



Capital Allowances Act 2001

2001 CHAPTER 2

PART 12

SUPPLEMENTARY PROVISIONS

CHAPTER 3

DISPOSALS OF OIL LICENCES: PROVISIONS RELATING TO PARTS 5 AND 6

Introduction

552 Meaning of “oil licence” and “interest in an oil licence”

- (1) In this Chapter “oil licence” means a UK oil licence or a foreign oil concession.
- (2) In this Chapter “UK oil licence” means a licence under—
 - (a) Part I of the Petroleum Act 1998 (c. 17) (“the 1998 Act”), or
 - (b) the Petroleum (Production) Act (Northern Ireland) 1964 (c. 28 (N.I.)) (“the 1964 Act”),authorising the winning of oil.
- (3) In this Chapter “foreign oil concession” means any right which—
 - (a) is a right to search for or win oil that exists in its natural condition in a place to which neither the 1998 Act nor the 1964 Act applies, and
 - (b) is conferred or exercisable (whether or not under a licence) in relation to a particular area.
- (4) In this Chapter “interest in an oil licence” includes, if there is an agreement which—
 - (a) relates to oil from the whole or a part of the licensed area, and
 - (b) was made before the extraction of the oil to which it relates,any entitlement under the agreement to, or to a share of, that oil or the proceeds of its sale.

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Oil licences relating to undeveloped areas

553 Consideration to be treated as nil

- (1) This section applies if—
- (a) there is a material disposal of an oil licence which, at the time of the disposal, relates to an undeveloped area, and
 - (b) any of the consideration for the disposal consists of—
 - (i) another oil licence, or an interest in another oil licence, which at that time relates to an undeveloped area, or
 - (ii) an obligation to undertake exploration work or appraisal work in an area which is or forms part of the licensed area in relation to the licence disposed of.
- (2) The value of the consideration within subsection (1)(b) is to be treated as nil for the purposes of—
- (a) Part 5 (mineral extraction allowances),
 - (b) Part 6 (research and development allowances), and
 - (c) section 555 (disposal of oil licence with exploitation value).
- (3) A “material disposal” of an oil licence means any disposal (including a part disposal and a disposal of an interest in an oil licence) other than a disposal in relation to which section 568 or 569 (sales treated as being for alternative amount) has effect.
- (4) If—
- (a) the material disposal is part of a larger transaction under which one party makes to another material disposals of two or more licences, and
 - (b) at the time of disposal, each of those licences relates to an undeveloped area, the licensed area for the purposes of subsection (1)(b) is the totality of the licensed areas in relation to those licences.
- (5) In relation to a material disposal of a licence under which the buyer acquires an interest in the licence only so far as it relates to part of the licensed area, any reference in this section and section 554 to the licensed area is to be read as a reference only to that part of the licensed area to which the buyer’s acquisition relates.
- (6) In subsection (1)(b)—
- “exploration work”, in relation to an area, means work carried out for the purpose of searching for oil anywhere in that area, and
- “appraisal work”, in relation to an area, means work carried out for the purpose of ascertaining—
- (a) the extent or characteristics of any oil-bearing area the whole or part of which lies in that area, or
 - (b) what the reserves of oil of any such oil-bearing area are.

554 Circumstances in which oil licence relates to undeveloped area

- (1) A UK oil licence relates to an undeveloped area if—
- (a) no consent for development has been granted to the licensee for any part of the licensed area by the relevant authority, and

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- (b) no programme of development has been served on the licensee or approved for any part of the licensed area by the relevant authority.
- (2) A foreign oil concession relates to an undeveloped area if—
 - (a) no development has actually taken place in any part of the licensed area, and
 - (b) no condition for the carrying out of development anywhere in that area has been satisfied—
 - (i) by the grant of any consent by the authorities of a country or territory exercising jurisdiction in relation to the area, or
 - (ii) by the approval or service on the licensee, by any such authorities, of any programme of development.
- (3) Subsections (4) and (5) of section 36 of FA 1983 (meaning of development) apply for the purposes of subsections (1) and (2).
- (4) In subsection (1) “licensee” means—
 - (a) the person entitled to the benefit of the licence or, if two or more persons are entitled to the benefit, each of those persons, and
 - (b) a person who has rights under an agreement which is—
 - (i) approved by [^{F1}the Commissioners for Her Majesty’s Revenue and Customs], and
 - (ii) certified by the relevant authority to confer on that person rights which are the same as, or similar to, those conferred by a licence.
- (5) In subsection (2) “licensee” means the person with the concession or any person having an interest in it.

Textual Amendments

- F1** Words in Act substituted (18.4.2005) by [Commissioners for Revenue and Customs Act 2005 \(c. 11\)](#), s. 53(1), [Sch. 4 para. 83\(1\)](#); S.I. 2005/1126, art. 2(2)(h)

Disposal of oil licence with exploitation value

555 Disposal of oil licence with exploitation value

- (1) This section applies if—
 - (a) a person (“the seller”) disposes of an interest in an oil licence to another (“the buyer”), and
 - (b) part of the value of the interest is attributable to allowable exploration expenditure incurred by the seller.
- (2) For the purposes of Part 6 (research and development allowances) the disposal is to be treated as a disposal by which the seller ceases to own an asset representing the allowable exploration expenditure to which that part of the value of the interest is attributable.
- (3) Part 6 applies as if the disposal value to be brought into account were equal to so much of the buyer’s expenditure on acquiring the interest as it is just and reasonable to attribute to that part of the value of the interest.
- (4) In this section “allowable exploration expenditure” means expenditure which—

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- (a) is incurred on mineral exploration and access within the meaning of Part 5 (mineral extraction allowances), and
- (b) is qualifying expenditure for the purposes of Part 6.

Minor definitions

556 Minor definitions

- (1) In this Chapter “licensed area” means (subject to section 553(4) and (5))—
- (a) in relation to a UK oil licence, the area to which the licence applies, and
 - (b) in relation to a foreign oil concession, the area in relation to which the right to search for or win oil is conferred or exercisable under the concession.
- (2) In this Chapter “the relevant authority”, in relation to a UK oil licence means—
- (a) in the case of a licence under Part I of the 1998 Act^{F2}—
 - [^{F3}(ai) the Scottish Ministers, in relation to the Scottish onshore area, as defined in section 8A of that Act;]
 - (i) the Welsh Ministers, in relation to the Welsh onshore area (as defined in section 8A of that Act);
 - (ii) otherwise the Oil and Gas Authority, and], and
 - (b) in the case of a licence under the 1964 Act, the Department of Enterprise, Trade and Investment in Northern Ireland.
- (3) In this Chapter “oil”—
- (a) in relation to a UK oil licence, means any substance won or capable of being won under the authority of a licence granted under Part I of the 1998 Act or the 1964 Act, other than methane gas won in the course of operations for making and keeping mines safe, and
 - (b) in relation to a foreign oil concession, means any petroleum (as defined by section 1 of the 1998 Act).

Textual Amendments

- F2** Words in s. 556(2)(a) substituted (1.10.2018) by [Wales Act 2017 \(c. 4\), s. 71\(4\)](#), **Sch. 6 para. 23** (with [Sch. 7 paras. 1, 6](#)); [S.I. 2017/1179, reg. 4\(b\)](#)
- F3** S. 556(2)(a)(ai) inserted (1.10.2018 immediately after [Wales Act 2017 \(c. 4\)](#), Sch. 6 Pt. 2 comes into force) by [The Scotland Act 2016 \(Onshore Petroleum\) \(Consequential Amendments\) Regulations 2018 \(S.I. 2018/79\)](#), regs. 1(3), **11**

Modifications etc. (not altering text)

- C1** S. 556(2) modified (temp.) (9.2.2018) by [The Scotland Act 2016 \(Onshore Petroleum\) \(Consequential Amendments\) Regulations 2018 \(S.I. 2018/79\)](#), regs. 1(2), **6** (with art. 2)

Changes to legislation:

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