

**EXPLANATORY MEMORANDUM TO  
THE PETROLEUM REVENUE TAX (ATTRIBUTION OF BLENDED CRUDE  
OIL) REGULATIONS 2006**

**2006 No. 3312**

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Description**

The draft Regulations will, when made, provide rules, where oil producers have interests in more than one field contributing to a particular blend of oil, for allocating a lifting of oil across those interests. Lifting occurs when oil at a terminal is either piped ashore or loaded on to a tanker. The rules also take account of oil purchased under entitlement contracts, to ensure that they are correctly allocated. These are contracts, involving the production of certain small producers, and which are intended to deal with production fluctuations. Some major producers buy oil under these contracts and use this oil to manipulate their production figures for PRT purposes.

3. **Matters of special interest to the Select Committee on Statutory Instruments**

None.

4. **Legislative Background**

The powers to make the regulations are under section 2(5B) to (5D) of the Oil Taxation Act 1975 and section 148(3) of the Finance Act 2006. The provisions of the 1975 Act relied upon were added by the 2006 Act. This is their first exercise.

5. **Extent**

This instrument applies to all of the United Kingdom.

6. **European Convention on Human Rights**

The Financial Secretary to the Treasury has made the following statement regarding Human Rights:

In my view the provisions of the draft Petroleum Revenue Tax (Attribution of Blended Crude Oil) Regulations 2006 are compatible with the Convention

rights.

## **7. Policy background**

Oil producers often have interests in more than one field which contributes to a particular blend of oil. Whilst some of those fields may be liable to Petroleum Revenue Tax, others might not. In these circumstances some producers were allocating their oil liftings at the oil terminal to non Petroleum Revenue Tax fields when the oil price was high, and from Petroleum Revenue Tax fields when the price fell, thus reducing their tax liability.

In addition companies buy production in and substitute this oil for their own production when oil prices are high.

The draft Regulations ensure that the tax treatment of oil lifted is in accordance with field entitlement, which removes the tax benefit for companies in allocating cargoes to particular fields or substituting purchased oil out of line with entitlement, in order to optimise their tax position.

## **8. Impact**

A Regulatory Impact Assessment was prepared by HM Revenue and Customs in respect of Part 5 of the Finance (No. 2) Bill of the 2005-06 Session and was published on 22nd March 2006. That Bill received Royal Assent as the Finance Act 2006.

## **9. Contact**

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