorial waters it may be possible to treat the entire supply as outside the scope of UK VAT. If the criteria set out in para 9.3 are met, HMRC will accept that the entire supply is outside the scope of UK VAT; the UK element of the supply can be treated as being incidental to the overall supply. Where one or more of the criteria detailed in paragraph 9.3 are not met, apportionment is required.

Where the repair is carried out solely to that section of the pipeline which lies within UK territorial waters, the supply is chargeable to VAT at the standard rate.

9.5 **Repair and Maintenance of Equipment**
Onshore repair and maintenance of equipment is covered by VATA Section 7A. Work performed in the UK will be standard-rated where the supplier and customer are both established in the UK but subject to the reverse charge if they are established in different countries.

9.6 **Leases of Plant and Equipment**
The letting on hire by a person belonging in the UK of plant and equipment (other than means of transport) is a service within VATA section 7A(2) and Schedule 4A Para 7. Where:

- the customer belongs in the UK, UK VAT will be due unless the plant and equipment is used and enjoyed outside the EU (VATA Schedule 4A Para 7-`);
- the customer belongs in another EU member State and receives the supply for business purposes, the supply will be outside the scope of UK VAT (VATA section 7A(2)(a)), but will be within the scope of VAT in the customer's Member State;
- the customer belongs outside the EU (including where he is deemed to have a place of belonging on the rig/platform), the supply will be outside the scope of UK (and EU) VAT, under section 7A(2)(a), (assuming the plant and equipment is not used and enjoyed in the UK, in which case it would be standard-rated – paragraph 7(2) of Schedule 4A).

A means of transport does not include fixed or floating rigs and platforms even if capable of moving under their own power. The VAT liability of these supplies is detailed in paragraph 9.2 above.

9.7 **Leases of Means of Transport, including Pipelines**
The letting on hire of means of transport depends on whether it is a short-term or long-term hire. A short-term hire is where there is continuous possession of the vehicle for up to 30 days, or 90 days in the case of vessels. The rules are contained in VATA Schedule 4A.

The place of supply of a short-term hire will be the place where the vehicle is put at the disposal of the customer. So if that is the UK, UK standard rate VAT will apply (except for certain ships and aircraft which are zero-rated under VATA Schedule 8, Group 8, Items 1 and 2)

With effect from 1 January 2013, the place of supply of long-term hire falls under the General Rule and is determined by where the customer is established. This applies for supplies to both business customers and non-business customers.
Charges made for the lease of a pipeline are treated as a supply of a means of transport therefore the rules described above will apply. Charges made for the transportation of products within a pipeline are covered in para 8.5.

9.8 Telecommunication Services
The place of supply of telecommunication services to an OM is where the customer belongs, under section 7A(2)(a) VATA. Where the customer belongs in the EU then any use and enjoyment of the service outside the twelve-mile limit will be outside the scope of UK VAT, by virtue of VATA Schedule 4A Para 8.

9.9 Catering
The supply of catering services is determined by VATA Schedule 4A Para 5. If the supply of catering is performed outside UK territorial waters, the supply is outside the scope of VAT and if the supply is within UK territorial waters, the supply is standard-rated.

For fixed platforms and for moveable platforms/rigs and ships, the caterer's place of business can be taken to be the platform, rig or ship. If the platform is outside UK territorial waters the supply by the caterer is outside the scope of VAT.

9.10 Supplies of Staff
In some cases, the supply to an OM of personnel may be deemed to be a supply of staff rather than one of services. Such supplies fall within the General Rule with the place of supply being where the recipient belongs. In other cases, the supply to an OM of staff who work on platforms outside UK territorial waters, may be deemed to be a supply of the services that the personnel are contracted to supply, such as engineering services, scientific services, work on goods or services relating to land. The liability of such services will depend on the nature of the services provided subject to the place of supply rules within VATA Section 7A and Schedule 4A.

Whether a supply is one of staff or of services will depend on the scope of the contract which the OM has with each supplier. HMRC Notice 700/34 provides further information on what is a supply of staff. Where there is any doubt clarification should be sought from HMRC.

9.11 Supply of Oils for Drilling (Tied Oils)

Background
The Tied Oils Scheme allows businesses to procure oils free of excise duty when put to certain industrial uses. There are many categories of oils which fall within the scheme and these are listed in HMRC Notice 184A (Mineral (Hydrocarbon) Oil put to a certain use: Excise Duty Relief). The primary legislation covering the scheme is contained in Section 9 of the Hydrocarbon Oils Duties Act 1979. Where it is difficult to establish whether or not a product falls within the scheme you should consult HMRC.

One of the most commonly used tied oils within the offshore industry is base oil, which is used in conjunction with oil-based drilling mud. The ready-mixed drilling mud itself does not fall within the scheme although other products for offshore use may do.

Who should be registered for Tied Oils?
Suppliers of Tied Oils will be registered for Tied Oils. Whether an OM is required to obtain a tied oils approval number from HMRC in order to obtain oil products that fall within the scheme free of excise duty will depend on the terms of the contract the OM has with the supplier of the Tied Oil. If a third party is involved in the supply chain, the terms of the arrangement will determine who has to be registered for Tied Oils and as a consequence who is the exporter of the oils when they move offshore.
For example, at what point does the OM take title to the oil? If title transfers at the offshore location then the OM will not have to be registered for Tied Oils. The supplier will become the exporter of the oil from the UK.

Usually, if the OM takes title whilst the oil is onshore in the UK the OM must obtain a tied oils approval number from HMRC. The OM must provide suppliers with its tied oils approval number.

Alternatively, if the OM is responsible for the re-importation of any unused Tied Oils, this will also give the OM an obligation to register for Tied Oils.

More detailed information on the procurement of base oil and other products in connection with the tied oils scheme is provided at Appendix F.

9.12 Other Services
Other services supplied to an OM by a supplier belonging in the UK which relate to offshore oil and gas exploration/exploitation outside the twelve-mile limit will usually fall under VATA Schedule 4A Item 1. For example, the shooting of seismic or the sale of seismic information on a specific area of land, are land-related, the place of supply being where the land is situated. For further information on seismic services, the provision of data and the granting of licences to use data, see Appendix C.

For land-related services, where the work is undertaken partly inside and partly outside UK territorial waters, refer to 9.3 above.

Where it is difficult to determine the place of supply of a particular service by reference to VATA Section 7A or Schedule 4A advice should be sought from HMRC National Advice Service.
PART III
ONSHORE EXPLORATION AND EXPLOITATION

10. GENERAL INFORMATION
For VAT purposes, this encompasses exploration and exploitation activities within the UK and its territorial waters.

In the exploration phase, typically, an OM will employ a specialist company to shoot seismic or will possibly purchase existing data. In either event, a standard-rated service is performed. Having selected a promising structure, the OM will usually then employ a specialist contractor to drill one or more exploration wells. Typically, the drilling rig will belong to the contractor who will be responsible for purchasing such materials as are needed to complete the task. The charge by the contractor to the OM will be for a standard-rated service.

10.1 Liability of Exploration and Production Billings
Charges made by an OM to a PM which relate to exploring for oil and gas or for the production of oil and gas, are consideration for supplies of exploration/exploitation services relating to a specific area or areas of land as detailed in the Joint Operating Agreement (“JOA”). Where this is within the UK or its territorial waters such charges are liable to VAT at the standard rate. A billing statement, the front page of which constitutes the VAT invoice, is usually issued by the OM each month. VAT at the standard rate must be added for onshore activities. Where cash calls are made in advance of the billing statement, see Section 3 of the Memorandum.

10.2 Supplies by Third Party Contractors
Section 9 details the VAT liability of a range of services supplied by third parties to OMs in respect of offshore licence activities. Where similar services are supplied in respect of onshore activities they will generally be subject to VAT at the standard rate (unless the recipient is not UK established and the supply falls under the General Rule).

11. ENVIRONMENTAL TAXES
11.1 Climate Change Levy (CCL)
CCL is an environmental levy on downstream activities. It was introduced on 1 April 2001 as part of the UK’s Climate Change Programme, and is chargeable on supplies of certain energy products (‘taxable commodities’) for lighting, heating and power used by industrial and commercial consumers. These taxable commodities are set out in Para 3(1) of Schedule 6 to the Finance Act 2000, and include:

- Electricity;
- Any gas in a gaseous state that is of a kind supplied by a gas utility;
- Coal and coke; and
- Any petroleum gas, or other gaseous hydrocarbon, in a liquid state.

The levy is applied at a specific rate per nominal unit of energy. Current rates are detailed on the HMRC web site: http://www.gov.uk/climate-change-levy-application-rates-and-exemptions#main-rates

Hydrocarbon oil and road fuel gas are not subject to CCL as they are already taxed under the excise duty provisions.

The supply, including self-supply, of taxable commodities outside of UK territorial waters, is a supply outside of the UK and therefore outside the scope of CCL. The supply of taxable commodities within UK territorial waters or on land is potentially within the scope of CCL, but may be subject to various exemptions. In particular the supply of a taxable commodity:
• To be used for the production of taxable commodities other than electricity is exempt under Para. 13(b)(i) of Schedule 6 to the Finance Act 2000. This includes the production of petroleum and hydrocarbon gas in a liquid state and natural gas as supplied by a gas utility;

• To be used for producing electricity in a generating station, provided it is not a deemed self-supply, is exempt from the main rates of CCL, although the Carbon Price Support rates discussed in the section below are still likely to apply - Para 14 (3B) of Schedule 6 to the Finance Act 2000. This exemption does not apply to supplies to a fully or partly exempt combined heat and power station, to supplies to an unlicensed electricity supplier, or to most supplies to auto-generators;

• To be used in producing hydrocarbon oil or road fuel gas (which are themselves not taxable commodities) is exempt under Para. 13(b)(ii) of Schedule 6 to the Finance Act 2000. For this purpose, production also includes extraction and onshore and offshore drilling activities that involve the extraction of crude oil. Exploration is deemed to be a separate activity, not involving the physical extraction of oil, so does not qualify for production relief. (Sub-paragraphs 13(b)(ii) and 13 (b)(iii) of Schedule 6 to the Finance Act 2000).

The supply of a taxable commodity is also exempt from CCL under Paragraph 11 of schedule 6 to the Finance Act 2000:

• If the person to whom it is made notifies his supplier before the supply is made that he intends to cause it to be exported from the UK and not brought back to the UK; or

• For supplies of taxable commodities other than electricity or gas in a gaseous state, for use of the commodity in making a supply to another person. For example, in respect of LPG in bulk and solid fuels, wholesalers/retailers are required to notify their suppliers before any supply has been made that there is an intention to make such onward supplies. However, this does not preclude these same wholesalers/retailers being required to register for CCL on supplies made to end-users.

Where a produced taxable commodity is self-supplied, the self-supply conditions must be considered. (Sub-paragraphs 13(b)(i) and 23(3) of Schedule 6 to the Finance Act 2000).

Energy used at remote sites by the person producing hydrocarbon oil or taxable commodities other than electricity will qualify for relief to the extent that it is clearly necessary for or directly related to the production or, in some cases, distribution of fuel (see Notice CCL1, Appendix F). Energy used by sub-contractors, even if working at the producer's premises, cannot benefit from the relief unless the sub-contractors themselves are refining or extracting oil or other taxable commodities.

11.1.1 Carbon Price Support (CPS)
CPS rates of CCL on supplies of fossil fuels used to generate electricity in the UK were introduced with effect from 1 April 2013 as a further UK environmental measure. Whilst CPS may be applicable to certain downstream activities (for example some refinery activity), HMRC has confirmed that CPS does not apply to offshore electricity generation at platforms and therefore is not covered further in this document.

HMRC has published a guidance notice on CPS (CCL1/6)

11.2 Aggregates Levy
Drill cuttings resulting from any operations carried out in accordance with a licence granted under the Petroleum Act 1988 or the Petroleum (Production) Act (Northern Ireland) 1964 are exempt from Aggregates Levy; Finance Act 2001 Section 17(4)(d) refers.
12. INSURANCE PREMIUM TAX (IPT)

IPT applies to all insurance premiums for onshore installations in the UK and those within the twelve-mile limit.

The main issue for the Industry concerning IPT relates to pipelines which come onshore into the UK. Where an insurance policy covers both the UK and non-UK elements of a pipeline, the IPT liability will need to be established by apportionment on a “just and reasonable basis”. HMRC have issued illustrations showing acceptable methods of apportionment but due to the wide variety of pipeline structures, it is advisable to negotiate an acceptable basis. There is also an extra-statutory concession (HMRC Notice 48 number 4.2) whereby if:

- the policy relates to taxable and non-taxable elements; and
- the premium is less than £500,000; and
- the taxable element is 10% or less of the whole,

- the whole premium may be treated as exempt.

Drilling rigs are usually regarded for IPT purposes as commercial ships and, as such, are generally exempt from IPT. They are liable to IPT, however, whilst under construction in the UK. The exemption applies from the date of launching.

Fixed offshore platforms (outside the twelve-mile limit) are usually regarded as buildings. As such, if they are outside the twelve-mile limit, they are establishments outside the UK. Where an insurance policy covers both onshore and offshore risks, appropriate allocations may be made to determine the proportion of the premium which will be subject to IPT.
PART IV
DISPOSAL AND REARRANGEMENT OF LICENCE INTERESTS AND FINANCING AGREEMENTS

13. INTRODUCTION
The purpose of Part IV is to explain the VAT position in respect of certain re-arrangements of licence interests and financing arrangements.

14. THE LICENCE
The licence, which is described in Part I of the Memorandum, is granted under specific terms and conditions and cannot be sold, transferred, assigned or otherwise dealt in without the consent of the Secretary of State.

15. MAIN METHODS OF REARRANGING THE LICENCE
There are three principal methods of rearranging licence interests and financing arrangements:

(i) a sale or assignment;
(ii) a farm-out/farm-in;
(iii) deferred payments:
   a. an over-riding royalty;
   b. a net profits interest; or
   c. a production payment

Combinations of these methods are possible and frequently occur.

The methods of re-arranging licence interests cannot be distinguished purely by reference to forms of consideration. For VAT purposes, the overall nature of the transaction will determine the liability of the supply. The VAT treatment of 15(i), 15(ii) and 15(iii)(a) is discussed in Section 19. The VAT treatment of 15(iii)(b) and 15(iii)(c) is detailed in Section 18.2 and 18.3 respectively.

16. SALE OR ASSIGNMENT
The simplest form of rearrangement is an outright sale or assignment by the holder of a licence interest of all or part of that interest to another person for cash or debt or some other consideration directly expressible in money.

Alternatively, the re-arrangement can take the form of the exchange of an interest in a licence by one licence holder, for an interest in another licence held by another licence holder. In such cases, each licence holder is making a disposal and an acquisition. Exchanges of this nature can involve licences covering producing fields, undeveloped areas, or a combination of these.

It is common practice for the parties to agree that they will both use the same values for the licence interests involved.

17. FARM-OUT OR FARM-IN
The distinguishing feature of a farm-out or farm-in is that consideration ordinarily takes the form of a work obligation. The party holding the licence interest (i.e. the “farm-inor” or one farming-out) assigns part of that interest to another person (the “farm-inee” or person farming-in) in consideration of the “farm-inee” drilling one or more wells (perhaps to fulfil a requirement of the licence), or incurring specified development and operating costs. The “farm-inee” may already have an interest in the licence and be seeking to earn an additional share. The consideration may also include a cash payment.
18. DEFERRED PAYMENTS

18.1 Over-riding Royalty Interest Retained
An over-riding royalty may be created by a licensee assigning a licence interest to another and
reserving a royalty interest therein. The consideration for the assignment is generally expressed
as the payment of a cash sum, the assumption of work obligations and the over-riding royalty
payment by the assignee. Ordinarily, the royalty interest will be coterminous with the life of the
licence, though it could be less. The royalty may take the form of an annual or monthly cash
payment or a right to a specified portion of the oil or gas produced.

18.2 Granting of a Net Profits Interest
Rather than granting an interest in the licence, a licensee may assign a net profits interest in
consideration for an unsecured loan or a lump sum payment.
A supply of this nature may be regarded as the provision of "risk capital" and thus outside the
scope of VAT.

18.3 Production Payments
A production payment is consideration for a right to receive in cash or kind a specified share of
the production from a licence interest (free of development and operating costs) until an agreed
amount of production, or a specified sum of money has been received. That right differs from a
royalty interest in that it is limited in amount and must be paid out before the end of the productive
life of the licence interest which it burdens. Alternatively, it may be "carved out", i.e. a portion of
the future production conveyed from the licensee’s existing interest. In this case, the
consideration for the production payment is generally the advance of funds on a non-recourse
basis.

The place of supply is determined under the General Rule as contained in VATA s7A.

19. VAT LIABILITY OF DISPOSAL AND REARRANGEMENT OF ONSHORE AND OFFSHORE LICENCE
INTERESTS

19.1 Introduction
The disposal of an interest in a licence is a supply relating to land, although not necessarily a
supply of an interest in land.

19.2 Transfer of a Going Concern (TOGC)
Article 5 of SPO provides that the transfer of a going concern shall be treated as neither a supply
of goods nor a supply of services. There are specific requirements in Article 5 which must be met
in order for TOGC treatment to be applied:

- the transfer must be of assets of a business or part of a business;
- the assets must have been used by the transferor in its business;
- the transferee must use those assets in its own business;
- if the transferor is registered for UK VAT or required to be registered the transferee is also
  required to be registered for UK VAT;
- if the transferor has opted to tax, the transferee must also opt to tax and do so before the
  transfer takes place.

HMRC are prepared to treat the transfer of a licence interest as a TOGC so long as certain
conditions in addition to those specified in Article 5 of SPO are met. These are:

(i) the licence disposal or rearrangement documents (agreements) must indicate that both
    parties are prepared to treat the deal as a TOGC;
(ii) there has been at least minimal activity in the licensed area (e.g. shooting seismic).
Where the field/licensed area is outside the 12-mile limit any sale/transfer will be a TOGC but will be outside the scope of UK VAT with the right to recovery of any associated input VAT. In the case of a TOGC, VATA Section 49(1)(b) applies in respect of retention of records. The Transferor retains records which relate to the transferred assets prior to the date of transfer.

19.3 Non-TOGC
In the unlikely event that the TOGC rules do not apply to a transfer of a licence interest, the supply:

- In the case of the transfer of an interest onshore or offshore up to the twelve-mile limit, will be one of an interest in land and exempt under VATA Group 1 of Schedule 9, unless an election to waive exemption has been made under VATA Para 2 Sch.10.

  The making of an exempt supply will not mean loss of input tax previously incurred in undertaking activities permitted by the licence, e.g. drilling wells; nor will the exempt supply restrict the licence holder’s general recovery of input VAT. Only input tax directly attributable to the exempt disposal or rearrangement of the licence interest, e.g. solicitor’s fees, may suffer restriction. An exempt supply may be avoided by the individual licence holder electing to waive exemption under VATA, Sch.10 Para 2.

- In the case of an interest offshore and outside the twelve-mile limit, it will be a supply of services related to land and covered by paragraph 1 of Schedule 4A, and outside the scope of UK VAT. There is no restriction of underlying input VAT for the transferor.

HMRC have confirmed that where a royalty interest is retained by a licensee upon transfer of a licence, the licensee may receive royalty income for a number of years thereafter. The over-riding royalty payments received are further consideration for the transfer of the licence. Therefore, the VAT liability of the charge by the original licensee to the new licensee follows that of the main transaction, i.e. the transfer of the licence interest. Where the licenced area is located outside the twelve-mile limit, the royalty charge will be outside the scope of UK VAT. Where the licenced area is onshore or offshore up to the twelve-mile limit, the royalty charge will be consideration for an exempt supply relating to land (subject to the assigner’s option to tax).

Where the consideration for a transfer is other than cash or is the exchange of another interest, there will be reciprocal supplies by each transferor.

- In the case where the consideration is itself the supply of a licence interest, the liability for this supply is determined by where each licence interest is located.

- In the case of a farm-out or farm-in, the work obligation is a supply of exploration/exploitation services. The place of supply of these services is explained in Section 8.4 above.

Where the consideration takes the form of an entitlement to a share of oil or gas produced, this share of oil or gas is a supply of goods. For shares in oil, the supply will then be outside the scope of UK VAT if either made outside the UK (i.e. at the wellhead) or made in the UK but whilst warehoused and subject to the rules in VATA, Section 18. As natural gas cannot be placed in a tax warehouse, any supply which takes place in a natural gas system of an EU Member State (or a network closely connected to such a system) would follow the rules outlined in 8.3 above.
20. CONSIDERATION FOR SUPPLIES NOT INVOLVING A TOGC
When the consideration for a supply is wholly monetary, the value of the supply is taken to be such an amount as, with the addition of the VAT chargeable, is equal to the consideration (VATA, Section 19(2)).

When the consideration for a supply is non-monetary or not wholly monetary, the value of the supply is such amount of money as with the addition of VAT, is equivalent to the consideration (VATA, Section 19(3)).

Thus, where the consideration for an assignment of a licence interest comprises or includes a work obligation or the handing over of oil, the assignor must assess the value of the consideration attaching to the assignment for VAT purposes.

When there is future consideration in the form of royalties, a further supply is treated as taking place each time a royalty payment is received or a VAT invoice issued.

Payments in kind for the assignment of a licence interest, which are themselves taxable supplies, would similarly be chargeable on the basis of the valuation rules in VATA, Section 19(3). [Production payments against a right to receive future supplies of oil produced, would be the consideration for such supplies if in fact made.]

21. SEPARATE SUPPLIES OF GOODS OR INTERESTS IN GOODS
When a licence interest is rearranged, if, as part of the overall transaction, the title to goods or an interest in goods passes to another person, this will be subsumed in the over-riding supply of the licence interest, and will not be regarded as a separate supply. However, if there is a separate agreement for the sale of goods not linked to the sale of the licence, this will be regarded as a separate supply of those goods for VAT purposes. The location of the goods will determine whether or not they are within the scope of UK VAT.

If there is a separate agreement for the sale of a part interest in goods that constitutes a separate supply of services, the place of supply is then determined by reference to where the customer belongs (VATA, Section 7A and Section 9).
PART V - WAREHOUSING

22. GENERAL INTRODUCTION

A number of premises in the UK are designated as approved Tax Warehouses Transactions within the warehouse regime are covered by special rules in VATA, Section 18. The term ‘tax warehouse’ is defined in the Excise Goods (Holding, Movement and Duty Points) Regulations 2010 and Article 4(11) of Council Directive 2008/118/EC and are premises where excise goods are produced, processed, held, received or dispatched under duty-suspension arrangements by an authorised warehousekeeper.

How to account for VAT and duty due on products removed from a Warehouse is detailed in Paragraph 24 below.

Most trading of oil and gas products occurs when they leave the production site, i.e. the refinery, gas separation plant or related shipping facilities. The exact location of these trades, as defined in commercial agreements, is normally the marine flange, also called the ship’s manifold, which is the valve on the ship connected to the fuel delivery pipeline. Traditionally the marine flange had been physically located outside of the tax warehouse, meaning that trades at the marine flange could not, under the strict interpretation of UK legislation, benefit from tax warehousing. In 2010 HMRC agreed to allow the marine flange to be brought within the boundaries of a tax warehouse, should individual warehousekeepers wish to do so. There is currently no central public record of the decision made by the individual warehousekeepers, therefore it is essential to check with the relevant warehousekeeper on their particular circumstances.

UKOITC member companies have agreed to publish the situation in regard to the sites they operate. Please see Appendix I. This list is correct at the published date of this Memorandum. The intent is to review the information quarterly but it cannot be guaranteed that the information is wholly accurate as it could be subject to change. It is the responsibility of the relevant parties to ensure that they act accordingly and UKOITC cannot be held responsible for any consequence of the information being out of date.

Likewise, LPG had for many years been treated as being warehoused where it was produced and stored in the same premises as a tax warehouse, even though UK legislation only permitted LPG moving intra-community to benefit from tax warehouse status. Certain movements of LPG between UK tax warehouses were also treated as being under duty suspension, see Notice 179 para 3.8.5. Legislation was introduced in the UK in 2004 to enable special energy products such as LPG to be stored in a tax warehouse. For further information please see 22.2 below.

22.1 Crude Oil

Crude oil is excisable and is eligible for tax warehousing. Where crude oil is imported into a UK Refinery, the product will be duty and VAT suspended. Any supplies within the warehousing regime will be treated as outside the scope of UK VAT. Once crude oil is refined in the UK, the resulting products will be seen as new products of UK origin. Any supplies of these new products whilst they remain within the warehouse, will be treated as outside the scope of UK VAT, other than the last supply before removal.

If crude oil moves from one location in the UK to another it must travel under cover of a W8. Please see Appendix J for a matrix showing when a W8 is required. Please refer also to HMRC Notice 179 para 5.4.

Crude oil is not subject to the rules requiring it to be moved under the EMCS regime and does not need to travel under cover of an eAD when travelling between Member States.
22.2 **Liquid Petroleum Gas (LPG)**

LPG is not liable to excise duty in the UK until it is either set aside or used as a road fuel. However, it is liable to excise duty in other EU Member States. In order to facilitate EU movements allowing the product to move under excise duty suspension, Special Energy Products Warehouses in the UK have therefore been approved. This allows for either the raising of (for despatches from the UK) or discharging of (for acquisitions from the EU) the (AD) that is required to accompany the goods whilst under duty suspension.

Following the implementation of the Excise Warehousing (Energy Products) Regulations 2004 SI 2004/2064 it is now possible to import and store LPG’s in a warehousing regime. Trading entities now have the option of whether or not to import LPG’s into a warehouse regime.

LPG is eligible for warehousing but it is not mandatory unless, as noted above the receipt or despatch involves an intra-community movement. Where a decision is made to voluntarily warehouse LPGs losses may arise both in storage and when moving under duty suspension, even if the LPG has not been set aside as a road fuel. Any goods which have been “voluntary warehoused” fall within the Warehousing Regulations and treatment of losses will be subject to the normal warehousing rules.

Depending on the nature of the loss a company may be held liable for the duty on these goods. For example, a business may be held liable for excise duty for stock shortfalls identified from their accounting records. Alternatively in cases where the losses are as a result of spillage within the warehouse then no liability to duty may arise.

Further information on the treatment of losses in duty suspension can be obtained from section 5.6 of Notice 179 Motor & heating fuels: General information and accounting for Excise Duty & VAT and Section 3 of Notice 196 Excise goods: authorisation and approval of premises.

An SEP not subject to the EU Movements Directive is eligible for voluntary warehousing in the UK.

There are limited circumstances where LPG can move within the UK under duty suspension, Excise Information Sheet 02/13 and Notice 179 Section 3.8.5 gives more information.

Normally the un-stabilised crude stream arriving on shore will have to be refined. (Hydrocarbon Oil Duties Act 1979 s.2 (4)) The refining operation has to take place in premises entered under the provisions of Hydrocarbon Oil Regulations 1973 (Statutory Instrument 1973/1311) 3(1) and Customs & Excise Management Act 1979 s108. The same provisions do not apply for wet gas streams. A separate warehouse approval will be needed to store LPG as a Special Energy Product. Please also refer to Notice 179 chapter 3.

LPG produced from an imported crude or wet gas stream is considered as UK produced product once separated. If subsequently placed in a tax warehouse any supply within the tax warehouse will be disregarded for VAT purposes (outside the scope of UK VAT), provided this is not the final supply prior to removal from the warehouse. In order to be placed in a tax warehouse the LPG has to be voluntarily warehoused. LPG is considered eligible for warehousing under the Excise Warehousing (Energy Products) Regulations 2004 reg. 2. This decision has to be recorded by the warehousekeeper. The warehousekeeper and product owners have to decide how to manage this issue and ensure that all parties are clear on the status of the product.
The LPG will be subject to UK VAT supply rules on any supply which takes place on removal from the tax warehouse – VATA s18(2), (3) and (4) refer. LPG acquired from other EC Member States and entered to the tax warehouse is subject to the same VAT supply rules. Domestic sales of LPG, outside of the tax warehouse regime, are subject to VAT at the standard rate (or at the reduced rate where appropriate).

Guidance on how this legislation applies practically can be found in HMRC Notice 179 and Notice 702/10 In addition, references can be found in Notices 196 and 197.

22. 3  Gas Imports
Other than in the case of LPG (see above), imports of natural gas cannot be entered into the Excise Warehouse regime, as the main constituent of natural gas, methane, is not liable to excise duty. See Section 8.8 for details of the import VAT position.

23. PROCESSING AND OTHER SERVICES IN WAREHOUSE
Where ownership of crude or LPG does not change but the owner pays a fee to a third party refiner to process oil or LPG, the supply of processing is a supply of services.

Such services fall under VATA Section 7A (General Rule), with the place of supply being where the recipient belongs. If the recipient belongs in the UK, the owner of the goods has the option under Section 18C VATA to have the supply zero-rated at the time the services take place.

If the owner chooses to have the services zero-rated, he must provide to the processor a certificate of entitlement to relief from VAT (form No. 18 in Schedule 1 to the VAT Regulations 1995 - SI 1995/2518). The option to have the services zero-rated also applies to any other physical services which take place in warehouse and are directly applicable to the goods held under duty suspension, including warehousekeepers storage charges. No certificate is required for storage charges.

Such zero-rated services are taxed when the relevant goods leave the warehousing regime to UK home use except where a process is undertaken which changes the nature of the goods - in these circumstances the VAT liability of the services is extinguished. For simplification, HMRC have agreed that the value of such previously zero-rated services should be added to the value of the relevant goods (where applicable), so that the persons removing them need only make a single declaration in respect of the removal.

Warehousekeepers
Warehousekeepers have a number of responsibilities to meet and it is important to recognise and understand these, where necessary putting in place processes that meet the requirements.

More details can be found in HMRC Notices 179, 196 and 197.

24. ACCOUNTING PROCEDURES
Is Supply VAT, Acquisition VAT or Import VAT Payable?

Determining whether or not supply or import VAT needs to be accounted for and by whom can be complex. Appendix H contains some guidance to assist in that determination. The key factors are to identify whether the marine flange or other delivery point is within the boundaries of the warehouse approval and if the Special Energy Product (SEP) has been voluntarily warehoused. It may be necessary to obtain that information direct from the warehousekeeper. It is not necessary to have sight of the warehouse approval granted by HMRC this is proprietary company information. Typically, a warehousekeeper will have advised owners and shippers that the SEP is treated as voluntarily warehoused unless he is advised differently in writing prior to the movement of the product.
Examples (note this list should not be taken as exhaustive):

- Goods arriving from non-EU countries which remain in the same state on removal from warehousing are liable to import VAT.
- The import VAT on feedstock consumed within the refinery process is extinguished so no import VAT is due on removal.
- Goods arriving from EU countries which remain in the same state on removal from warehousing and have not been supplied in warehouse are liable to acquisition VAT.
- Home-produced or acquired oil supplied within a tax warehouse can be liable to supply VAT but it will depend on the excise duty status of the oil, where the oil is moving to and the status of the recipient.
- An SEP being transported from the UK to another Member State has to be done under the requirements of EMCS. This means that it is being transported under the warehousing regime. If the SEP has been voluntarily registered and where the flange is located inside the warehouse all transactions can be treated as taking place within the warehouse. Consideration will need to be given as to who should account for the intra-community despatch from the UK (this will be a matter for the parties concerned to determine the responsibility).

More details can be found in HMRC Notices 179, 196 and 197.

Responsibility for Accounting for Supply VAT

Section 18(4)(b) VATA is the relevant legislation for determining who is responsible for submitting a VAT 908 and accounting for the VAT due upon removal of goods from a warehouse. Responsibility lies with the person removing the goods, or the person who is required to pay the duty.

HMRC considers that in most transactions involving the removal of goods from warehouse the party who instructs the warehousekeeper will be the person who is liable to pay VAT under Section 18(4)(b) where they are not the warehousekeeper’s own goods.

However, HMRC is aware that sometimes goods may be sold on in warehouse after the warehousekeeper has been instructed, but before the goods are finally removed from warehouse.

When this happens, the person who has instructed the warehousekeeper must provide the warehousekeeper with details of who has become liable to account for the VAT under Section 18(4)(b) and who will submit the VAT 908.

Where commercial arrangements might lead to uncertainty between the parties to any transaction about who will account for VAT, it is prudent to document between the relevant parties who has the responsibility for submitting the VAT 908 and paying the relevant VAT.

24.1 Payment of VAT

Where VAT is payable on removal of refined oil or LPG from the warehouse regime, there are two options for accounting for the tax.

- **Immediate Payment**
  A form W50 must be completed and sent, together with either the cash or guaranteed cheque, to the National Warrant Processing Unit (NWPU) in Edinburgh before delivery from warehouse. Approved deferment traders may need to submit immediate payments on form W50 to the Central Deferment Office (Oils Team) in Southend in some periods to avoid exceeding their deferment limits.
• **Deferment**
  Approved persons holding a deferment account ("8" or "9" series), may defer the payment of VAT. The deferment accounting period is the calendar month and payment by direct debit is made on the 15th of the following month or when this falls on a weekend or bank holiday, the previous working day. Deferment holders may be required to give financial security to cover deferred liabilities. Further information can be found in HMRC Public Notice 101.

Form VAT 908 must be sent to the Central Deferment Office (Oils Team), where it must be received by the fourth working day of the month following delivery. The deadline can be found on the HMRC website

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&pageLabel=pagelImport_RatesCodesTools&propertyType=document&columns=1&id=HMCE_PR0D1_029299

It is possible to fax VAT 908 forms to 01702 366091 but the hardcopy forms must still be posted to the HMRC address as shown on the form.

24.2 **Evidence for Input Tax**
Registered taxable persons can deduct as input tax the VAT due on the goods they remove from warehouse for the purpose of their business, subject to the normal rules. To reclaim the tax as input tax on their next return, traders should hold a centrally produced VAT certificate (form C79) as acceptable evidence for input tax deduction. If a VAT certificate is not available, certified copies of Forms W50 or VAT 908 will be an acceptable alternative.

If a VAT 908 does not meet the deadline for submission to CHIEF (see above) it will not appear on the C79. Direct payment by CHPS/BACS must be made to HMRC who will issue a stamped VAT 908 that can be used as evidence to recover input tax in the tax period covering the month of payment.

Agents and others responsible for clearing goods from Customs control must not deduct such VAT as input tax on their own VAT returns. They must ensure that the documents are forwarded to their principals as soon as possible.

25. **HOME-PRODUCED OIL**
Home-produced oil includes mineral oil refined in the UK from:

- Crude oil imported from the UKCS, Norwegian CS, third countries or acquired from other EU member states;
- semi-refined product imported from third countries or acquired from other EU member states; and
- refinery feedstock imported from third countries or acquired from other EU member states.

Any import VAT or acquisition VAT due on the non-UK constituents is extinguished. If UK-produced oil so defined is supplied while in warehouse, the supply is outside the scope and disregarded for VAT purposes (VATA, Section 18), unless it is the last or the only supply of that refined oil in warehouse. The warehousekeeper, or the person who eventually buys the oil and delivers it to home use in the UK upon payment of excise duty, must ensure a removal declaration is completed and at that time. The VAT is accounted for on Form W50 or VAT 908, as appropriate

Provided that UK-produced oil is delivered to home use by the refiner without being supplied (either by sale or exchange) in warehouse, no VAT arises on the removal from warehouse. Where the time of supply for VAT purposes is after delivery from a duty suspended warehouse, a VAT invoice must be raised at the time of supply and VAT accounted for on the relevant VAT return.
Where the product received from either UK or Norwegian CS has been processed on-shore in the UK before despatch to another EU Member State it will qualify for a T2L and warehousekeepers should arrange for the production of such document. Form T2L is a document used in the EU to prove that a product has “Community Status”. It is also possible to include a community status declaration on commercial documents rather than using a Form T2L. Proof is needed because products that do not have Community Status must undergo import formalities and any Customs Duty due must be paid. Demonstrating “Community Status” confirms that the products that are moved between EU Member States are not liable to such import procedures and Customs Duty payments.

UK produced product can also benefit from preferential status when imported into a third country. This allows the importer to claim a lower or nil rate of customs duty. Notice 828 deals with the rules related to the documentation to support the origin status where the oil to be exported is processed on shore in the UK.

26. IMPORTS AND ACQUISITIONS OF FINISHED PRODUCTS

Where refined oil is acquired/imported into the warehousing regime, the VAT accounting procedure is as follows:

- **EU Member States**: oil acquired from another EU Member State which is not subsequently supplied whilst in warehouse, is liable to acquisition VAT. While the duty suspended oil remains in warehouse, there is no need to account for the tax on the acquisition. If the acquirer delivers the oil to home use in the UK the acquisition VAT is to be declared on the VAT return (VAT 100) for the period covering the time of removal. The amount of VAT should be entered as output tax and may be treated as input tax on the same return subject to the normal VAT rules.

Where acquired goods are subsequently supplied in warehouse the remover of the goods who delivers them to home use in the UK must complete a removal declaration and at the same time, pay both the excise duty and VAT on that supply, using form W50 or VAT 908 as appropriate. In this case, the liability to acquisition VAT is extinguished.

- **Third Country**: Import VAT only applies to non-Community goods. Import VAT is chargeable and payable as if it were a duty of Customs. However, unlike duty, VAT is recoverable in accordance with 24.2 above.

Where the import declaration is for removal of the oil to an excise warehouse, the VAT payment due may be delayed until the oil is delivered to home use and made along with the excise duty payment. Accounting will be via the W50 or VAT 908 procedure as appropriate.

Supplies of imported oil that take place in a warehouse before the excise duty point, are treated as being made outside the UK for VAT purposes (VATA, Section 18).

Oil which is essentially imported oil but which contains a small proportion of home-produced oil (e.g. imported motor spirit containing UK additives) may be treated as wholly imported oil.

27. TAX POINT: FOURTEENTH DAY ARRANGEMENT

HMRC have agreed a system for the payment of import VAT or accounting for acquisition VAT on refined oil imported from third countries or arriving from other EU Member States into UK tax warehouses. This agreement allows the option of paying the import VAT due or accounting for the acquisition VAT on the oil, as if it had been removed 14 days after its arrival in the UK warehouse, instead of immediately prior to it actually leaving the warehouse. This agreement avoids problems in the identification of oil which shared common storage and was mixed with home produced oil. Written authorisation from HMRC is required to use this procedure.

The arrangements can only be used in the following circumstances:
for oil which has arrived in an excise/tax warehouse from outside the UK where import VAT or acquisition VAT is due; and
• the oil is to be mixed in a UK duty-suspended warehouse with other oil of the same type, with no resulting change in character; and
• it is not possible or practicable to identify the original consignments of oil when the resulting product is removed from the warehouse, either physically or in the warehousekeeper’s documents and records.

To account for the VAT using this procedure, either a W50 (immediate payment) must be presented 14 days after receipt into warehouse, or the VAT must be entered on form VAT 908 (deferment) for the month in which the 14th day after receipt into warehouse falls.

**Note:** The 14-day rule does not apply to oil that is to be mixed or processed, from which a product of a different character results; the import/acquisition VAT is extinguished in such cases.

### 28. VALUATION FOR VAT PURPOSES

For imports and acquisitions, the value is normally the delivered price paid at the time of entry, plus certain other incidental costs if not already included in the price. In addition, the value must include the excise duty and any customs duty paid, if any (see HMRC Notice 702 “Imports” for further details).

For the last supply in warehouse, the value for VAT purposes will be the invoiced value of the oil (including the excise duty payable);

For further details on VAT and Excise Duty accounting, see HMRC Notice 179.
PART VI
IMPORTATION IN TO THE UK OF GOODS FROM OUTSIDE THE EU FOR USE OFFSHORE SHIPWORK
END-USE RELIEF (SEU)

29. GENERAL INFORMATION

Certain goods may be imported at a reduced or nil rate of duty using SEU, provided they are put to a
prescribed use under Customs' control, within a specified time limit. Relief from VAT on goods imported
into SEU may also be claimed if the goods are eligible and are to be put to a prescribed SEU use.

You need an authorisation from HMRC to import or receive SEU goods.

- The authorisation normally lasts for three or five years. HMRC will not issue reminders for
  renewals so it is important to make any reapplication in good time. HMRC recommends
  submitting an application approximately 6 weeks before it is needed.
- Applications must be made on form C1317.
- Where the application is for SEU for goods that will be used on the UK Continental Shelf, there is
  no need to enter specific commodity codes, quantities or values on the form. Box 5 should be
  completed with the statement “goods of any description for shipwork end-use”.
- If you wish to use simplified procedures rather than submitting a full customs entry for every
  movement at the point of shipment offshore, this needs to be applied for at the time of making the
  application on C1317. Please see Notice 770, paragraphs 11.9.5 and 11.9.7. This application
  includes the request to waive the requirement to notify Customs of individual despatches and
  receipts.
- If you intend to store end-use goods at various sites and employ sub-contractors or sub-
  processors instead of formally transferring SEU responsibility and liability each time goods are
  transferred you can include the relevant sub-processors or sub-contractors on the C1317
  application. In these circumstances, you as the holder of the SEU authorisation retain
  responsibility for compliance with the conditions of SEU.
- Goods which require any form of repair prior to being used to maintain SEU goods cannot be
  entered to end-use relief. An alternative relief such as Inward Processing should be used.
  Please see Notice 770, paragraph 2.4.

Detailed information on the application form and on the operation of SEU is contained in HMRC Notice
770 which is available on HMRC's website. Full details of SEU are also included in the Customs' Tariff,
Volume 1 Part 9 Section IV.

Implementation of the Union Customs Code in April 2016 could introduce changes to the operation of
SEU. New approval applications may be needed. HMRC intends to inform all approval holders of the
issues under consideration. Changes will be reflected in this document once final details are available.

29.1 Eligible Goods and Prescribed Uses

Any goods intended for:

- incorporation in offshore drilling or production platforms/workpoints for the purpose of their
  construction, repair, maintenance or conversion; or
- equipping those platforms/workpoints; or
- downhole well construction; or
- subsequent shipment to a platform/workpoint which are required to be tested before use; or
- training, provided at the end of the programme the goods are shipped to a
  platform/workpoint;

are eligible for shipwork end-use relief for the Continental Shelf.
Also covered are goods for incorporation in:

- offshore fixed drilling or production platforms within sub heading 8430 49 and floating or submersible drilling or production platforms of Tariff sub heading 8905 20 irrespective of whether the fixed or floating platforms are located within or outside territorial waters.
- Tubes, pipes, cables and connection pieces linking drilling or production platforms to the mainland.
- The only non qualifying platforms/workpoints are those located onshore in the EU.

Specific examples of eligible goods included under SEU are:

- goods such as motor fuel, lubricants and gas necessary for the operation of machines and apparatus that are not integral parts of platforms/workpoints and which are used on board for the construction, repair, maintenance, conversion or equipping of these platforms. These are also regarded as being used for incorporation in drilling or production platforms insurance or strategic spares if they are needed for safety reasons or possible future use
- tubes, pipes and cables connecting platforms/workpoints to the mainland up to the terminal hook-up.
- goods for incorporation in drilling or production platforms for the purposes of their construction, repair, maintenance or conversion and goods intended for equipping said platforms.

Section 10.3 of Notice 770 provides further information

Items NOT included under SEU are:

- equipment used on land to test goods
- agricultural goods and foodstuffs included within Ch 1-24 of the Tariff
- any other goods not intended to construct, repair, maintain, equip or fit out a platform.

Note: Relief from duty and VAT for these goods may be available under IP Relief, see Notice 221 Inward Processing Relief

29.2 Processes Allowed on SEU Goods

Any process may be carried out on SEU goods provided the equipment is destined for offshore use, and is ultimately used offshore.

This area can cause confusion so it is strongly recommended that paragraphs 2.4.1 and 10.3 of Notice 770 are referred to. Note in particular the following contained in para 10.3: “Generally items which will be used to manufacture, repair or equip a ship are allowed under end-use relief. So raw materials like steel, plastics would be acceptable where used on the vessel. However items that are turned into something else to equip a ship are not.”

29.3 What Are Qualifying Platforms/Workpoints

Any fixed or floating platform/workpoint:

- within the territorial waters of any member State;
- within the UKCS or within the Continental Shelf of other Member States; or
- outside the customs territory of the EU.

The only non-qualifying platforms/workpoints are those located onshore. SEU goods may be stored or repaired on land for future use but must not be used in connection with land-based operations at any time.
29.4 Time Limit (throughput period) for Completing SEU and Repeated Use Goods

As a condition of SEU you must put goods to their prescribed use within a certain time limit. You should include in your application for the SEU the period that you require to meet your business needs.

You may require different periods for different types of goods eg insurance and strategic spares. Please see paragraph 11.7.5 of Notice 770 and section 29.5 below.

- The period(s) granted will be specified in your authorisation.
- HMRC may require that certain goods, which can be used repeatedly, will remain under their control for a period after they are first put to their prescribed use. If this is the case this will be specified in your authorisation.
Company holds valid SEU approval and approval to use Simplified Procedures with a waiver to notify HMRC of individual despatches

Item is imported as SEU from third country using a C88 and the appropriate CPC 4000023

Or

Received on transfer from another SEU vendor please see Notice 770 section 6 for the conditions

Or

Item is goods receipted into the records of the business. The customs status is recorded as either FCG or SEU

Customs status remains ‘attached’ to the item whether it remains in inventory or is shipped off-shore

If the SEU item has been used offshore evidence is needed to support this and the changing of the status to FCG

Item is shipped off-shore using simplified procedures and the customs status is recorded on the manifest. If returned to shore the original customs status is shown on the in-bound manifest

If you have simplified procedure approval monthly supplementary declarations must be submitted to HMRC (see Notice 770, 11.9.6)

If the item was recorded as SEU it may remain so flagged until it is returned to shore. This enables tracking of the item should it be returned to shore and then consideration can be given as to whether it has satisfied the eligible use and can then be treated as FCG

For strategic spares once they have reached the end of the approved throughput period the status can be changed to FCG

If the FCG item is more than 3 years old refer to Notice 236

If the FCG item is less than 3 years old it can be imported under RGR. The import can be made under the simplified procedures.
29.5 **Insurance and Strategic Spares**

Strategic spares may be entered to end-use even when they are not actually fitted to the platform. These spares are ones required to be held on the rig or in storage, for safety purposes, or for possible use in the event of a breakdown and would normally be goods that are unlikely to see much usage but must be kept ready for rapid deployment. (Paragraph 11.7.5 of Notice 770)

Strategic spares must be identified separately within the records. SEU is completed for the items at the earlier of use offshore or at the end of the throughput period identified in the approval.

29.6 **Completion of SEU and Evidence Required**

If SEU goods are supplied to repair, maintain, equip or fit-out a qualifying platform/workpoint, the end-use is completed at the time they are put to that use.

When used goods are re-landed in the UK from any of the locations described in the paragraph above, they will be in free circulation and your records should be updated to show this. You must be able to demonstrate to HMRC that the goods have been put to the prescribed SEU on the platform/workpoint. The form of evidence that this must take will be stated in your SEU authorisation, which has been agreed with HMRC. This will normally be established through commercial records.

Examples may include invoices, orders, maintenance records, period/record of use on a platform/workpoint, record of shipment, proof of payment and so on.

29.7 **Transfer of SEU Goods**

You may transfer SEU goods to another person as long as that person holds an SEU authorisation. Responsibility for compliance with the conditions of SEU transfers to the other person when they receive the goods.

Please refer to Notice 770 section 6. There are a number of documentary requirements that need to be met to carry out the transfer in accordance with HMRC requirements.

- On each order the recipient must state “I request delivery under the terms of my end-use authorisation number...”
- Each invoice and delivery note should be marked “Supplied under the terms of your end-use authorisation”

29.8 **Record Keeping**

You must keep records of all the goods that you enter to SEU. The content and format of these must be agreed with HMRC and details will be included in your authorisation. Records relating to SEU goods must be retained for four years after the goods have been put to the prescribed SEU or four years after your SEU authorisation has expired.

Please refer to Notice 770 paragraph 3.13

29.9 **End Use Supplementary Declarations**

Where approval to use simplified procedures has been granted monthly declarations must be submitted to HMRC confirming that all movements of end-use goods have been entered into the operators records. Notice 770 paragraph 11.9.4 and 11.9.6.

29.10 **Export Compliance**

Companies working within the North Sea need to be aware of and follow the necessary requirements related to Export Compliance. More information can be found on the Department for Business Innovation & Skills website and by following this link: https://www.gov.uk/overview-of-export-control-legislation.
PART VII

DECOMMISSIONING OF RIGS AND PLATFORMS IN THE UKCS
THE INDIRECT TAX IMPLICATIONS OF DECOMMISSIONING IS THE SUBJECT OF A REVIEW. A WORKING GROUP OF UKOITC AND HMRC HAS BEEN SET UP. THE MEMO WILL BE UPDATED ONCE THAT REVIEW HAS BEEN CONCLUDED.

INFORMATION CONTAINED IN THIS SECTION WILL BE SUBJECT TO CHANGE.

30. GENERAL INFORMATION
The following provides guidance on the customs duty regime applied to goods re-imported to the UK from decommissioned facilities situated on the UKCS, within and out-with the 12-mile limit of the UK Continental Shelf.

In considering the duty implications of decommissioning a facility, any possible duty exposure will depend on the route taken in disposing of the asset. It could be dismantled at sea, detached and floated into port or, indeed, destroyed. This section only deals with goods re-landed into the UK; any part of the structure remaining offshore or exported will not bear customs duty.

Please note that any reference to a duty rate or commodity code refers to that set out in the Customs Tariff. The procedures, codes and rates are subject to periodic review.

30.1 Reliefs for Customs Duty and Import VAT
The main reliefs which apply in connection with decommissioning are:

(i) Returned Goods Relief - (RGR)
RGR is dealt with in detail in HMRC Notice 236 and fully relieves import duty and VAT when goods exported from the EU are re-imported for free circulation. Being beyond the 12-mile limit, the UKCS is outside the EU for customs purposes. Evidence of the goods’ duty status at export must be presented (that is goods in free circulation or under End-Use control). In order to claim relief from customs duty and import VAT, the goods should normally be re-imported into the UK within three years of being exported, although HMRC have indicated that the three-year rule will be waived in principle as decommissioning is a special case.

(ii) Shipwork End-Use Relief - (SWEU)
SWEU discharges any liability for import duty and VAT. It is fully described in Section 29.
30.2 Rigs/Platforms Imported Entire

Commodity Codes and customs duty rates applying at the time of publication are:

<table>
<thead>
<tr>
<th>Commodity Code</th>
<th>Nature of Goods</th>
<th>Duty Rate</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>89052000</td>
<td>Floating or submersible drilling or production platforms (may include integral</td>
<td>NIL</td>
<td>Z</td>
</tr>
<tr>
<td></td>
<td>accommodation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>89059010</td>
<td>Separate floating accommodation</td>
<td>NIL</td>
<td>Z</td>
</tr>
<tr>
<td>84304900</td>
<td>Fixed platforms which have been used for drilling amongst other purposes (may</td>
<td>NIL</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>include integral accommodation and fixed accommodation platforms linked to them</td>
<td></td>
<td></td>
</tr>
<tr>
<td>73089099</td>
<td>Fixed platforms which have not been used for drilling including fixed accommodation</td>
<td>NIL</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>platforms linked to them</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Z = Zero-rated  
S = Standard-rated

In order to discharge the VAT liability of fixed rigs/platforms, RGR can be claimed. This is dependent on satisfactory evidence of export being available.

30.3 Goods Returned to the UK from the UKCS

30.3.1 Discharge of SWEU - SWEU goods which have been used at a platform/workpoint in the UKCS are in free circulation and there is no customs duty or VAT liability on re-importation, subject to satisfactory evidence of usage being available.

30.3.2 Re-importation to SWEU - SWEU goods which have not been used offshore and which are capable of re-use can be re-imported to SWEU, with suspension of customs duty and VAT. At any time, should the intended use of SWEU goods change, customs duty and VAT must be accounted for.

30.3.3 Importation to RGR - For goods in free circulation when they were exported to the UKCS, RGR can be claimed whether the goods have been used at the platform/workpoint or not. RGR is dependent on satisfactory evidence of export being available.

30.3.4 Importation as Scrap - SWEU goods which have not been used offshore and which are not capable of re-use may be imported as scrap. In order for iron and steel scrap to satisfy the Tariff definition for Commodity Code 7204XXX (which has a NIL rate of duty), it must not be possible for the articles to be used for their former purpose, or to be adapted for other uses, or to be refashioned into other goods without first being recovered as metal. Import VAT must be accounted for on scrap. Supply VAT is due on any onward sale of scrap in the UK.

If the articles do not meet the definition of 7204XXX, they must either be put beyond use after notifying HMRC, or classified according to their original heading which may have a positive rate of duty. If this is the case, these may be re-imported to SWEU if they meet the criteria in paragraph 29.1.

30.4 Valuation of Goods for Duty Purposes

Goods subject to customs duty must be valued according to the requirements set out in HMRC Notice 252 Section 14.
Intrastat is the name given to the system for collecting statistics on the trade in goods between the countries of the European Union (EU). It has been operating since 1 January 1993, and replaced customs declarations as the source of trade statistics within the EU. The requirements of Intrastat are similar in all Member States of the EU. The information provided below gives some guidance on how Intrastat reporting is dealt with in respect of the oil and gas industry. Further information on Intrastat can be found in Appendix G and in HMRC Notice 60, “Intrastat General Guide”.

31.1 Hydrocarbon Products
The movement of hydrocarbons within the EU is normally subject to the full range of reporting requirements but where this movement occurs within the Warehousing Regime, these requirements may be somewhat limited.

*Warehousing Regime*

The Warehousing Regime is defined in VATA Section 18 and Sections 18A – 18F. It covers movements of goods between a UK tax warehouse and one situated in another Member State. Such transactions are outside the scope of UK VAT (with the exception of the last supply made within warehouse of UK or EU produced goods. This is recognised as a UK supply, with tax payable on removal). However, movements from the UK to another Member State could give rise to an acquisition VAT liability in the partner member State. For this reason, the transaction should be included in Box 8 of the VAT return and on an EC Sales list. An Intrastat Supplementary Declaration (SD) is required which should show the Nature of Transaction Code (NoTC) 10. Movements from other Member States to the UK should be recorded on an Intrastat SD only, using NoTC 17.

Warehouse-keepers may complete Intrastat SDs for the movement of goods on behalf of their principals. This is essential when no other declarant is available, for example when the acquirer or dispatcher is not VAT-registered in the UK.

*UK Continental Shelf*

The UK Continental Shelf (UKCS) is outside the customs territory but is part of the UK for statistical purposes. Oil and gas extracted from the UKCS are therefore treated as community goods for statistical purposes. Following this, the reporting requirements of these goods extracted from the UKCS are as follows:

- An Intrastat declaration is required for movements directly to another member State
- No report is required for exports to non-EU countries (these are obtained from the DTI) or any landings in the UK.

31.2 Other Material Movements
The full range of Intrastat reporting requirements applies. See Notice 60, “Intrastat General Guide” for further details.
**APPENDIX A**

List of Abbreviations
OS - Outside scope
D - Disregarded
NA - Not applicable
SR - Standard-rated (taxable)
Z - Zero-rated (taxable)
UK - On land in UK or in UK territorial waters

<table>
<thead>
<tr>
<th></th>
<th>SALE</th>
<th></th>
<th>IMPORTS</th>
<th></th>
<th>ACQUISITIONS (i)(v)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At Wellhead</td>
<td>Sale after</td>
<td>On Entry (ii)</td>
<td>Moving</td>
<td></td>
</tr>
<tr>
<td></td>
<td>or before arrival into UK</td>
<td>Arrival into UK and before entry/ removal into tax warehouse (iii)</td>
<td>General removal into tax warehouse</td>
<td>under EC duty suspension arrangements.</td>
<td></td>
</tr>
<tr>
<td>A. CRUDE OIL AND PRODUCT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Crude Oil</td>
<td>OS</td>
<td>Z</td>
<td>SR</td>
<td>D</td>
<td>NA</td>
</tr>
<tr>
<td>b) Product</td>
<td>OS</td>
<td>Z</td>
<td>SR</td>
<td>D</td>
<td>OS</td>
</tr>
<tr>
<td>1. Petroleum gases and other gaseous hydrocarbons: whether in a gaseous or liquid state (e.g. methane, propane, butane, and LPG) (iv)</td>
<td>OS</td>
<td>Z</td>
<td>SR</td>
<td>D</td>
<td>OS</td>
</tr>
<tr>
<td>2. Natural gas in the ‘natural gas system’; wholesale trade between:  a) UK counterparties  b) UK and non UK counterparties  c) Non UK established counterparts</td>
<td>SR</td>
<td>SR</td>
<td>D</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>OS (vi)</td>
<td>OS(vi)</td>
<td>D</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>OS</td>
<td>OS</td>
<td>D</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>3. Natural gas sales for consumption  a) At wellhead  b) On-shore UK</td>
<td>OS</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>4. Light oils and, heavy oils</td>
<td>OS</td>
<td>Z</td>
<td>SR</td>
<td>D</td>
<td>OS/NA/SR</td>
</tr>
</tbody>
</table>
Notes

i) There are three possible types of acquisitions:
   a) Feedstock - If subject to further processing in tax warehouse, no acquisition VAT is payable since the goods lose their original character in processing.
   b) Finished product sold whilst in tax warehouse - No acquisition VAT is payable, but supply VAT is payable by the owner, making a return on form VAT 908 or form W50, upon removal from tax warehouse.
   c) Finished product not sold whilst in tax warehouse - Acquisition VAT is not accounted for at the time of acquisition but becomes chargeable when the acquired finished product is removed to home use. For co-mingled stock, acquisition VAT is to be accounted for under the 14-day arrangement described in paragraph 27.

ii) Imports charged as duty of Customs (s.1(4) VATA). VAT is calculated on the sum of the landed value and any duty payable.

iii) Item 1, Group 13, Sch. 8, VATA. The purchaser must agree to make the customs entry.

iv) Petroleum gases may be held within a tax warehouse, where this is the case the same consequences apply as to oils.

v) Crude oil, some gases, and lubricants are not held under EC duty suspension arrangements.

vi) Subject to the reverse charge procedure by the buyer
### APPENDIX A

#### TABLE OF SUPPLIES - II

**List of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>OS</td>
<td>Outside scope</td>
</tr>
<tr>
<td>D</td>
<td>Disregarded</td>
</tr>
<tr>
<td>NA</td>
<td>Not applicable</td>
</tr>
<tr>
<td>SR</td>
<td>Standard-rated (taxable)</td>
</tr>
<tr>
<td>Z</td>
<td>Zero-rated (taxable)</td>
</tr>
<tr>
<td>UK</td>
<td>On land in UK or in UK territorial waters</td>
</tr>
</tbody>
</table>

#### GOODS IN TAX WAREHOUSE

<table>
<thead>
<tr>
<th>Event</th>
<th>1. Petroleum gases and other gaseous hydrocarbons: whether in a gaseous or liquid state (e.g. methane, propane, butane, and LPG).</th>
<th>2. Light oils and heavy oils</th>
<th>3. Bitumen and other residues not included in 2 above.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal for home use by manufacturer of product (vi)</td>
<td>D</td>
<td>SR</td>
<td>SR</td>
</tr>
<tr>
<td>Removal for home use by person other than manufacturer (vii)</td>
<td>D/NA</td>
<td>SR/NA</td>
<td>SR</td>
</tr>
<tr>
<td>Sale in UK outside tax warehouse (outside tax warehouse)</td>
<td>D</td>
<td>SR</td>
<td>SR</td>
</tr>
<tr>
<td>Movement from UK warehouse to EU or non-EU warehouse (viii)</td>
<td>NA</td>
<td>NA</td>
<td>SR</td>
</tr>
</tbody>
</table>

#### OTHER

<table>
<thead>
<tr>
<th>Event</th>
<th>Movement to EU or non-EU destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movement to EU or non-EU destination</td>
<td>NA</td>
</tr>
</tbody>
</table>
ix) Although crude oil is not held under EU duty suspension arrangements, nevertheless, tax warehouse provisions apply by virtue of the Hydrocarbon Oil Duties Act 1979.

x) Petroleum gases may be held within a tax warehouse where this is the case, the same consequences apply as apply to oils.

xi) Gases which are not in a tax warehouse are never moved outside the UK but, if they were, Z would apply.

xii) Subject to conditions for zero-rating being met - VAT s 30(6) 30(8) VAT Regulations 1995 reg.129
APPENDIX A - TABLE OF SUPPLIES – II (continued)

<table>
<thead>
<tr>
<th>Remarks</th>
<th>In UK</th>
<th>Outside UK</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. OTHER SUPPLIES OF GOODS AND SERVICES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Made by OM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Charges for exploration or exploitation at wellhead.</td>
<td>SR</td>
<td>OS*</td>
<td>Land Related Services – VATA Schedule 4A Para 1</td>
</tr>
<tr>
<td>2. Constructing and operating pipeline or conveyance of oil and gas</td>
<td>Z or SR</td>
<td>OS</td>
<td>Zero-rating as transport of freight - VATA Item 5, Group 8, Sch. 8 unless the rig or wellhead is in UK territorial waters or onshore. OS if supplied to business recipient established outside UK</td>
</tr>
<tr>
<td>by vessel.</td>
<td>OS*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Maintenance of pipeline and operation and maintenance of</td>
<td>Z or SR</td>
<td>OS*</td>
<td>As in 2 above by virtue of being included in charge for transportation or outside the scope in the case of a composite charge for pipeline maintenance both in and outside UK territorial waters. (VATA Item 5, Group 8, Sch. 8) OS if supplied to business recipient established outside UK</td>
</tr>
<tr>
<td>shore installation.</td>
<td>OS*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Storing and handling in shore installations</td>
<td>Z</td>
<td>NA</td>
<td>Zero-rated under VATA Group 8, Item 11 if imported from outside the EU or under VATA Group 8 Item 6(b) if imported by ship. Zero-rated under s18C if imported by pipeline from EU. OS if supplied to business recipient established outside UK</td>
</tr>
<tr>
<td>5. Processing charges (e.g. crude stabilisation or gas separation)</td>
<td>ZR</td>
<td>0S</td>
<td>Processing treated as a supply of services under VATA 7A. When supply takes place in a tax warehouse, it is zero-rated under VATA S18C. Services follow general rule – VAT charged based on recipient's place of establishment.</td>
</tr>
<tr>
<td>Note that in appropriate cases services in 1 to 5 above may be</td>
<td>SR</td>
<td>Z or SR</td>
<td></td>
</tr>
<tr>
<td>charged as a single supply falling in category 1.</td>
<td>OS*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Rigs and Platforms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Supplies of fixed rigs, modules and platforms</td>
<td>SR</td>
<td>Z</td>
<td>Zero-rated by VATA s.30(6) or 30(8) where builder exports structure.</td>
</tr>
<tr>
<td>Outside scope if complete package of building and delivery of a</td>
<td>OS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Platform supplied outside UK.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Fixing in position outside territorial waters.</td>
<td></td>
<td>OS*</td>
<td>VATA Sch. 4A, Para 1.</td>
</tr>
<tr>
<td>2. Construction of shore terminals tank farms and pipelines</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Goods</td>
<td>SR</td>
<td>OS</td>
<td>Supplies of goods outside UK are outside the scope of VAT. Apportionment is needed for any part within the UK or UK territorial waters. However, where the majority of work is outside the UK or UK territorial waters, the supply is outside the scope and no apportionment is needed.</td>
</tr>
<tr>
<td>– Services.</td>
<td>SR</td>
<td>OS*</td>
<td></td>
</tr>
<tr>
<td>3. Installed Goods</td>
<td>Z or SR</td>
<td>OS</td>
<td>Reverse charge by the Customer.</td>
</tr>
</tbody>
</table>

* Although outside the scope, these supplies must be included in the 'value of outputs' on the VAT return.
### APPENDIX A - TABLE OF SUPPLIES – II (continued)

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>In UK</th>
<th>Outside UK</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>On rig catering</td>
<td>SR</td>
<td>OS*</td>
<td>Reverse charge by OM</td>
</tr>
<tr>
<td>6.</td>
<td>Other support or technical services.</td>
<td>SR</td>
<td>OS*</td>
<td>Outside the scope as scientific services, unless performed in UK - VATA Sch. 4A</td>
</tr>
<tr>
<td>7.</td>
<td>Exported goods.</td>
<td>Z</td>
<td>OS</td>
<td>S.30(6) or S.30(8) VATA. VAT Regulations 1995 reg. 129</td>
</tr>
<tr>
<td>8.</td>
<td>Leases of land.</td>
<td>SR or E</td>
<td>OS*</td>
<td>Item 1, Group 1, Sch. 9 VATA. Standard-rated if election to waive exemption is exercised (Para 2, Sch. 10 VATA 1994). If land is situated outside the UK then supply is outside the scope (VATA Sch. 4A, Para 1).</td>
</tr>
<tr>
<td>9.</td>
<td>Leasing of equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i)</td>
<td>Ships or aircraft</td>
<td>Z</td>
<td>Z</td>
<td>Ships of 15 tons or over and aircraft of 8,000 kg or over not designed or adapted for recreation or pleasure (VATA Item 1 and 2, Group 8, Sch. 8 VATA). Otherwise standard-rated.</td>
</tr>
<tr>
<td></td>
<td>ii) Other equipment (except means of transport - see iii) below</td>
<td></td>
<td>/OS*</td>
<td>VATA Sch. 4A, Para 7. If the equipment is used and enjoyed outside the UK, the supply will be outside the scope of UK VAT (but subject to the reverse charge to the extent the customer is registered for VAT in another member state)</td>
</tr>
<tr>
<td>10.</td>
<td>Preparation of plans and specifications for offshore drilling/production operations. Also supervising construction of rigs and platforms.</td>
<td>OS*</td>
<td>OS*</td>
<td>Outside the scope of UK VAT unless charge for preparing plans in the UK in respect of rigs or platforms located within UK territorial waters which is standard rated.</td>
</tr>
<tr>
<td>11.</td>
<td>Balancing payments on Unitisations</td>
<td>SR</td>
<td>OS*</td>
<td>Outside the scope for rigs and platforms outside UK territorial waters as land related services - VATA Sch. 4A, Para 1.</td>
</tr>
<tr>
<td>12.</td>
<td>Agency staff.</td>
<td>SR/OS</td>
<td>SR/OS*</td>
<td>Provided recipient belongs outside the UK, supply is outside the scope - S 7A otherwise standard-rated.</td>
</tr>
<tr>
<td>13.</td>
<td>Disposal of licence interests(i) to (v).</td>
<td>D; SR or E</td>
<td>D; OS*</td>
<td>Disregarded if transfer of a going concern (TOGC). If TOGC treatment does not apply and the disposal is within UK jurisdiction, exempt under VATA Item 1, Group 1, Sch. 9 but standard-rated if election to waive exemption is exercised (VATA Para 2, Sch. 10). Outside the scope if outside UK jurisdiction - VATA Sch. 4A, Para 1.</td>
</tr>
</tbody>
</table>

**Notes**

i) Disposals can take the form of outright sale, assignment of farm-out
ii) VAT directly attributable to exempt disposals (e.g. external solicitors’ costs) is not allowable.
iii) Income or other periodic payments (including royalties) will represent supplies at the date of receipt.
iv) Profit shares are outside the scope of VAT
v) Royalties in kind may also give rise to taxable supplies of product by the person making the "payment."

*Although outside the scope, these supplies must be included in the ‘value of outputs’ on the VAT returns.*
APPENDIX B
IMPORTS OF GAS BY PIPELINE

Background
Wet and dry gas from a number of offshore fields is imported by pipeline into onshore gas processing plants in the UK. The wet gas is separated into its constituent products, dry (natural) gas and natural gas liquids (LPGs and possibly condensate). Once the products have been separated out they are sold, traded or used by the companies who have title to them.

Import VAT Liability
Gas in all forms and transported by any means is subject to formal customs import procedures at the time of entry. This part deals with gas imported by pipeline. LNG imports by tanker are dealt with later in this section. With effect from 1 January 2011 all imports of gas, including LNG into the UK, by any means, are relieved of import VAT.

Completion and Submission of Import Entry Documents
Each Importer (see Glossary for definition) should present a monthly import entry (C88) of all gas imported by pipeline to the UK. The import entries must be submitted directly by an importer or his agent with access to the CHIEF system. A separate entry is required for each entry point. The entry points are identified as follows, this information relates to box 30 of the C88 document: Imports of gas can either be entered using the geographically nearest 'parent' port already on CHIEF as follows:

<table>
<thead>
<tr>
<th>Terminal</th>
<th>Parent Port</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Fergus Gas Terminal</td>
<td>Parent Port = Peterhead - PHD</td>
</tr>
<tr>
<td>Easington Gas Terminal</td>
<td>Parent Port = Hull - HUL</td>
</tr>
<tr>
<td>Bacton Gas Terminal</td>
<td>Parent Port = Great Yarmouth - GTY</td>
</tr>
<tr>
<td>Teesside Gas Terminal</td>
<td>Parent Port = Teesport - TEE</td>
</tr>
<tr>
<td>Theddlethorpe Gas Terminal</td>
<td>Parent Port = Grimsby - GRI</td>
</tr>
<tr>
<td>Point of Ayr Gas Terminal</td>
<td>Parent Port = Mostyn Dock - MOS</td>
</tr>
<tr>
<td>Barrow Gas Terminal</td>
<td>Parent Port = Barrow-in-Furness - BAR</td>
</tr>
</tbody>
</table>

Or alternatively they can be set up on CHIEF with new Freight Locations, pending the owner / operator of the location getting the necessary authorisation from the NFAU to do so.

One point of note is that to complete the electronic submission to CHIEF satisfactorily the volume has to be shown on the entry in both kg (box 38) and terajoules (box 41).

Import entries are required not only for imports from the UKCS but also the Norwegian CS. The relevant Country Origin Codes (box 34a) are ZU – UKCS and ZN – NOCS.

In order to prepare an import entry the company needs an Economic Operator and Registration Identification (EORI) number.

UK VAT registered companies can apply for an EORI number on form C220. Non-resident companies, for example Norwegian without a VAT registration can still obtain an EORI number using application form C220a found on the HMRC website.

Entries should be submitted to HMRC not later than the fifth working day of the month following the month of physical import.
Valuation of Gas
Because gas which requires further processing is rarely sold, there would be great difficulty in attributing an accurate value to this product for the purposes of the statistical value on the import entry. Given that this is the case, it has been agreed with HMRC that import values for gas should be calculated using sales values and volumes of gas products sold in the previous month. For example, the July import entry has to represent all gas physically imported in the month of July. Although there may be figures for quantities of gas imported in July the values are not known as the invoices are usually raised after the month end. HMRC has agreed that June invoices may be used to establish values which are then applied to the July quantities declared on the July import entry. In this example the deadline for submission of the July import entry to HMRC is 5th August.

Some companies calculate a weighted-average price of dry gas and then multiply this by the adjusted volume of dry gas and other products sold. Other companies base their valuation on the values and volumes of both dry gas and other products sold. Whichever method is adopted should be agreed with HMRC. Guidelines for undertaking the valuation are shown below.

The value and volume of product (i.e. natural gas, LPG and condensate) sales in the previous month should generally include:

- Value-only sales price adjustments (including amounts due following gas contract annual reconciliations);
- Fee-in-kind products received offshore and subsequently brought into the UK;
- Products previously paid for but delivered in the current month. e.g. “take or pay gas”. Exclude any up-front payment and apportion the value against the volume taken in each month;
- Intra-VAT Group sales.

The value and volume of product (i.e. natural gas, LPG and condensate) sales in the previous month should, where applicable, generally exclude:

- Imports as part of a crude stream;
- Products not landed in the UK (e.g. for offshore platform use);
- Products purchased from third parties on-shore in the UK, after import;
- Products received as fee-in-kind on-shore in the UK, after import by a third party;
- Products paid for but not delivered in the previous month(s), e.g. under a “Take or Pay” arrangement;
- Capacity charges.

The “85%” rule
Since value is added when the gas is processed, the use of unadjusted, processed gas sales values in the import entry calculation would not fairly reflect the lower value of the imported wet gas. In 2002 UKOITC-ITC and Customs (HMRC) agreed a revised basis for calculating this lower value. The revised basis applies a reduction of 15% on the sales value, reflecting a reasonable estimate of the operating costs of a typical gas processing plant.

Imports of LNG by tanker
It should be noted that LNG is subject to full import entry procedures by the Importer at the place of arrival and the normal valuation rules for imports apply. With effect from 1 January 2011 the import of LNG into the UK is relieved of import VAT.
### APPENDIX C

#### VAT - SUPPLIES RELATING TO SEISMIC DATA

Referred to in para 9.12

**Supply of Seismic Services**

(Bronker/Supplier to Operator or Participant)

(Land related services – supplied where the land/seabed is situated)

1. **Broker/Supplier to Client**

<table>
<thead>
<tr>
<th>BROKER/SUPPLIER</th>
<th>CLIENT</th>
<th>LICENCE AREA</th>
<th>VAT TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Non-UK</td>
<td>UK</td>
<td>Non-UK</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Outside the scope</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Standard-rated</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Outside the scope</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Standard-rated²</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Outside the scope</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Standard-rated</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Outside the scope</td>
</tr>
</tbody>
</table>

1. VATA Sch. 4A para. 1(2) see Notice 741A Place of supply of services
2. Reverse charge if client UK VAT registered otherwise supplier might have to register in the UK and charge UK VAT.

2. **Grant of Licence to Sell Data**

(Grant of rights – can be supplied where the customer belongs)

<table>
<thead>
<tr>
<th>OPERATOR</th>
<th>BROKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Onshore</td>
<td>Offshore</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

1. VATA 1994 s 7A – See Notice 741A
2. Reverse charge by broker where supply received for business purposes, otherwise place of supply is customer’s country

3. **Supply of Data**

(Land related information – supplied where the land/seabed is situated)

<table>
<thead>
<tr>
<th>BROKER</th>
<th>LICENCE AREA</th>
<th>VAT TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Non-UK</td>
<td>UK</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

1. VATA Sch. 4A para. 1(2) – see Notice 741A
2. Reverse charge if client UK VAT registered, otherwise supplier might have to register in the UK and charge UK VAT.
APPENDIX D
CUSTOMS DUTY REGULATIONS FOR GOODS IMPORTED FOR USE OFFSHORE

EU Regulations

Council Regulation (EEC) No. 2913/92

Establishing the Community Customs Code

Article 82: End Use
Article 98-113: Customs Warehousing
Article 114 - 129: Inward Processing
Article 185 - 187: Returned Goods Relief

Council Regulation (EEC) No. 2454/93

Laying down provisions for the implementation of Council Regulation (EEC) No. 2913/92 establishing the Community Customs Code

Article 291 - 304: End use
Article 496-535: Customs warehousing
Article 496-523 & 536 –550: Inward Processing
Article 844 - 856: Returned Goods

Notices issued by HM Revenue & Customs

221 Inward Processing Relief
232 Customs Warehousing
236 Returned Goods Relief: Free of Duty and Tax
252 Valuation of imported goods for customs purposes, VAT and trade statistics
770 The European Community: Imported Goods: End-use relief
## APPENDIX E
### TYPES OF WAREHOUSE

<table>
<thead>
<tr>
<th>Warehouse Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Excise Warehouse</strong></td>
<td>There are two main categories: Mineral Oil Producers Premises&lt;br&gt;Special Energy Products warehouses&lt;br&gt;For further information see Section 3 of Public Notice 179.</td>
</tr>
<tr>
<td><strong>Tax Warehouse</strong></td>
<td>Premises where excise goods are produced, processed, held, received or despatched under duty suspension arrangements by an authorised warehousekeeper in the course of the warehousekeeper's business. They include excise warehouses.&lt;br&gt;Article 11 (2) of Directive 92/12/EEC&lt;br&gt;For further information see Section 3 of Public Notice 179</td>
</tr>
<tr>
<td><strong>Fiscal Warehouse</strong></td>
<td>A fiscal warehouse is a regime where certain commodities in free circulation within the EC can be traded VAT-free, subject to certain conditions. For further information see Public Notice 702/8 Fiscal Warehousing.</td>
</tr>
<tr>
<td><strong>Customs Warehouses</strong></td>
<td></td>
</tr>
<tr>
<td>Type A</td>
<td>A public warehouse</td>
</tr>
<tr>
<td>Type C</td>
<td>The basic private warehouse</td>
</tr>
<tr>
<td>Type D</td>
<td>An alternative private warehouse, where the rules of assessment for import goods released to free circulation are those that apply on entry to the customs warehouse</td>
</tr>
<tr>
<td>Type E</td>
<td>Another form of private warehouse in which a company and its commercial accounting and stock control systems are authorised rather than a defined location</td>
</tr>
</tbody>
</table>

EC legislation allows for 6 different types of customs warehouse, classified as A-F, however only types A, C, D & E are available in the UK.

Further information on Customs warehouses can be found in HMRC Public Notice 232.
APPENDIX F

PROCUREMENT AND DISTRIBUTION OF OIL PRODUCTS UNDER THE TIED OILS SCHEME

If an OM needs to apply for a Tied Oils Authorisation Number it is done on form HO27 which is available for download on the HMRC website. There are different categories of authorisation which can be applied for. For example, where any products falling within the scheme will be returned from a location offshore to the supplier onshore for credit, the OM must register under the scheme as both a “user” and a “distributor”. Details of the application process and categories of approval are contained within HMRC Notice 184 and further guidance can be obtained from HMRC.

Ordering and Delivery Procedures
When ordering products fall under the Tied Oils Scheme the OM must provide suppliers with its Tied Oils Approval number to allow supplies to be made free of excise duty. The OM should also confirm that suppliers are properly approved to supply products within the scheme free of excise duty by obtaining a copy of their Tied Oils Approval number.

There are specific delivery procedures and documentary requirements for suppliers under the scheme. These are detailed in HMRC Notice 184A para 9.7.

Completion of Quarterly Returns
As a person registered under the Tied Oils Scheme, the OM is obliged to submit quarterly returns to HMRC to provide information on quantities of Tied Oils products which have been received into stock or which have been returned to approved persons within the period. This is done on form HO34 which is available for download on the HMRC website.

It has been agreed with HMRC that where deliveries are made to and from offshore locations the following will apply to completion of the returns.

Box 1 Only stock held onshore should be included.
Box 2 Received from UK suppliers
Box 3 Any returns from offshore locations outside the 12-mile limit
Box 7 Unused products returned from offshore to the supplier
Box 9 Products sent to offshore locations
Box 10 only for products used within the UK 12 mile limit or onshore. Any products used at an offshore location outside the 12-mile limit should not be included in Box 10.

The remaining boxes on form HO34 do not require any further clarification and should be completed as appropriate.
### APPENDIX G
**INTRASTAT MATRIX**

#### 1. AREAS OF DIFFERENCE

<table>
<thead>
<tr>
<th></th>
<th>VAT Return Boxes 8 &amp; 9</th>
<th>ESL*</th>
<th>Intrastat SSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies made as intermediary in triangular trade (goods not physically entering the UK)</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Credit notes</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Goods returned for credit or replacement &amp; subsequent replacement if any</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Normal purchases (including excisable goods)</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Goods supplied as an integral part of a supply of services</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Dispatches of own goods for installation or used in construction in another member state</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Goods sent from the UK for processing without change of ownership</td>
<td>N</td>
<td>Y (Note 3)</td>
<td>Y (Note 6)</td>
</tr>
<tr>
<td>Goods sent from the UK for repair/minor alteration</td>
<td>Y</td>
<td>N</td>
<td>N (Note 4)</td>
</tr>
<tr>
<td>Goods received back in the UK after repair/minor alteration</td>
<td>N</td>
<td>N</td>
<td>N (Note 5)</td>
</tr>
<tr>
<td>Goods arriving in an excise warehouse</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Goods removed by the acquirer from an excise warehouse into home use (supply out of bond)</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Temporary movements of own goods (including loan or hire) not returned to their original country within 2 years</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Intra-EC movement of T1 status goods which come within the Inward Processing Relief regime</td>
<td>N</td>
<td>N</td>
<td>S</td>
</tr>
<tr>
<td>Movements from one excise warehouse to another (bond to bond movements)</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
</tbody>
</table>
### APPENDIX G
**INTRASTAT MATRIX**

#### 2. MOVEMENTS OF GOODS TO BE INCLUDED IN ALL 3 RETURNS

<table>
<thead>
<tr>
<th>Description</th>
<th>VAT Return Boxes 8 &amp; 9</th>
<th>ESL*</th>
<th>SSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal sales (including excisable goods but not bond to bond movements)</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Goods transferred within the same legal entity</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Goods transferred on consignment/call-off</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Goods sent on sale or return</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Goods returned to customers after processing</td>
<td>Y</td>
<td>Y (Note 1)</td>
<td>Y (Note 2)</td>
</tr>
<tr>
<td>Gifts greater than £10 excl VAT or a series of gifts totalling over £10 excl VAT</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Goods supplied free of charge except commercial samples</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>The first CIF sale (for crude oil) and the first CIF sale with Accompanying Administrative Document (for refined products)</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Deliveries to vessels and aircraft</td>
<td>Y</td>
<td>Y</td>
<td>Y (Note 8)</td>
</tr>
</tbody>
</table>
### APPENDIX G
### INTRASTAT MATRIX

#### 3. MOVEMENTS OF GOODS TO BE EXCLUDED FROM ALL 3 RETURNS

<table>
<thead>
<tr>
<th>Description</th>
<th>VAT Return</th>
<th>ESL*</th>
<th>SSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary movements of own goods (including loan or hire &amp; testing) to be returned to their original country within 2 years <em>where no change of ownership occurs</em></td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Goods used to carry out a service &amp; then returned</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Gifts not greater than £10 excl VAT &amp; not part of a series of gifts</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Commercial samples supplied free of charge</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Dispatches to non-registered customers</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Goods supplied within an excise warehouse (Note 7)</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Crude oil shipped from North Sea platforms</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Goods shipped from the UK on FOB terms destination unknown but probable destination non-EC.</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Movements between the UK Continental Shelf &amp; the UK mainland</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Goods in transit through the UK</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Wholesale supplies of piped natural Gas</td>
<td>N</td>
<td>N</td>
<td>N   (Note 9)</td>
</tr>
</tbody>
</table>

**KEY:**

- **Y** Included in Return.
- **N** Not included in Return.
- **S** Seek advice

**NOTES:**

1. Value based on value added by the process only.
2. Value based on cost of goods including process work.
3. No value to be given.
4. Value based on open market value.
5. Value based on open market value plus cost of repair.
6. Value based on cost of goods.
7. No acquisition VAT reported. Supply VAT is however due on the last supply in the warehouse at the time of removal to home use.
8. Only dispatches should be included in the SSD. Items not consumed by passengers and crew should be excluded from the SSD.
9. Intrastat declarations in respect of intra-EC gas movements are completed and submitted to HMRC by
   
   **Interconnector (UK) Limited which operates the Bacton:Zeebrugge Interconnector**

* For EC Sales Lists, “Y” only applies where there is a movement of goods from the UK to another member state.
APPENDIX H

CHANGES TO THE TAX WAREHOUSE STATUS OF THE MARINE FLANGE AND WAREHOUSING OF LPG

Contents:

- Diagrammatic representation of warehousing scenarios – VAT treatment
- Warehousing scenarios – excise duty, VAT and customs duty consequences
- Marine flange – indirect tax treatment of supplies at the marine flange within the tax warehouse
- Matrix of supplies at the marine flange within warehouse_HMRC guidance updated following Diagrammatic representation of warehousing scenarios – VAT treatment
- HMRC guidance updated following consultation with the Oils Warehousing Working Group
DIAGRAMMATIC REPRESENTATION OF WAREHOUSING SCENARIOS – VAT TREATMENT

The attached file contains diagrams denoting the VAT treatment of supplies of LPG at the marine flange and supplies at the marine flange of warehoused products for export.
WAREHOUSING SCENARIOS – EXCISE DUTY, VAT AND CUSTOMS DUTY CONSEQUENCES

This document details the excise duty, VAT and where appropriate customs duty treatment of various different types of movements and sales of excisable finished products.

1. **UK PRODUCED**
   1.1 UK produced finished product removed from warehouse to home use by the producer of the product (A) who has a UK excise duty deferment account. A accounts for excise duty via his 7-series duty deferment account. No VAT.
   1.2 UK produced finished product sold in warehouse by the owner/producer of the product (A) to a company (B) who has a UK excise duty deferment account in the 7-series who then removes it to Home Use. B accounts for excise duty via his 7-series duty deferment account and pays supply VAT via the VAT 908. Value for VAT is cost of product + the deferred duty.
   1.3 UK produced finished product sold upon leaving warehouse to Home Use at or immediately after the duty point by the owner of the product (A) to a company (B) who has a UK excise duty deferment account in the 7-series. Normally B accounts for excise duty via his 7-series duty deferment account. B is invoiced VAT by A. Value for VAT is cost of product + the deferred duty.
   1.4 UK produced finished product sold upon leaving warehouse to Home Use at or immediately after the duty point by the owner of the product (A) to a company (B) who does not have a UK excise duty deferment account in the 7-series. A accounts for the excise duty via his 7-series duty deferment account and invoices this to B plus VAT on the cost of product + the duty.

2. **EU ACQUIRED**
   2.1 EU acquired finished product removed from warehouse to home use by the owner (acquirer) of the product (A) who has a UK excise duty deferment account. A accounts for excise duty via his 7-series duty deferment account. Acquisition VAT applies. Value for VAT is cost of product + the deferred duty. NB: There is no requirement to complete a VAT 908 where the acquirer is VAT registered in the UK. VAT is accounted for on the acquirer’s VAT return.
   2.2 EU acquired finished product sold in warehouse (before the excise duty point) by the owner (acquirer) of the product (A) to a company (B) who has a UK excise duty deferment account in the 7-series who then removes it to Home Use. B accounts for excise duty via his 7-series duty deferment account and pays “supply” VAT via the VAT 908. Value for VAT is cost of product + the deferred duty. Acquisition VAT extinguished.
   2.3 EU acquired finished product sold upon leaving warehouse to Home Use at or immediately after the duty point by the owner (acquirer) of the product (A) to a company (B) who has a UK excise duty deferment account in the 7-series. A accounts for acquisition VAT as per 2.1 above. Normally, B accounts for excise duty via his 7-series duty deferment account. B is invoiced VAT by A. Value for VAT is cost of product + the deferred duty. Similar to 1.3.
   2.4 EU acquired finished product sold upon leaving warehouse to Home Use at or immediately after the duty point by the owner (acquirer) of the product (A) to a company (B) who does not have a UK excise duty deferment account in the 7-series. A accounts for the excise duty via his 7-series duty deferment account and acquisition VAT and invoices the duty to B plus VAT on the cost of product + the duty.
3. **NON-EU IMPORTS INTO AN APPROVED MOTOR AND HEATING FUELS WAREHOUSE (CPC 07 00 000)**

The examples in this section relate to finished product imported from outside the EU into an approved excise warehouse. Whilst excise duty and import VAT remain suspended whilst the finished product remains in warehouse, customs duty will not be suspended, as it is paid/accounted for on entry of the product into the warehouse.

3.1 Non-EU imported finished product removed from warehouse to home use by the owner (importer) of the product (A). A accounts for the customs duty when product enters warehouse, excise duty when it leaves via his 7-series duty deferment account and import VAT on a VAT 908. Value for import VAT is cost of product + the customs duty + the deferred excise and duty.

3.2 Non-EU imported finished product sold in warehouse by the owner (importer) of the product (A) to a company (B). A accounts for the customs duty when product enters warehouse. B accounts for excise duty via his 7-series duty deferment account and pays import VAT via the VAT 908 when the product leaves the warehouse. Value for VAT is the customs duty-inclusive cost of the product + the deferred excise duty.

3.3 Non-EU imported finished product sold upon leaving warehouse to Home Use at or immediately after the excise duty point by the owner (importer) of the product (A) to a company (B). A **accounts for the customs duty when product enters warehouse. A accounts for** excise duty and import VAT on an import entry as per 3.1. A sells to B on a duty paid basis plus VAT (on the duty-inclusive price).
The purpose of this note is to establish the correct Indirect Tax treatment of warehoused product supplied at the Marine Flange within a tax warehouse, in certain scenarios. This will include our understanding of the Indirect Tax treatment of the different supply chain scenarios and the extent of the warehousekeeper being jointly and severally liable for any unpaid VAT and Excise Duty.

**Scenario 1 – UK Domestic**

**UK Warehouse**

Company A → Company B → UK

**Company B removes goods from warehouse for home-use in UK**

- **Excise Duty Treatment**
  - Company B will account for excise duty via 7-series deferment account

- **VAT Treatment**
  - The supply from Company A to Company B is within the scope of VAT as it is the last supply in warehouse. However, the person removing it accounts for the VAT at the time the product leaves the warehouse.

  Company B is required to complete a VAT 908 and pay supply VAT when product is removed from warehouse. The value for VAT is the cost of product. The term ‘tax warehouse’ is defined in the Excise Goods (Holding, Movement and Duty Points) Regulations 2010 and Article 4(11) of Council Directive 2008/118/EC and are premises where excise goods are produced, processed, held, received or dispatched under duty-suspension arrangements by an authorised warehousekeeper.

  - + the deferred duty.

  - However, it is common for the warehousekeeper to submit a VAT 908 on behalf of Company B in this scenario, due to the warehousekeeper holding necessary details to complete the VAT 908 and signed authority being given by Company B.

**Joint and Several Liability of the Warehousekeeper**

If Company B does not submit a VAT908 or declare excise duty, then the warehousekeeper would be jointly and severally liable under provisions contained in section 18 of the VAT Act 1994, which states that “any VAT payable on the supply shall be paid by the person by whom the goods are so removed [from the warehousing regime] or, as the case may be, together with the duty or agricultural levy, by the person who is required to pay the duty or levy”. Therefore, someone other than the person removing the goods (e.g. the warehousekeeper) would be liable for VAT only if HMRC are also holding that person liable for the duty.
Scenario 2 – Indirect Export

UK Warehouse

Company C removes goods from warehouse for indirect export to non-EC country

Excise Duty Treatment
- For excise duty purposes, this supply chain is an export and no excise duty is due.

VAT Treatment
- The supply from the First Seller to Company A, and from Company A to Company B are outside the scope of VAT because they take place in the warehouse and are followed by a further supply in warehouse.
- The supply from Company B to Company C is within the scope of VAT as it is the last supply in warehouse.
- If Company C is established in the UK, then it would be required to complete a VAT 908 and pay supply VAT when product is removed from warehouse, due to the delivery terms being FOB (free on board at port of departure) i.e. this is an indirect export (assuming customer arranges the transport).
- For delivery terms which indicate the supplier is responsible for the transport for the supply from Company B to Company C (e.g. CIF), then this would be treated as a direct export and no supply VAT would be required via submission of a VAT 908 (because this would be a zero-rated supply).
- It is unlikely that the warehousekeeper will submit a VAT 908 on behalf of Company C in a “chain of sales” scenario, as the warehousekeeper may not know who the actual owner is at the time of removal from warehouse. However, common processes exist (i.e. preparation of Bill of Lading) to enable the warehousekeeper to determine that the supply is an export for excise duty purposes.

Joint and several liability of the Warehousekeeper

Due to the fact that no excise duty is due on the above supply-chain, the warehousekeeper would not be jointly and severally liable for any unpaid VAT under the provisions contained in section 18 of the VAT Act 1994. This confirms that the warehousekeeper would be liable for VAT only if HMRC are also holding that person liable for the duty and in this supply chain, there is no excise duty payable.

To ensure that the warehousekeeper is deemed to have taken all reasonable steps to ensure that the correct tax is secured by HMRC, it may be possible to insert contractual terms or invoice notations to the effect that “if you are the entity that is removing product from warehouse, buying on FOB delivery terms and you are established/registered in the UK, then you are required to declare VAT through submission of a VAT 908 to HMRC”.

UKOITC ITC March 2015
Scenario 3 – Direct Export

UK Warehouse

Company C removes goods from Warehouse for direct export to non-EC country

Excise Duty Treatment
- For excise duty purposes, this supply chain is an export and no excise duty is due.

VAT Treatment
- Supply from First Seller to Company A, and from Company A to Company B are outside the scope of VAT because they take place in the warehouse and are followed by a further supply in warehouse.
- The supply from Company B to Company C is within the scope of VAT as it is the last supply in warehouse.
- On the basis that the supply from Company B to Company C is a direct export, then neither supply VAT would be required via submission of a VAT 908 or VAT invoice (because this would be a zero-rated supply).

Joint and several liability of the Warehousekeeper

Due to the fact that no excise duty is due on the above supply-chain, the warehousekeeper would not be jointly and severally liable for any unpaid VAT under the provisions contained in section 18 of the VAT Act 1994. This confirms that the warehouse keeper would be liable for VAT only if HMRC are also holding that person liable for the duty and in this supply chain there is no excise duty payable.
MATRIX OF SUPPLIES AT THE MARINE FLANGE WITHIN WAREHOUSE

The attached matrix contains a detailed analysis of the indirect tax issues relating to the supply of warehoused goods at a warehoused marine flange.

Value? They are referred to in the main body. Can they be imported into the document rather than be shown as an attachment?
# APPENDIX I

## FLANGE WAREHOUSE LISTING (UKOIC MEMBERS)

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>SITE</th>
<th>FLANGE IN</th>
<th>FLANGE OUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP</td>
<td>Hamble</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RLPG Jetty Grangemouth</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hound Point</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sullom Voe (not currently approved as a tax warehouse)</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Belfast</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kent (Isle of Grain)</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>Centrica</td>
<td>Barrow North &amp; South</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Barrow Tank Farm</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>ConocoPhillips</td>
<td>Teesside</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>Essar</td>
<td>Stanlow Refinery (including storage at Tranmere and the pipeline from Tranmere to Stanlow)</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>Esso</td>
<td>Fawley Refinery</td>
<td></td>
<td>Out</td>
</tr>
<tr>
<td>Murco</td>
<td>Milford Haven Refinery</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>Petroineos</td>
<td>Grangemouth</td>
<td></td>
<td>Out</td>
</tr>
<tr>
<td></td>
<td>Finnart</td>
<td></td>
<td>Out</td>
</tr>
<tr>
<td>Phillips 66</td>
<td>Humber</td>
<td></td>
<td>Out</td>
</tr>
<tr>
<td></td>
<td>Caverns South Killingholme</td>
<td></td>
<td>Out</td>
</tr>
<tr>
<td>Shell</td>
<td>Braefoot Bay</td>
<td></td>
<td>TBC</td>
</tr>
<tr>
<td></td>
<td>Shell Haven (flange at the ship loading jetty is included; two inland pipeline flanges and the road rack are excluded)</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>Talisman Sinopec</td>
<td>Flotta</td>
<td></td>
<td>In</td>
</tr>
<tr>
<td>Total</td>
<td>Lindsey Refinery</td>
<td></td>
<td>Out</td>
</tr>
<tr>
<td></td>
<td>St Fergus</td>
<td>In</td>
<td></td>
</tr>
<tr>
<td>Valero</td>
<td>Pembroke Refinery</td>
<td></td>
<td>Out</td>
</tr>
</tbody>
</table>
## APPENDIX J

### MOVEMENTS REQUIRED TO TRAVEL UNDER A W8

Oil products moved in accordance with paragraph 2.5.2 of Notice 179:

**2.5.2 Delivery of oil without payment of excise duty**

Warehousekeepers and producers may deliver oil without payment of excise duty:

(a) for removal to other premises approved for warehousing oil of that description, but only in the circumstances allowed by Section 3 (see also the restrictions on removals between mineral oil producer’s premises below);

(b) for removal under duty suspension by a producer to another producer’s premises in the following circumstances:

- where the oil is unfinished product or finished product designated as process oils (including oil to produce a new product or special oil product such as industrial oils, solvents, etc). Fuel for approved use in boilers at producers premises may also be removed under duty suspension;
- "excess" production may be removed to another producer’s premises or approved warehouse for storage. Thereafter it must be returned to the despatching producer’s premises, delivered for export or removed under duty suspension to other premises approved to receive such product in the particular circumstances. It must not be diverted direct to home use;
- oil removed once or twice a year from one producer’s premises to another as a volume adjustment transfer under exchange partner arrangements may be removed under duty suspension (see paragraph 7.3.1);

<table>
<thead>
<tr>
<th>Movement Description</th>
<th>Permitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil moving between duty suspended terminals, including onshore crude oil movements (e.g. Sullom Voe to UK refinery; Wytch Farm to UK refinery/duty suspended terminal).</td>
<td>YES</td>
</tr>
<tr>
<td>Duty suspended oil movements between UK and Isle of Man.</td>
<td>YES</td>
</tr>
<tr>
<td>Marine bunker fuel and finished oil products moving between UK refinery and duty suspended export terminal, including MOD Oil Fuel Depots.</td>
<td>YES</td>
</tr>
<tr>
<td>Marine bunker fuel moving between duty suspended export terminal and qualifying “Marine Voyages Relief” vessel.</td>
<td>NO</td>
</tr>
<tr>
<td>Tied Oils movements.</td>
<td>NO</td>
</tr>
<tr>
<td>Any Liquefied Petroleum Gas (LPG), including propane, butanes, ethylene, propylene, butylene and butadiene; Natural Gas; or Liquefied Natural Gas (LNG) movement.</td>
<td>YES but see EIS 02/13</td>
</tr>
<tr>
<td>Gas condensate movements from UK “Producer’s Premises” (e.g. Bacton) to UK refinery.</td>
<td>YES</td>
</tr>
</tbody>
</table>

NOTE: For pipeline movements, a monthly schedule is acceptable.
GLOSSARY OF TERMS

AEO
Authorised Economic Operator. HMRC Notice 117 provides further information.

Consortium
A joint venture between a group of independent unrelated companies. Each member separately owns interests in a licence and operates under a JOA.

Condensate
Condensate is a by-product of the processing of natural gas. Condensate is typically composed of pentane and other heavier hydrocarbon fractions left in the NGL stream after removal of propane, butane and ethane. Condensate can be refined as if it were very light crude oil.

Crude Oil
A mixture of hydrocarbons that exist as liquids in natural underground reservoirs. Crude is the raw material that is refined into gasoline, diesel, heating oil, jet fuel, LPG, petrochemicals, and other products.

Customs
HM Revenue and Customs - formed by the merger of HM Customs and Excise and the Inland Revenue.

Customs Warehouse
A system or place authorised by HMRC for the storage of non-community goods under duty and import VAT suspension.

Dry Gas
Natural gas which occurs in the absence of condensate or liquid hydrocarbons, or gas that has had liquid or condensable hydrocarbons removed. Dry Gas is largely methane and can usually be fed directly into the National Transmission System (“NTS”) following small temperature and pressure adjustments.

Dutiable Goods
Goods of a class or description subject to any duty of customs or excise, whether or not those goods are in fact chargeable with that duty and whether or not that duty has been paid.

Earn-in
Similar to a farm-in but the licence is not acquired until the consideration has been settled, usually by undertaking works in the licence area.

EORI
A new trader identification system was introduced throughout the EU on 1st July 2009 called the Economic Operator Registration and Identification (EORI). Economic operators involved in the import, export or transit of 3rd country goods require an EORI number for identification in communications with any EU Customs authority. The EORI number replaces the Trader Unique Reference Number (TURN) system in the UK and is in the same format, GBXXXXXXXXXXX.

Farm-in
The acquisition of a licence interest for a consideration which, usually, is satisfied by an obligation to bear future costs connected with the licence, although the consideration can take many forms, including cash.
Farm-out
The assignment of part of a licence in consideration for the person farming or drilling one or more wells or incurring specified development and operating costs.

Free Trade Agreement
Treaty (such as FTAA or NAFTA) between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but (in contrast to a common market) capital or labour may not move freely. Member countries usually impose a uniform tariff (called common external tariff) on trade with non-member countries.

Link to EU-South Korea FTA http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/

HMRC
HM Revenue & Customs.

Importer
As referenced in Article 95 Regulation (EC) No 450/2008 laying down the Community Customs Code. "……
(a) the person who brought the goods into the customs territory of the Community;
(b) the person in whose name or on whose behalf the person who brought the goods into that territory acts;
(c) the person who assumed responsibility for carriage of the goods after they were brought into the customs territory of the Community."

Joint Operating Agreement - (JOA)
An agreement between members of a consortium under which they agree to share the costs of exploration and development of a field and the production there-from, in proportion to their respective percentage interests. The term also relates to agreements in connection with the ownership, construction and development of pipelines and onshore installations. It is not a partnership.

Licence
A licence for the exploration for and production of petroleum in force at any time under the Continental Shelf Act 1964, the Petroleum (Production) Act (Northern Ireland) 1964 or the Petroleum Act 1998.

Liquefied Petroleum Gas – LPG
LPG typically contains a mixture of propane and butane derived from crude oil refining or natural gas fractionation. For convenience of transportation, LPG is liquefied through pressurisation and sometimes temperature reduction.

Liquefied Natural Gas – LNG
Natural gas that has been liquefied for ease of transport by cooling the gas to -162°C. Natural gas in its gaseous form has 600 times the volume of LNG.

Natural Gas
A naturally occurring mixture of hydrocarbon gases composed mainly of methane together with varying quantities of other gases including ethane, propane, butane and condensate. The constituent proportions can vary significantly between sources and the term can be used to describe naturally occurring wet gas, dry gas, or national transmission system quality gas. In the downstream supply industry the term natural gas is generally assumed to refer to that which is supplied through the NTS (i.e. predominantly methane). Care is therefore necessary when using this term.
**Natural Gas Liquids – NGLs**
A collective term used for liquid products separated from natural gas in a gas processing plant. NGLs include propane, butane, ethane, and condensate. NGL’s can be LPG or condensate rich depending on the origin of the wet gas stream.

**Natural Gas Distribution System**
For the purpose of the Place of Supply rules in Section 7, natural gas distribution system means a natural gas system situated within the territory of a member State or any network connected to such a system.

**National Transmission System – NTS**
The gas National Transmission System (“NTS”) is owned and operated by the National Grid. The NTS is the “motorway” of the gas network infrastructure. Gas is delivered to seven reception points in the UK (called beach terminals) by gas producers operating offshore facilities. NTS pipelines carry gas from the seven beach terminals around Great Britain. The NTS is the high-pressure part of the National Grid's transmission system. The gas is pushed through the system using 26 strategically placed compressor stations. From over 140 off-take points, the NTS supplies gas to power stations, a small number of large industrial consumers and the twelve Local Distribution Zones (LDZs) that contain pipes operating at lower pressure, which eventually supply consumers.

**Operating Member – OM**
The member of a consortium, usually the member with the greatest percentage interest, responsible for carrying out the exploration, development and production activities on behalf of the other partners under a Joint Operating Agreement (JOA).

**Overseas Trader**
An overseas participating member who for the purposes of a particular supply, is established outside the UK.

**Participating Member – PM**
A member of an exploration, development or production consortium other than the OM.

**Petroleum**
Petroleum is defined in Section 1 of the Petroleum Act 1998 to include any mineral oil or hydrocarbon and natural gas existing in a natural condition in strata, but excluding coal, bituminous shales or similar materials.

**Place of Supply of Services – General Rule**
Refers to the place of supply of certain services under VATA Section 7A (General Rule). This legislation along with VATA Schedule 4A (Special Rules – see below) replaces POSSO and is the implementing legislation for the Place of Supply of Services Directive (2008/8/EC) from 1st January 2010. Under VATA 7A (General Rule) where the recipient is a taxable person the place of supply will be the recipient’s place of establishment.

**Place of Supply of Service – Special Rules**
VATA Schedule 4A (Special Rules) contains exceptions to the General Rule.

**POSSO**
The VAT (Place of Supply of Services) Order 1992 - Statutory Instrument 1992/3121. has been replaced by VATA Section 7A and VATA Schedule 4A with effect from 1 January 2010.
**Producer's Premises**
The premises, plant, pipes and vessels situated on-shore or within UK territorial waters (including a drilling well) described on an excise entry in accordance with the Customs and Excise Management Act 1979 Section 108 & 109 and Reg. 3 of the Hydrocarbon Oil Regulations 1973 - Statutory Instrument 1973/1311, where oil may be stored without payment of excise duty if:

1. oil is obtained from any substance or natural source,
2. one description of oil is obtained from another, or
3. oil is subjected to any process of purification or blending.

**Relevant Business Person**
“Relevant Business Person”, for the purpose of the place of supply rules, is anyone who is either:-

- A taxable person within the scope of Article 9 of the European Principal VAT Directive (2006/112/EC), which includes any person who, independently, carries out in any place any economic activity:
- Registered for VAT in the UK
- Registered for VAT in another Member State, or
- Registered for VAT in the Isle of Man

**Reverse Charge and Domestic Reverse Charge**
VATA Section 8 requires the recipient of a relevant supply to account for VAT as if he had made the supply to himself, thereby charging himself output VAT with credit for input VAT, to the extent that it was incurred in making taxable supplies.

VATA Section 9A extends the reverse charge to supplies of gas, electricity, heat or cooling supplied by a person who is established outside the UK to a VAT registered person in the UK for business purposes.

VATA Section 55A requires the recipient of gas or electricity supplied under a wholesale contract between UK established counterparties, together with ancillary services contracted for at the same time, to account for VAT under the domestic reverse charge.

**Tax Warehouse**
The term ‘tax warehouse’ is defined in the Excise Goods (Holding, Movement and Duty Points) Regulations 2010 and Article 4(11) of Council Directive 2008/118/EC and are premises where excise goods are produced, processed, held, received or dispatched under duty-suspension arrangements by an authorised warehousekeeper.

**SPO**

**Supply VAT**
Term used in HMRC Notice 702/10 VAT – Tax Warehousing to describe the VAT that is due on the last supply of goods in warehouse and must be accounted for and paid (or deferred) when the goods are removed from the warehousing regime by the party removing the goods. This term is used to distinguish the VAT due on removal from warehouse from output tax, acquisition tax and import VAT.

**Taxable**
Goods or services subject to Value Added Tax at the standard rate, the reduced rate or the zero rate.
**Tariff receipts**
Consideration received by a participator in an oil field in respect of the use of an asset connected with that field.

**Twelve-mile limit**
The breadth of the territorial sea adjacent to the UK over which the UK enjoys sovereignty. Also known as “UK Territorial Waters”, it is equal to 12 nautical miles, as defined in the Territorial Sea Act 1987. This Act increased the limit from 3 nautical miles, and came into force on 1st October 1987. Note: a nautical mile is defined as 1,852 metres.

**UK Continental Shelf (UKCS)**
The areas which, following the 1958 Geneva Continental Shelf Convention, were vested in the Crown by the Continental Shelf Act 1964 and which are defined therein as “designated areas”. These are subject to the adjustments agreed in subsequent bilateral agreements regarding trans-median areas. It excludes UK Territorial Waters.

**UKOITC**
United Kingdom Oil Industry Taxation Committee.

**U.K. Territorial Waters**
See “Twelve-Mile Limit”.

**VATA**

**Warehousing Regime**
The VAT treatment applied to supplies of goods or supplies of associated storage services or processing of those goods when such goods are subject to a warehousing regime, is contained within VATA, Sections 18 and 18C respectively. The scope of the warehousing regime in respect of hydrocarbon oils is such that oil and gas remain subject to such a regime when moving from a UK warehouse to a tax warehouse in another Member State. One practical effect of this is to treat all supplies of goods that occur at any time during such a movement as outside the scope of UK VAT. In the case of oils for export to a non-EU destination, the scope of the warehouse regime ends when the goods physically leave the warehouse. The final supply of the goods for export is zero-rated, subject to conditions being met - see HMRC Notice 703 Export of goods from the United Kingdom. Where oil products or LPG leave the UK tax warehouse where they are initially held, they cannot normally be transferred to another tax warehouse in the UK within the warehousing regime.

**Wet Gas**
This is naturally occurring gas. The chief constituent is methane but there are significant proportions of other liquid hydrocarbons including propane, butane, condensate and other non-combustible gases such as nitrogen. The constituent proportions vary from source to source. Where the methane content is greater than 85% this is generally referred to as “dry gas” even if further processing to remove NGL’s is required.