

INSIGHTS

Offshore Petroleum Licensing Bill: Energy Security at the Forefront of the Government's Legislative Agenda

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On 7 November 2023, the Offshore Petroleum Licensing Bill (the **Bill**) was announced as part of King Charles III's "King's Speech", outlining the UK Government's legislative agenda for the upcoming UK parliamentary session. If enacted, the Bill would require the North Sea Transition Authority (**NSTA**) to hold annual licensing rounds for new oil and gas drilling projects.

The UK Government has stated that the Bill aims to encourage domestic production to reduce carbon emissions associated from importing higher carbon from the international market during its transition to meet its net zero targets by 2050. This forms part of the UK's energy security strategy to reduce the UK's exposure to "volatile international energy markets and hostile foreign regimes".

Whilst the legislation itself is not yet available, this note summarises the two main components of the Bill.

Annual Licensing Rounds

The Bill would require the NSTA to be legally required to invite applications for new licences each year. This is a change from the current policy which does not have any fixed period between licensing rounds. There have been 33 licensing rounds since 1964, with the most recent in 2022/2023. As a result of that most recent licensing round, the UK Government announced in July 2023 that more than 100 more new oil and gas licences in the North Sea would be granted and that the NSTA would fast-track applications for discoveries in the southern North Sea.

Compatibility Checkpoint Tests

To support the UK's existing energy transition policies, oil and gas licensing would be subject to two tests within the existing "compatibility checkpoint" already used by the UK Government for new licensing rounds. The Bill would make the following tests legally binding:

- The UK must be projected to import more oil and gas from other countries than its domestic production quantities; and
- Carbon emissions associated with the production of UK gas are lower than the equivalent emissions from imported liquefied natural gas.

If both tests are satisfied, then the NSTA would be required to proceed with the licensing round for that year.

Conclusion

The Bill is the latest of recent initiatives and announcements made by the UK Government to secure more domestic energy supplies and implement new oil and gas licensing rounds. This latest legislative proposal highlights a broader policy challenge for all governments – balancing energy security against net zero ambitions – and reflects the tension between these two competing interests. Notwithstanding the Department for Business, Energy & Industrial Strategy review in March 2021 which found that opening another licensing round for oil and gas in the UK Continental Shelf was not “inherently incompatible” with the UK’s climate objectives, some critics have suggested that the proposed compatibility checkpoint tests represent the status quo position in the UK and are therefore unlikely to adequately temper domestic hydrocarbon activity in such a manner to facilitate the UK reaching its net zero targets.

This legislative proposal is likely to be welcomed by industry, which has in recent times faced an ever-increasing regulatory and fiscal burden in the UK North Sea. However, that enthusiasm may be moderated by the turbulent political landscape in the UK and a looming general election.