# Making a Killing:

## Oil Companies
## Tax Avoidance & Subsidies

Platform Briefing


Chanting "Scott Brown, he's the worst – he put big oil's interests first," the activist group Mass Uniting staged a protest outside Scott Brown's Boston office on Thursday, March 29, 2012 after he voted against ending taxpayer subsidies for the oil industry.
Photo: Mass Uniting

## Credits

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# Summary

**Oil company mega-profits are being made at the expense of the public purse, as youth centres shut, hospitals struggle and the queues at food banks grow. Companies like BP & Shell receive major government support including direct subsidies and military and diplomatic services, but seem to pay very small amounts of UK tax in comparison to their global profits.**

**At a time of both public service cutbacks and record-breaking profit-making by oil companies , this briefing attempts to bring to light these transfers of wealth from the public to the private sector, including:**

1. **Corporation tax avoidance.** Shell, BP and Tullow all use similar tactics to avoid paying tax. Corporation tax in 2011 was set by HMRC at 26%. [1] While we have see the global profits of UK oil companies increase greatly in the last decade, the amount of corporation tax they pay in the UK seems to rise only marginally, or in some cases, even falls. Oil companies can avoid paying tax by minimising the amount of profit that passes through the company's UK books, routing it through an international network of subsidiaries instead.
2. **Tax breaks for North Sea oil and gas and (potentially) shale gas.** George Osborne handed hundreds of millions of pounds in tax breaks to oil companies responsible for 80% of recent North Sea oil and gas projects . Similar tax handouts are expected for fracking (hydraulic fracturing) enterprises.
3. **External political and military support.** At least four UK government departments provide unconditional business support to oil companies, including military convoys, lobbying and intelligence-gathering, with the frequent involvement of ministers and high-level civil servants. While hard to quantify, the cost of just one diplomat in the UK consulate in Basra was £2mn per year.
4. **Subsidised loans.** The UK provides financial support to oil extraction and transportation abroad on preferential terms via the Export Credit Guarantee Department as well as International Financial Institutions (EBRD, European Investment Bank, World Bank Group)

International oil companies channel their cashflows through networks of subsidiaries, many in high secrecy offshore jurisdictions. BP and Shell are particularly committed to tax havens, with more tax-dodging subsidiaries than their competitors: 605 and 523 high-secrecy subsidiaries respectively. IOCs can also play off governments against each other, exploit international legal mechanisms (Tullow in Uganda), and local loopholes (BP in Turkey) to avoid paying tax.

Rather than providing fossil fuel companies with the financial incentives and political support to pursue ever more dangerous drilling, the UK government should prioritise the public well-being over the profits of these vast oil corporations by properly taxing them. The first step towards phasing out UK fossil fuel subsidies would be transparency: open government reporting that tracks and quantifies the subsidies.

# Introduction

**Anger over tax evasion by multinationals at a time of massive cuts to public spending has placed the issue on the political agenda, especially since widespread popular protest sparked by UK Uncut. The money lost due to tax avoidance by large companies (such as high street brands Vodafone, Topshop and Starbucks) could reduce or entirely remove the need for cuts to public spending.**

According to a report commissioned by the Trade Unions Council back in 2008, "As little as one quarter of the total tax income lost to avoidance activities would be enough to provide five-and-a-half million public service staff, who are currently facing the prospect of a real terms pay cut, with a [beneficial] pay settlement." [2]

Meanwhile the IEA's World Energy Outlook report for 2012 states that "No more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2° C goal".[3] That is, 2/3 of the world's discovered oil reserves must be left in the ground to have a chance of avoiding runaway climate change. There is an evident and urgent need to promote the expansion of clean energy sources, rather than staying locked into fossil fuels. Yet, the UK government is slashing subsidies to renewables.[4, 5]

It is crucial to bring to light the existing wide-ranging government support of fossil fuel companies - whether as direct subsidies, tax avoidance schemes, or diplomatic services. A 2010 G20-commissioned report estimates subsidies for the extraction of fossil fuels (narrowly defined) as $100 billion globally.[6] In the United States alone, credible estimates of annual fossil fuel subsidies range from $10-52 billion annually.[7] In 2009, the G20 governments signed a commitment to phase out their fossil fuel subsidies by 2020. But at the 2012 G20 meeting, 75 civil society groups from around the world signed a statement criticising the failure of the G20 to honour this commitment so far.[8]

This briefing aims to catalyse the conversation on fossil fuel subsidies in the UK, by bringing to light the fossil fuel subsidies enjoyed by UK oil companies (Section 1), including the rate of corporation tax they pay, tax breaks in the North Sea, and the massive subsidy of political support. It considers how oil companies structure themselves in order to avoid paying tax (Section 2), and provides examples of UK oil companies avoiding taxation in the countries in which they are operating.

# Section 1: Oil subsidies and the UK

**The International Energy Agency's definition of energy subsidies is "any government action that concerns primarily the energy sector that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by consumers." [9] The majority of subsides in the UK are off-budget – that is, transfers to energy producers and consumers that do not appear in national accounts as government expenditure. This section focuses on three types of off-budget subsidy that oil companies benefit from in the UK: being permitted to not pay sufficient corporation tax, recent tax breaks in North Sea oil and gas extraction, and the UK government's diplomatic, military and financial support for oil companies operating in other parts of the world.**

## 1.1 UK oil companies and tax avoidance: a lesson for companies everywhere in how to pay less tax

Oil companies with headquarters in London rival corporations like Vodafone and Starbucks in their capacity to avoid significant sums of tax.

BP and Shell alone make annual pre-tax profits of over $80 billion. However, UK-based corporations only pay tax on taxable profits that they register in the UK. By moving their profits around globally and using a complex network of subsidiaries in tax havens, these companies manage to book a comparatively small portion of these vast profits in the UK, and thus minimise their contributions to the public sector. [10] However, the government allows oil companies to avoid paying enormous sums of tax, while at the same time dramatically scaling back its support for the renewable energy sector – George Osborne has been demanding cuts of 25% to wind energy subsidies. [11]

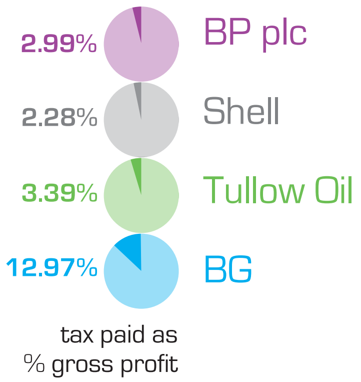
Despite dramatically increasing their profits in recent years, the oil companies have managed to barely increase – and in some cases reduce – their tax payments to Her Majesty's Revenue and Customs (HMRC). [12] BP increased its pre-tax profits by several billion from $13.1bn in 2001 to $39.8 bn in 2011 – despite clocking up significant losses due to the Deepwater Horizon disaster. Despite the threefold increase in global profits before taxation, its corporation tax payments in the same period grew only marginally – from £707 million to £730 million. If BP's corporation tax payments increased in line with its global profits, it would have resulted in a payment of £2.1 billion in corporation tax to HMRC in 2011 instead of £730 million.

Shell managed to actually reduce its tax payments over the last five years – down from £958 million in 2006 to £783 million in 2011. This despite boosting its global pre-tax profits from $44.6 billion in 2006 to $55.6 billion in 2011. So while global profits increased by 25%, Shell cut its payments to HMRC by 18%.

From 2011 to 2012, Tullow increased its pre-tax profits from $1.07 billion to $1.1 billion, but in the same period the rate of corporate tax that it claimed was due dropped from $37.4 million to $10.1 million, raising questions as to how an

FIGURE 1: FOUR COMPANIES COMPARABLE TAX DODGES

| Name of Company | 2011 Global profits before tax | Corporation tax if paid at 26% on global profit | UK Corporation Tax 2011 | UK Corporation Tax 2011 paid as a % of global profits |
|---|---|---|---|---|
| BP Plc | $39.8 billion | $10.3 billion | $1.19 billion | 2.99% |
| Shell | $55.6 billion | $14.57 billion | $1.27 billion | 2.28% |
| Tullow Oil | $1.1 billion | $286 million | $37.4 million | 3.39% |
| BG | $7.5 billion | $1.96 billion | $973 million | 12.97% |




THIS TABLE DISPLAYS EACH OF THE COMPANIES' GLOBAL PROFITS IN 2011, THE TAX THEY WOULD HAVE PAID ON THIS AT THE UK RATE OF 26% CORPORATION TAX, AND THEIR UK CORPORATION TAX IN 2011. THE FIGURES FOR SHELL AND BP 2011 CORPORATION TAX WERE GIVEN IN GBP BUT HAVE BEEN CONVERTED TO USD.

ALL REFERENCES FOR FIGURES IN THIS TABLE AND SECTION CAN BE FOUND IN ENDNOTE 15.

increase in profit can result in such a dramatic decrease in corporation tax.

Despite presenting themselves as "British" companies internationally and demanding British government support abroad, BP, Shell and Tullow insist that they will only pay tax on profits that they deem to have made directly in the UK. UK tax bills are minimised by separating and reconstituting their companies around the globe, locating particularly high value operations in tax havens.

Thus for example, in 2005 Shell "moved" the intellectual property ownership of its own brands to a subsidiary in Switzerland. Shell UK and its other British-based companies now pays royalties to Shell's Swiss subsidiary for use of its logos, branding and trademarks. [13] By using tricks like this, Shell can reduce the profits that it books in London, thus claiming that the tax it pays is "broadly in line with the proportion of group profits made in the UK".[14]

The attempts of BP, Shell and Tullow to explain away this tax question by claiming that they pay all their taxes abroad due to their global operations are undermined by the comparably international BG. In 2011 the BG Group paid HMRC a considerably larger 13% of its global profits.

For those companies with headquarters in London, the vast political support they receive here enables their worldwide operations, and thereby their global profits. This warrants a taxation of these profits. Tax Justice Network argues:

> *"Companies do not make profit merely by using investors' capital. They also use the societies in which they operate -- whether the physical infrastructure provided by the state, the people the state has educated, or the legal infrastructure that allows companies to protect their rights. Tax is the return due on this investment by society from which companies benefit."* [16]

January 2012: UK Uncut and Disabled People Against Cuts blockade Oxford Circus in protest against government cuts.

## 1.2 Osborne's tax breaks for North Sea oil and gas production

**Even before the current coalition government came to power in 2010, the UK had a reputation for offering a very favourable tax regime for oil production.**

The rate of tax was increased modestly in 2002 and 2005, at a time when the oil price (and post-tax profits) was considerably lower. In 1997/8, the then Chancellor, Gordon Brown considered a tax on North Sea production, and the oil industry ran a successful campaign against it, arguing that since the oil price was low, they couldn't afford to pay more taxes.[17]

In April 2011, Osborne introduced his 'Fair Fuel Stabiliser' that linked the rate of tax paid by oil companies to global oil prices. When the price of oil was above $75 a barrel, the rate of tax on North Sea oil profits would rise, with the additional revenue used to lower the price of petrol and diesel. This was a 'revenue neutral' measure – using the expected £2 billion pounds it would raise from upstream extraction over the course of the Parliament to avoid a planned increase in fuel duty, and also pay for a 1p per litre cut at the pumps.

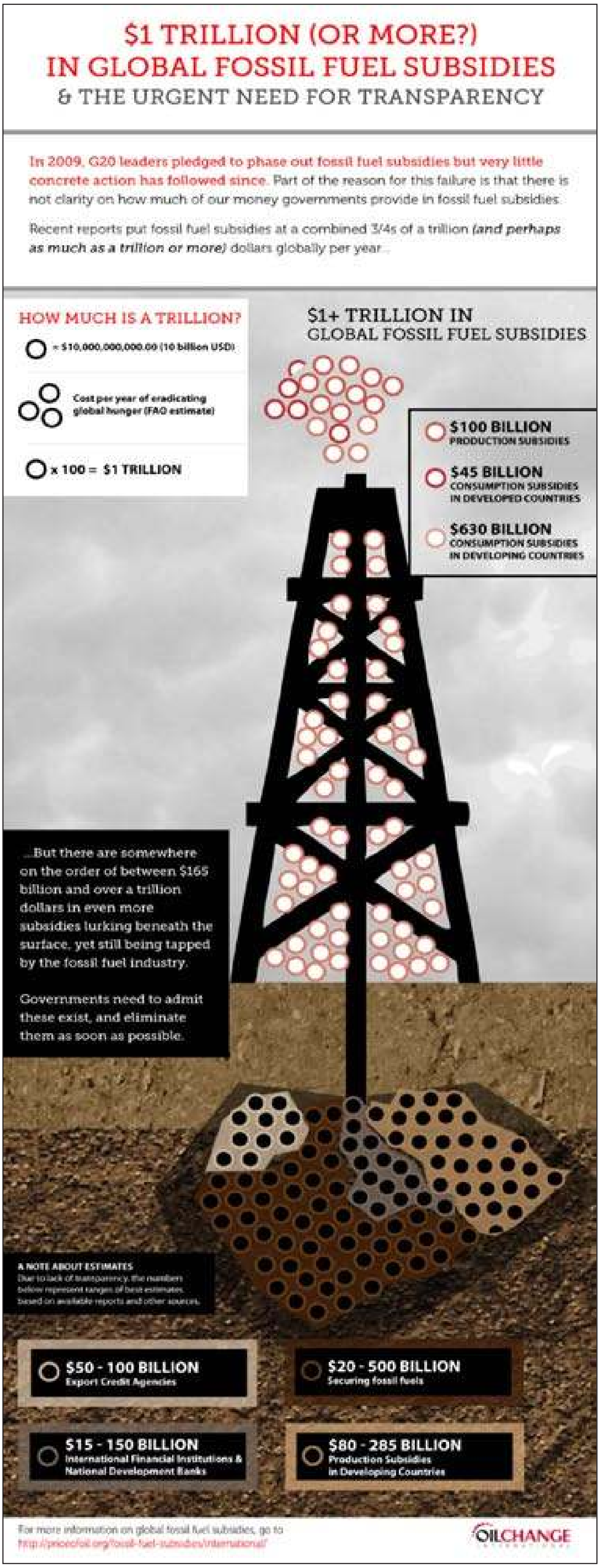
The oil industry reacted furiously. Malcolm Webb, chief executive of industry lobby group Oil and Gas UK claimed that, "this change in the tax regime will decrease investment, increase imports and drive UK jobs to other areas of the world."[18] Treasury Minister Justine Greening was reportedly "grilled alive" in a meeting with oil industry executives.[19]

Even the Financial Times suggested that the industry was kicking up a disproportionate fuss. On May 13, 2011, its lead editorial, entitled "Big oil protests too much on tax", gave a damning review of the oil and gas industry's campaign and concluded that, "the UK and the US have long undertaxed the sector."[20]

Following the industry uproar, Osborne had meetings with Oil and Gas UK, in which they said they discussed, "new and further field allowances" – that is, major tax breaks to new oil and gas exploration in specific areas.[21] This is effectively what Osborne has done since that date – unrolling a series of lucrative tax breaks for oil and gas companies operating in the North Sea.

- In his 2012 Budget, George Osborne announced, "new allowances including a £3bn new field allowance for large and deep fields to open up west of Shetland."[22]
- In September 2012 Osborne announced a new 'Brown Field Allowance' shielding up to £500m of income from the Fair Fuel Stabiliser when firms are boosting extraction from established oil or gas fields. This measure would potentially cut the tax bill of the relevant companies by £160m.[23]
- In December 2012, Osborne said that he would unveil a tax regime designed to encourage companies to invest in fracking in the March 2013 Budget.[24]

A briefing from Friends of the Earth UK released in November 2012 showed that as result of Osborne's tax breaks, "80 per cent (32 out of 40) of oil and gas projects started in the North Sea since Budget 2009 have done so benefitting from a 'field allowance', which can reduce the tax they pay on their profits by many hundreds of millions of pounds."[25]



## 1.3 Political support for UK oil companies abroad

**UK political muscle is exercised on behalf of oil companies abroad in a variety of ways, including these three main areas: (i) diplomatic (ii) military and (iii) through participation in International Financial Institutions.**

This projection of power vitally assists BP and Shell's ability to do business in the nearly 100 countries in which they extract, transport or retail oil and gas . This support, stretching as it does over many decades, is in effect a massive subsidy from the British state to the oil corporations, one that is almost entirely hidden and rarely discussed.

This is hard to calculate – not least because the political value to the oil company is often more important than its financial value. For instance, an export credit, where the government effectively insures a risky project abroad on preferential terms, may never be claimed (so there is never a transfer of funds from government to company), but there remains substantial benefit to the company in reducing risk. It may even be charged at commercial rates comparable to those available from a private insurance company – yet still the fact that it comes from a powerful government immeasurably increases its value.

### (i) Diplomatic subsidy

The British government supports the interests of oil companies operating overseas, through various departments including the Department for International Development, the Foreign

Tony Blair meeting Gaddafi on a diplomatic trip to Libya.

and Commonwealth Office (FCO), the Department for Business, Innovation & Skills and their joint agency UK Trade & Investment (UKTI). It is David Cameron's stated policy that diplomats should prioritise promoting "UK-based" business interests: in the Prime Minister's own words:

> *"I want to make sure that whenever any British minister, however junior, is meeting any counterpart ... they have always got a very clear list of the commercial priorities we are trying to achieve."* [26]

Day-to-day phone calls and intelligence gathering on behalf of BP and Shell are the staple of UK embassies abroad, involving commercial attachés, secretaries for energy and ambassadors. These costs add up - until October 2012, the FCO was maintaining a consulate with three diplomats in Basra largely to meet the needs and demands of BP and Shell. At over £2 million per diplomat per year, the £6.5 million annual budget was significant.[27] Ongoing lobbying is backed up by high-profile ministerial handshakes and official trade missions. Non-fossil fuel companies also receive diplomatic support, but rarely on the same scale.[28]

Close state backing for oil companies is particularly crucial when oil companies are forcing their way into new countries – whether that's Tony Blair's support for BP and Shell in breaking into Libya in the 2000s, the heavy lobbying on behalf of Western oil interests in occupied Iraq after the invasion, or the same companies entry into newly independent states of the Former Soviet Union in the 1990s.

FCO support was vital to BP obtaining the strongest hand in the key 'Contract of the Century' in Azerbaijan in 1994, which has underpinned the company's pivotal position since. The British government led the way in early recognition of Azerbaijan as an independent sovereign state, inviting its first and second presidents to the UK to meet ministers, prime ministers and the Queen. Responding to specific requests by BP, the FCO organised visits of high-profile UK political figures to Azerbaijan at moments that were strategically important to the company - such as the 1993 visit of former Prime Minister Baroness Thatcher. Co-operation between the FCO and BP was so close that the UK's first ambassadorial staff in Azerbaijan were housed within BP's offices.[29] In December 1993, Foreign Minister Douglas Hurd

> *"emphasised that there were some parts of the world, such as Azerbaijan and Colombia, where the most important British interest was BP's operation. In those countries he was keen to ensure that our efforts intertwined effectively with BP's."*[30]

## (ii) Military subsidy

Oil corporations that are running operations usually desire stability in oil extraction provinces and military protection for their extraction and transportation infrastructure. The British state has played a vital role in both since 1909 when (British) Indian Army troops were sent to ensure control over the oil wells of the Anglo-Persian Oil Company (now BP) in Persia (now Iran). This pattern of military support, provided by the MOD and the FCO, continues a century later in the provision of UK troops and hardware to Nigeria, supporting the militarised control of Shell's installations in the Niger Delta.

Avaaz delivery at Los Cabos to G20 leaders to end fossil fuel subsidies.
Photo: Avaaz


Similarly, the provision of UK frigates to the NATO and EU flotillas patrolling the waters off Somalia enforces the passage of tankers through the Gulf of Aden. In 2010, Jan Kopernicki, President of the British Chamber of Shipping (also Vice-President of Shell's shipping arm) was lobbying hard for the UK increase Navy spending and bring forward the acquisition of a new generation of warships, to support the private oil tankers moving through this 'vital strategic artery'.[31]

## (iii) Subsidies through UK involvement in International Financial Institutions

The UK government directly supports overseas upstream oil and gas projects through insurance and guarantees provided by UK Export Finance (UKEF). The value of the "subsidy" is difficult to quantify, because the primary function is to reduce investment risk, not to transfer funds directly. In June 2012, the UKEF submitted a proposal to the Azeri State Oil Company to underwrite a new oil & gas refining and petrochemicals complex.[32]

The UK is also a member of international financial institutions that lend to oil and gas extraction projects, including the World Bank Group, the European Bank for Reconstruction & Development and the European Investment Bank. Again, the true value of the support exceeds the monetary value of the loans, because the involvement of powerful multilateral institutions and their member governments reduces political risk.

# Section 2: How oil corporations structure themselves internationally to avoid taxes

**Large oil & gas corporations have an in-built advantage in maximising their capture of rent and profits by reducing their contribution to public budgets. Multinationals are able to play off different countries against one another and to book profits in those jurisdictions with the lowest taxes on profits.[33]**

**This is made easier for oil corporations that operate a chain of production that includes extracting a raw material, shipping it, refining it, trading it, shipping it again, marketing it wholesale, distributing it and selling it to final consumers.**

Large oil companies like BP and Shell work at all these different stages. Thus BP Azerbaijan extracts crude in the Caspian. BTC Co - of which BP is the largest shareholder - operates the pipeline that sucks the oil westwards. BP Europe & Africa Oil co-ordinates shipping the crude onwards, while BP Shipping charters or operates the actual tanker and BP Integrated Supply & Trading trades crude cargoes. BP Europa refines crude through its holding in Bayernoil; other subsidiaries such as Veba Oel AG market petrol wholesale and run petrol stations. Integrated oil companies like BP are thus able to conduct a lot of their transactions between their own subsidiaries, and easily inflate costs and move profits to maximise their benefits.

The complexity and lack of transparency over fiscal regimes and terms makes calculating the revenues due to the host government through royalties, profit sharing and taxation very complicated. Oil companies make heavy use of in-house and contracted accountants, negotiators and lawyers to minimise their contributions, with particular success in poorer countries.

## Cost inflation and transfer pricing

Hundreds of subsidiaries and affiliates[34] allow oil company profit to be laundered through a process known as transfer pricing. Oil extracted from Nigeria can be sold, on paper, to a subsidiary or affiliate in another country before being brought back again, on paper, to Nigeria. The overall profit is retained within the group but the tax bill can be lower if sold to a subsidiary in a tax haven country. Transfer pricing can be used within the company right from extraction, via transportation and refining to the consumer. [35]

There are also opportunities to cheat the system by inflating costs where there is a cost sharing agreement between oil companies and the state. Production Sharing Agreements commonly stipulate that companies can recover all costs up to the point that the project breaks even and then only the 'profit oil' is split with the host state. This provides an opportunity to inflate costs between subsidiaries and affiliates, for example by overcharging for staff, equipment, services supplied from outside the country, or putting in a large high-interest loan from a tax haven country.[36]

## A web of 'shell' companies

The vast number of subsidiary companies[37] registered by oil majors makes tracking internal revenue flows impossible without the company's co-operation – which is unforthcoming. BP alone has at least 1,596 subsidiaries, many of which are based in the British Virgin Islands, Bermuda or Delaware – none of them known for their oil reserves. Many of these are "mailbox" companies, existing in name only, administered by offshore law firms and often used as part of tax avoidance schemes.

Research by Publish What You Pay Norway and ActionAid into the locations of these subsidiaries reveals that Shell and BP have established over 1,000 in "secrecy jurisdictions" [38] and offshore tax havens.[39] Compared in terms of total numbers of tax haven companies, BP and Shell have a significantly worse record than their competitors:

The Piping Profits report also highlighted that out of thirteen of the largest oil, gas and mining corporations, BP was "the hardest company in our sample study to assess." The company admitted to controlling 1,491 subsidiaries as of September 2011, "but it disappointingly would not supply us with any documents listing its subsidiaries beyond what is in the public domain."[41]

BP has a track record of misrepresenting its commitment to structures that enable secrecy and tax avoidance. A newspaper investigation in January 2011 challenged BP over its subsidiaries in ultra-secret jurisdictions.[42] BP would only admit to 67 - less than half of the 143 subsidiaries held in what even the IMF considers ultra-low tax havens. The company's spokesperson tried to explain away even these:

> *"Bermuda and Luxembourg together account for two-thirds of these - Bermuda mostly because many BP Shipping-related companies are based there and Luxembourg because of our pan-European trading and marketing activities."*

This is highly misleading. For a start, BP's location of BP Shipping in Bermuda is not innocuous: Bermuda offers a Flag of Convenience registry, a regime heavily

FIG 2: COMPARISON OF TAX HAVENS BETWEEN SHELL/BP AND COMPETITORS (ACCORDING TO FSI AND IMF DEFINITIONS)

| Company [40] | tax haven subsidiaries FSI definition | tax haven subsidiaries IMF definition |
|---|---|---|
| BP | 605 | 143 |
| Shell | 523 | 147 |
| Conoco Phillips | 302 | 93 |
| Exxon | 89 | 35 |
| Chevron | 48 | 22 |

The Financial Secrecy Index (FSI) and the IMF use different definitions of what constitutes a jurisdiction with high levels of corporate secrecy or a tax haven.

criticised for its secrecy, lack of regulation and threat to labour and environmental standards.[43] Moreover, it is often evidently not convenience of location but the secrecy and tax benefits that is responsible for the choice of jurisdiction.

For example, the Netherlands, a frequently ignored secrecy jurisdiction that allows multinationals to hide the accounts of Dutch subsidiaries, hosts BP subsidiaries including BP Pipelines Vietnam, BP Trinidad Exploration, Baku-Tbilisi-Ceyhan Pipeline Holding, Amoco Venezuela Energy Company, BP Egypt West Mediterranean (Block B), BP Angola (Block 18) and Korea Energy Investment Holdings.[44]

With all these possibilities, there is much potential for ambitious oil corporation employees to make a name of themselves by identifying "savings" to the company. John Browne did just that in the 1990s by lobbying hard for a change in the petroleum revenue tax (PRT) on existing North Sea fields from 75% to 50%. Analysts predicted that the move would wipe £130-£140 million off BP's annual tax bill at the expense of the UK government.[45]. John Browne would end up advising the UK government on making large cuts to public spending on education, and as current chairman of the board of directors for UK fracking company Cuadrilla, Browne stands to benefit enormously from Osborne's mooted tax breaks to UK fracking.


Greenpeace rappel off Calgary Tower with a message to the Canadian government.
Photo: Greenpeace International

## Tullow and Heritage in Uganda

London-listed Tullow Oil and Heritage Oil have both attempted to avoid paying taxes to the Ugandan government, resorting to international arbitration rather than pay their dues.

Heritage, run by ex-mercenary Tony Buckingham, tried to dodge paying capital gains tax on a $1.45 billion sale of its Ugandan assets to Tullow in 2010. Only by holding up the project approval did the Ugandan government manage to begin a process to recoup the tax revenues.

Tullow has more recently refused to pay VAT on machinery it is importing into the country, ultimately registering the tax dispute with the World Bank's International Centre for Settlement of Investment Disputes (ICSID).[46] ICSID is notorious for generally siding with corporate against public interests.

In 2012, Tullow was also criticised for promoting a "race to the bottom" in tax breaks between Kenya and Uganda.[47]

## BP in Turkey

In 2009, BP was fined $275 million by the Turkish Finance Ministry for evading taxes. The company had failed to declare income and thus not paid 170 million Turkish Lira (over £60 million at current exchange rates) in taxes.

From 2006 until 2008, BP had provided transit petrol to trucks leaving Turkey for Greece and Bulgaria without paying VAT or consumption tax. BP operates the second-biggest chain of petrol stations in Turkey.[48]

## Shell, Kulluk and tax dodging

In exceptionally dangerous 'frontier' oil regions, tax breaks and subsidies can be decisive factors in the go-ahead for risky projects.

Oswald Clint, Senior Research Analyst at market intelligence firm Bernstein Research has stated that "fiscal takes will be crucial to make any Arctic developments viable."[49] In other words, with costs already driven up by delays on projected times and by harsh conditions, oil and gas companies have to bend local tax regimes in a desperate attempt to make Arctic drilling appear financially viable. Oil company profits and their risky operations are assured by public money with little democratic oversight.

Because of the marginal economics of frontier oil projects, it is likely that companies will go to greater lengths to cut costs in places where stringent safety procedures are vital.

For example, Shell has admitted that its decision to move its offshore drilling rig from Alaska to Seattle in the final days of December 2012 was motivated by a desire to avoid $7m (£4.3m) of Alaskan state taxes. The rig was beached during a violent storm on its way to a Seattle shipyard.

The emergency response involved more than 500 people, the rig's 18 crew were evacuated by Coast Guard helicopters in weather the Captain later described as "close to a hurricane". The rig also had 139,000 gallons of diesel and 12,000 gallons of hydraulic fluids onboard.[50]

## Shell's secrecy and tax avoidance in Nigeria

Shell does not disclose its profits in Nigeria but argues that the Nigerian Federal Government receives about 95% of the revenue after costs from its joint venture


Women and youth from communities in the Kolo Creek area of the niger Delta protest against Shell.
Photo: ERA/FoE Nigeria - Morris Alagoa

Shell Petroleum Development Company. However, one former chief Executive of the Nigerian National Petroleum Company has stated:

“Proper cost monitoring of [transnational companies’] operations has eluded us, and one could conclude that what actually keeps these companies in operation is not theoretical margin, but what returns they build into their costs.”[51]

Action Aid research from 2011 shows that Shell has 18 subsidiary companies located in Nigeria, while BP has six, [52] providing ample opportunity for potential cost inflation.

Nigeria has offered tax incentives for drilling and exploration - the bigger the reserves a company says it holds, the less tax they pay.[53] On 9 January 2004 Shell announced that it had overstated its oil reserves by 3.9 billion barrels. This caused Shell’s share price to plunge 8%, wiping £3 billion off Shell’s value within an hour of trading on the London Stock Exchange.[54] It was later found that Nigeria accounted for one third of the falsely booked reserves.[55]International oil companies are quick to complain about any restrictions placed on their costs by the Nigerian Government in joint ventures.[56] Oil company lobbying has stalled progress of the Petroleum Industry Bill (PIB) for nine years. The oil majors have been particularly vocal on potentially losing tax exemptions as a result of this law. Shell claims that

“the proposed PIB Joint Venture terms are not competitive when compared with other oil producing countries.”[57]

# Conclusions and Recommendations

**As libraries shut, people lose their homes with cuts to housing benefit, and some disabled people are forced into work – multinational oil corporations are making a killing. Their mega-profits are coming directly at our expense. By dodging taxes to the tune of billions of pounds while consuming subsidies in direct payments, diplomatic lobbying and warship patrols, BP and Shell are making us carry their burden – felt the strongest by the 11 million living on less than £175 a week.**

Tax avoidance in countries such as Uganda and Nigeria perpetuates and reinforces 'resource colonialism.' Resources are extracted from countries to the far greater benefit of Northern multinational companies with less financial benefit to the Southern countries who possess the resources. Maintaining secrecy about how much tax is being paid in those countries makes the oil companies less accountable, and also makes the host country governments less accountable to civil society who may want a say in how those tax revenues are being spent.

Perhaps the biggest subsidy that fossil fuel companies benefit from is passing on the externality of climate change on to the public purse. It's impossible to know what this exact figure will be, but some studies have estimated that the annual cost of dealing with climate change to the world will be £190 billion.[58] This cost is directly related to the sales and profits of oil companies, but there is no financial accountability whatsoever for this fact.

The UK government (among others) therefore has a stark choice in the longer term: to either continue its diplomatic support for oil companies and pander to their ever growing demands for tax relief and other subsidies, while further investing in an economy locked into fossil fuel extraction, or to ensure that fossil fuel companies pay taxes in full, and honour its decarbonisation commitments by providing support for clean energy development instead. Measures suggested below are first steps towards this vision.

## End all Fossil Fuel Subsidies

* This is easiest with those that involve some form of direct transfers of cash. There should be an immediate end to all export credit financing, aid money or British contributions to international financial institutions lending to oil companies.

* Beyond this, the UK government should openly catalog all other fossil fuel subsidies, including free military services such as warship escorts and diplomatic subsidies such as free lobbying or special consular services. This should be conducted by an independent auditor working across departments to document the value of all fossil fuel subsidies, in order to allow for informed, robust plans for reform.[59]

John Christensen speaking on secrecy jurisdictions at the 2011 FIED Conference in Paris.
Photo: Xavier Granet/Task Force on Financial Integrity & Economic Development.

## More effective taxation

Given the scale of profits made by major oil companies and the wide disparity between the tax they pay and the level based on current corporation tax, there should be a re-examination of their contribution to HMRC. The companies should open their books and be more co-operative and forthcoming about their contributions. Osborne's recent tax breaks in the North Sea should be revisited. New tax breaks proposed for shale gas fracking should be put on hold.

Enforce 'country by country' reporting [60] among London-listed multi-national companies. This would require them to disclose in their annual financial statements:

- Name all countries where they operate
- Name all their companies in each country
- Their financial performance in each country.

According to the campaign groups pushing for Country by Country reporting, it

> *"...discloses the profits that companies record in each country in which they operate and the taxes that they pay on them. This means they can be held accountable for what they do and do not pay."* [61]

## Clean up UKEF underwriting

UKEF (formerly the ECGD) should adopt a prohibited list of activities that will not be supported by the UKEF because they are not conducive to sustainable development, such as activities involving the oil and gas sector.[62]

It should also implement a management and monitoring system to ensure the UKEF complies with wider government policy on human rights, the environment and sustainable development and champions the highest achievable global standards for export credit agencies at an international level with regard to human rights, the environment and development.

Appendix 1

# On-budget and off-budget subsidies

Subsidies may be divided into:[63]

- **On-budget subsidies:** direct expenditures by government to energy producers, consumers or related bodies (e.g. research institutes);
- **Off-budget subsidies:** transfers to energy producers and consumers that do not appear in national accounts as government expenditure. These could be further divided into:

  **Lost income: eg preferential tax treatment, exemptions, rebates, deferrals etc. In these cases, the government still incurs a cost, in the form of a reduction in income;**

  **Non-financial: regulatory and policy mechanisms, and political support. In these cases, there is no direct cost to the government (or a very small one), but a benefit to the energy producer and consumer.**

  **Externalities: the lack of framework to prevent companies externalising their costs. From the government's perspective, these may be seen as similar to non-financial subsidies (albeit occurring by omission). By definition, these costs are in fact incurred by society at large, so could be seen as a subsidy by society.**

Although all technically accepted (in theory, at least), these are in order of decreasing public recognition as subsidies, and increasing official/academic controversy over their scope. Unfortunately, they are also in order of increasing importance to the UK industry – i.e. the subsidies are difficult to identify as such, and to communicate in simple terms.

The European Environment Agency estimated in 2004 that of €8.7 bn of subsidies to oil and gas, across the EU-15, €8.5 bn were off-budget.[64]

The IEA comments that [OECD]

> *"...governments like to keep subsidies 'off-budget' for political reasons; on-budget subsidies are an easy target for pressure groups interested in reducing the overall tax burden."*[65]

... and presumably also for those interested in the public purposes of where the subsidies are directed (such as environment groups).

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