



Policy brief

Paving the way to Net Zero: A New and Credible Climate Compatibility Checkpoint for UK Oil and Gas Production

Summary

The new Labour government has set ambitious climate targets, including a commitment to ban new oil and gas exploration licences in the North Sea. However, drilling licences already granted under the previous government pose a risk to the UK's legally binding net zero goals. To align any future UK fossil fuel production with climate commitments, new and credible measures are urgently needed. **This brief proposes a stronger Climate Compatibility Checkpoint on oil and gas licensing as a key tool to reach net zero.**

- **Oil and gas licensing follows several distinct licensing phases.** A Climate Compatibility Checkpoint, with three 'tests', was introduced before the first exploration stage in 2022.
- **The current Checkpoint has significant flaws.** The tests apply only before the first exploration stage, exclude the majority of CO₂ emissions from oil and gas extraction, lack absolute benchmarks, and are non-statutory, allowing the overriding of net zero considerations.
- **A new, credible checkpoint must be grounded in three core principles:** (i) alignment with the Paris Agreement and UK climate targets, (ii) driving investment into the net zero transition, (iii) transparency on trade-offs between energy security, climate, and economic considerations.
- **We recommend restructuring the Checkpoint by having six tests for climate compatibility,** including a strengthened version of the three current tests and three additional tests:
 - **A 'Paris Alignment Test'** - evaluating the compatibility of continued oil and gas extraction with the 1.5°C and UK net zero target.
 - **An 'Investment Test'** - evaluating operators' investment contributions to driving the net zero transition.
 - **A 'Geo-Net-Zero Test'** - evaluating progress in procurement of permanent CO₂ storage for all emissions resulting from extracted oil and gas, including 'Scope-3'
- **The Geo-Net-Zero test is crucial for any oil and gas licensing in a net zero transition,** to ensure that any remaining CO₂ emissions from fossil fuel production and use are permanently geologically stored by 2050. Different stringency levels are suggested for policymaker flexibility.
- **For the checkpoint to be effective, we strongly recommend applying it at all stages of oil and gas licensing, and granting it statutory status.** We recommend a comprehensive 'fitness test' of energy policy alignment with net zero objectives, including an evaluation of energy subsidy and tax regimes and the mandate and responsibilities of the oil and gas regulator, the North Sea Transition Authority (NSTA).

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Introduction

The UK needs to transition away from fossil fuels to meet its net zero goals.

The Climate Change Committee is clear that the net zero transition involves a substantial reduction in the production and consumption of fossil fuels, and a rapid shift towards clean energy.¹ This has significant implications for domestic oil and gas production in the North Sea.

The new Labour government has set ambitious climate goals, and has pledged to end licensing for new oil and gas exploration in the North Sea.

However, the Government will have to contend with the emission impact of fields that have already been granted exploration licences, but have not yet moved into production.² The Sunak government permitted several fields while in office, including the Rosebank Oil Field in 2023, which, if granted a production licence, would generate a total of 200 million tonnes of CO₂ emissions - more than the annual emissions of 28 countries combined.³ This has led to widespread warnings from UK scientists that oil and gas extraction from fields with existing exploration licences will “severely undermine” the Climate Change Act 2008, the UK’s legally binding net zero target, and ultimately the world’s ability to limit warming to 1.5°C.⁴

Therefore, to align any continued oil and gas production in the UK with net zero, additional measures are needed.

The new government has the opportunity to show global leadership in orchestrating a rapid transition away from fossil fuels in energy systems, as agreed upon in the COP28 UAE Consensus.⁵ As part of this, bringing existing oil and gas production on the UK continental shelf in line with net zero poses a significant challenge for the next Parliament.

This brief explores one potential solution: a

more robust and credible ‘Climate Compatibility Checkpoint’.

The checkpoint is a series of ‘tests’ that must be met before granting licences for future oil and gas exploration. They are designed to ensure net zero alignment and administrated by the regulator, the North Sea Transition Authority (NSTA). This brief provides an overview of the current Climate Compatibility Checkpoint, and explains why it fails to adequately test for climate compatibility in its current form. We then provide a policy framework for a more robust and credible checkpoint with three additional tests to align any continued fossil fuel extraction with climate goals, and propose applying it at all licensing stages, including already to projects that have been granted exploration licences. Finally, we recommend six complementary policy changes needed to make the checkpoint effective and align UK energy policy with net zero.

History & overview of the current checkpoint

Offshore oil and gas producers undergo a comprehensive licensing process, lasting from five years to several decades.⁶ Oil and gas licensing consists of several regulatory stages, including exploration, development, production and decommissioning phases, with each requiring distinct licence approvals.⁷

In 2022, the Climate Compatibility Checkpoint was introduced as a new measure in the UK oil and gas licensing process. It consists of three non-statutory ‘tests’ for climate compatibility, evaluated by the Secretary of State before granting future exploration licences for oil and gas. In its current form, it is only applied before the first stage of oil and gas exploration, and functions as a supplementary briefing to the Secretary of State.

Process behind the current checkpoint

The checkpoint’s establishment followed a two-year process initiated by the 2021 North Sea Transition Deal, where new climate targets were agreed between government and industry.⁸ The process included a review of oil and gas licensing, which attested that continued licensing for oil and gas is not “inherently incompatible” with the UK’s climate change objectives.⁹ Thus, it was agreed a ‘checkpoint’ would be developed to ensure climate compatibility of future oil and gas licensing rounds.¹⁰ This led to a government consultation, with the checkpoint’s design finalised in 2022.¹¹

The checkpoint was first applied during the 33rd licensing round for new oil and gas exploration in 2023.¹² All 27 licences in the first tranche, and 24 licences in the second tranche, were granted and deemed ‘in compliance’ with the new checkpoint, and therefore with the UK’s climate targets.¹³

Current design of the checkpoint

The consultation on the checkpoint proposed six possible tests for evaluating the climate compatibility of oil and gas production, covering features such as 1.5°C alignment and a scope 3 (product) emissions test at various stages of exploration and production.¹⁴ From these, the final approved checkpoint includes three tests, assessed through comparative metrics¹⁵:

1. A test evaluating UK oil and gas sector progress in reducing emissions associated with oil and gas production (scope 1 & 2);
2. A test comparing emission intensity of UK oil and gas production (scope 1 & 2) to global alternatives; and
3. A test on the UK’s status as a net importer of oil and gas.

This design received widespread criticism from campaigners, politicians and academics, and have been labelled as “smokescreen” tests that are essentially impossible to fail.¹⁶

The three tests in the current Climate Compatibility Checkpoint are further detailed in *Table 2* in the Annex.

Problems with the current checkpoint

The existing checkpoint has significant shortcomings in its ability to align any continued oil and gas production in the UK with national climate commitments. Key issues include:

1. The current checkpoint is limited to the initial exploration stage of oil and gas production licensing, neglecting the need for ongoing assessments of climate compatibility at every licensing stage, particularly before final development consent.
2. The checkpoint is a non-statutory instrument and operates primarily as an informational supplementary briefing to the Secretary of State, who retains the authority to approve licences at their discretion, irrespective of the information provided.
3. The checkpoint has limited coverage, addressing only a small fraction of total emissions from extraction. It excludes emissions from export (approximately four-fifths of UK oil and gas extracted is exported out of the UK market)¹⁷ and emissions from burning the oil and gas extracted, known as scope 3 emissions [1]. The latter is particularly problematic, as scope 3 emissions are estimated to account for 80% of oil and 85% of natural gas of the total CO₂ emissions extracted.¹⁸ The tests thus fail to reflect the true climate impact of extraction or the operator's responsibility to limit the CO₂ emissions embedded in the products they sell [2].
4. The checkpoint relies on comparing sector progress to relative targets, such as international averages or historical benchmarks, rather than absolute targets or benchmarks aligned with the scientific requirements for limiting global temperature rise.

Principles for a robust and credible checkpoint

An updated licensing process is critical to ensure that the new government aligns oil and gas licensing with domestic and international net zero targets. **We propose implementing a new Climate Compatibility Checkpoint that is stronger both in its design and application.** To be climate-compatible, the proposed checkpoint must comply with the following principles:

- **Alignment:** A Climate Compatibility Checkpoint needs to be scientifically robust, aligning with both the UK's domestic climate targets and international targets under the Paris Agreement. This implies: stronger tests applied at multiple stages of the production licensing process; a comparison with absolute benchmarks and emission targets; concern about global as well as domestic emissions; and ensuring that, by the time of net zero emissions, 100% of any remaining fossil fuel production is compensated for by permanent CO₂ storage.

- **Investment:** In line with the global commitment agreed at COP28 to transition away from fossil fuels,¹⁹ a Climate Compatibility Checkpoint should drive a transition away from oil and gas assets towards alternative business models for the sector. This involves assessing licensees based on their contribution to a net zero emissions economy, for example by prioritising operators that invest in renewables or prioritising fields that facilitate the retention of transferable skills, jobs and storage sites needed to transition the North Sea away from extraction and towards geological storage from the 2030s onwards.
- **Transparency:** Current and likely future governments will balance climate and energy security considerations, as well as consider fiscal and economic factors. It is therefore important that any checkpoint require additional information from operators on how and whether fields contribute to these wider aims.

The design of a new checkpoint: stronger and additional tests

Following the outlined principles, we recommend **restructuring the checkpoint by strengthening its existing tests and introducing three additional tests.** This redesign aims to establish a new and credible assessment of climate compatibility for any continued exploration, development and production of oil and gas in the UK. The six tests are designed to offer flexibility to policymakers to meet climate as well as economic growth and energy security goals. An overview of the new Checkpoint can be found in *Table 1* (below).

Strengthening the three original tests

To strengthen the three existing tests, we suggest specific language modifications to assist the Secretary of State in their evaluation. *Table 1* (below) provides an overview of modifications and reasoning. To maximise ease of implementation, these changes do not change the fundamental design of each test, but do include suggestions to collect additional information from operators as well as more ambitious targets for reducing emissions from production, with options for progressively increasing stringency.

Table 1. A new and credible Climate Compatibility Checkpoint

#	Test name	Question	Explanation	Possible benchmarks and variants
1	Scope 1 & 2 Test	“Does the sector demonstrate adequate cuts in the GHG emissions associated with their production of oil and gas, compared to their commitments under UK and international climate targets?”	Evaluates and sets targets to reduce operational (scope 1 & 2) emissions, aligned with Paris goals.	Possible benchmarks include sector-wide or licensee-specific targets for absolute reductions in scope 1 & 2 emissions, aligned with scientific requirements (e.g. zero flaring by 2030, net zero scope 1 & 2 emissions by a target date) Variants include (1) initial licenses being granted based on planned emission reductions, and future licenses on demonstrated compliance (2) increasing stringency over time with more ambitious targets set in each licensing round
2	Carbon Intensity Test	“Is extraction in the North Sea of a lower emissions intensity than priority alternatives around the world?”	Compares emission intensity of UK domestic extraction to priority import sources, to make a more accurate assessment of climate impact.	Possible benchmarks include a benchmark for UK emission intensity compared to other producers or priority trading partners Variants include (1) defining a more narrow set of trading partners, (2) a European intensity benchmark and (3) inclusion of all-scope emissions
3	Net Importer Test	“Is the UK a net importer of oil and gas products for domestic consumption? What is the proposed market for extracted hydrocarbons from the fields covered by this license?”	Retains the question on UK’s role as an importer, but adds a second question to increase transparency on intended destination of oil and gas extracted.	Possible benchmarks include the UK’s status as an importer in a given year Variants include (1) exports being conditional on the destination market having a credible net zero plan, and (2) prioritising energy security by favouring licenses with the UK as its destination market
4	Paris Agreement Alignment Test*	“Are the total emissions from extracted oil and gas products compatible with the Paris Agreement’s 1.5°C warming threshold? What is the effect of this project on that global and national trajectory?”	Compares total emissions generated by oil and gas extracted, including scope 3 and exports, against IPCC and UK Climate Change Committee (CCC) pathways for meeting UK net zero targets and the global 1.5°C goal.	Possible benchmarks include a comparison of emission trajectories of the sector with and without the proposed field against international (IPCC) and national (CCC) emission trajectories in line with net zero Variants include (1) requiring a faster reduction in all-scope emissions than the global average and (2) introducing an independent ‘carbon budget compliance assessment’ from the CCC for each new licensing round
5	Investment Test**	“How is the applicant supporting the net zero transition?”	Ensures that applicants for oil and gas extraction licenses are actively contributing to a transition away from fossil fuels and driving the energy transition, in line with the UAE Consensus.	Possible benchmarks include a quantity or percentage amount invested in clean energy technology (e.g. percentage of gross revenue or profits), or a pro-rata investment requirement based on production levels Variants include (1) favouring investments in specific technologies or regions to align with net zero, growth, just transition or levelling up goals, and (2) measures to avoid penalising small producers (e.g., excluding small producers, geographical pooling of licenses)
6	Geo-Net-Zero Test	“Has the applicant procured permanent CO2 storage capacity to compensate for the emissions associated with this licence? Does the applicant have a plan to ensure all-scope emissions are committed to geological storage, reaching 100% by 2050?”	Ensures that if any remaining extraction occurs, it is balanced by permanent geological CO2 storage to align with the scientific requirements for reaching durable net zero by 2050.	Possible benchmarks include specifying a level of storage readiness for licenses to be granted, or storage fraction targets at different time intervals Variants include (1) varying the stringency of ‘storage site’ readiness for the test to be passed, (2) setting a storage end target; a strict test would require 100% storage by 2050, (3) setting a 10% storage fraction target by 2030, (4) measures to avoid penalising small producers (e.g. only applying the test above a certain production threshold) and (5) facilitation through trading of carbon storage certificates.

*This test combines tests 5 and 6 from the original consultation, with specified benchmarks to make the test workable.

**This test adapts test 4 in the original consultation to include a wider range of energy transition investments, including for example hydrogen, CCUS and renewables.

Additional: Test 4 – Paris Agreement Alignment Test

Question: “Are the total emissions from extracted oil and gas products compatible with the Paris Agreement’s 1.5°C warming threshold? What is the effect of this applicant’s project on that global and national trajectory?”

This test compares emissions generated by an oil and gas field to net zero scenarios compatible with limiting global temperature rise to 1.5°C. The assessment encompasses all CO₂ emissions – including (scope 3) emissions embedded in oil and gas products and those destined for export – recognising that global production and use of fossil fuels must decline to meet the Paris Agreement [1]. This inclusion of scope 3 emissions is in line with the recent UK Supreme Court ruling that such emissions must be considered in the environmental impact assessments (EIAs) of fossil fuel projects before production licences can be granted [2].²⁰ Using the findings of EIAs in the Checkpoint is essential to ensure the full environmental impacts of projects are understood, enabling the regulator to robustly assess how a project affects the UK’s ability to meet its Paris Agreement commitments.

Test 4 can be implemented by comparing emission trajectories for the oil and gas sector, both with and without the specific field in question, against global net zero scenarios outlined in the IPCC’s 6th Assessment Report and/or UK net zero scenarios produced by the Climate Change Committee [3]. This could involve assessing whether the proposed extraction allows the UK to maintain a decline in oil and gas extraction similar to that required in ambitious global mitigation scenarios. Alternatively, the test could compare the UK’s domestic extraction rate to Climate Change Committee net zero trajectories and/or national carbon budgets to evaluate alignment with domestic net zero scenarios.

Policymakers can amend the test by specifying a rate of emission reduction. For example, to account for the UK’s historical contribution to climate change, policymakers might require domestic producers to achieve a faster reduction in all-scope emissions than the global average. Alternatively, the government could introduce an independent ‘carbon budget compliance assessment’ from the Climate Change Committee for each new licensing round.

Additional: Test 5 – The Investment Test

Question: “How is the applicant supporting the net zero transition?”

This test aims to ensure that any applicant seeking permission for oil and gas extraction in the UK is actively contributing to a transition away from a fossil fuel dependent business model to one characterised by minimal ongoing fossil fuel use and production. This aligns both with international commitments to transition away from fossil fuels, and the need for substantial investments in clean energy technologies such as renewables, carbon capture and storage (CCS), and hydrogen [4].

To create optionality, policymakers could favour specific technologies or regions for investment to align with net zero, economic growth, just transition or levelling-up objectives. To avoid penalising small producers [5], the test could assess support for ‘transition technologies’ across regional blocks of the UK Continental Shelf. For example, the test could form broad geographical groupings of licences and require pooled investment with pro-rata contributions, based on a producer’s equity share of extraction within that region. The test could also exclude producers below a certain production level to prevent future licences from being monopolised by the largest operators with diversified portfolios. Quantifying the test might involve setting specific targets for gross revenue or net profit reinvestment into alternative energy technologies.

Additional: Test 6 – The Geo-Net-Zero Test

Question: “Has the applicant procured permanent CO₂ storage capacity to compensate for the emissions associated with this licence? Does the applicant have a plan to ensure that an increasing fraction of all-scope emissions are committed to geological storage, reaching 100% by 2050?”

This test acts as a crucial ‘backstop’ in the checkpoint, ensuring that, *if any extraction continues, then* the resulting emissions will be counterbalanced by permanent, geological carbon storage by the time of net zero. This is grounded in the scientific recognition that all ongoing CO₂ production from fossil fuels must be fully compensated for with permanent CO₂ storage by the time of net zero, as recommended by the Independent Review of Net Zero (2022).²¹ The test leverages the expertise and capability of oil and gas extractors in developing and managing geological CO₂ storage. It acknowledges that a small amount of oil and gas consumption will continue to feature in the UK’s net zero economy, and ensures net zero goals are met by linking the licence to extract fossil fuels with the responsibility to develop CO₂ storage.

The stringency of this test can be adjusted by specifying different levels of storage site readiness (e.g., requiring ‘procured capacity’, ‘capacity with an intention to develop’, or, at its most stringent, a ‘realised CO₂ injection rate’ by a certain year). Policymakers can also set a threshold for the pace of storage capacity creation, or set specific end targets. For example, the test could mirror the approach taken in the EU’s 2024 Net Zero Industry Act (§18)²², in which operators will be required to contribute pro-rata to a total injection target based on their production levels in the European Union. To ensure the net zero target is met, the test should require evidence that 100% of annual CO₂ production resulting from any ongoing extraction and use of the fossil fuels from a specific license will be permanently stored by 2050. Up to 2050, it could set out a predefined trajectory in the form of ‘stored fraction’ targets, defined at five- or ten-year intervals (e.g., starting with a 10% storage fraction target by 2030, as recommended by the Independent Review of Net Zero²³). The test could also consider geographic factors, such as prioritising production from sites conducive to CO₂ storage. To

mitigate adverse impacts on small extractors, the test could only apply at a certain production (or producer) size threshold, be applied regionally, and/or be facilitated by the trading of carbon storage certificates.

Making the checkpoint work

Simply changing the tests is insufficient to create an effective Climate Compatibility Checkpoint. In addition to the suggestions outlined above, we recommend **three additional changes for robustness and credibility**:

1. Apply the checkpoint at all stages of oil and gas production

Additional Climate Compatibility Checkpoints should be required beyond the initial exploration stage and should apply at later licensing stages, particularly when infrastructure is yet to be developed. This would maximise the Checkpoint's impact in preventing future emissions and reduce the risk of climate overshoot. A wider application is particularly relevant given the government's commitment to ending new oil and gas exploration licences and the number of fields that have been granted initial exploration licences under the last government but have yet to pass through development or production licensing stages. This includes more than 40 oil and gas fields with the potential to generate 900 million tonnes of CO₂ over their lifespan²⁴. Furthermore, as the North Sea is a declining oil and gas basin, the number of initial exploration licences would naturally decrease over time²⁵.

Certain tests, such as Test 1 (Scope 1 & 2) and Test 6 (Geo-Net-Zero) may be most appropriate when applied before field development or production consent, when there is a clearer understanding of total production capacity and annual production rate from individual proposals.

2. Grant the checkpoint statutory status

The checkpoint's current status as non-statutory raises concerns about its legal standing, acting as an "informative, non-binding document" to assist ministers in deciding whether to support a new licensing round.²⁶ Concerns around the checkpoint's legal footing were underscored in the 2022 High Court case brought by Greenpeace and Uplift, which ruled that the checkpoint holds no binding power, with ministerial judgement taking primacy.²⁷

Therefore, it is imperative that the checkpoint is given some form of statutory status. The simplest way to do so would be to introduce the new checkpoint as part of a new Energy Act. Alternatively, statutory status could be achieved by amending existing legislation, utilising mechanisms such as Henry VIII Clauses,²⁸ or the introduction of additional, counter-balancing secondary legislation. If these implementation routes encounter difficulties, minor legislative amendments, such as checks stipulated in amendments to secondary regulation for each licensing stage could be pursued.

If the government wishes to maintain strong ministerial discretion, the statutory element of the Checkpoint could

instead mandate public reporting on the evaluation of licences. This could involve grading licences based on specific criteria, or using a 'traffic light' assessment to indicate their compatibility with climate goals. This approach enhances transparency and public scrutiny while preserving the flexibility of ministerial decision-making.

3. Ask supplementary questions about the extraction proposal

In addition to the proposed tests, asking supplementary questions of operators before licences are approved would provide the government with a clearer description of the extraction proposal, complementing the financial checks of operators made by Ofgem.²⁹ These supplementary questions could initially be part of a voluntary disclosure mechanism before becoming mandatory in the license application appraisal process. The specific questions included are at the government's discretion but could include broader economic impact assessments, metrics to demonstrate contributions to energy security, or costs of retrofitting the extraction site for carbon storage.

Beyond the checkpoint: a wider 'fitness test' of oil and gas policy

To align energy policy with UK climate targets, we recommend the new government conducts a broader review of the existing legislative landscape around oil and gas production. This could entail a regulatory 'fitness test'³⁰, a type of regulatory scan that could help identify gaps, inconsistencies, and clashes between the legal mandate to achieve UK climate targets and current energy policies. **Key aspects that require a 'climate compatibility' review include:**

1. Tax and subsidy regimes for oil and gas extraction

The 'climate compatibility' review should assess whether the existing tax and subsidy regime for the energy sector aligns with net zero policy goals. Notably, under the Energy Profit Levy (Windfall Tax), companies receive substantial tax benefits for investing in oil and gas extraction, allowing them to claim back £91.40 in tax relief for every £100 invested.³¹ Rather than scrapping the capital allowance, the government could attach conditions to this tax rebate - such as a requirement to redirect tax relief into renewables, hydrogen, or CCS, in line with Test 5 (Investment). Currently, operators who allocate £100 towards decarbonising their oil and gas extraction methods can claim up to £109.25 in tax benefits for decarbonisation. This demonstrates adjustments to the levy have a clear precedent and could be warranted to align the rebate with the government's broader climate compatibility objectives, stimulate economic growth, and drive investments into clean energy. The capital generated could be significant [6], with the current tax rebate expected to be worth £18 billion between 2023 and 2026.³²

2. The statutory obligations and responsibilities of the NSTA

The North Sea Transition Authority (NSTA), previously named the Oil and Gas Authority (“OGA”), serves as the regulator both for oil and gas extraction and for carbon storage. The NSTA has a ‘principal objective’ to “maximise the economic recovery of the UK’s offshore oil and gas resources”, as stipulated in the 1998 Petroleum Act³³ and clarified in the 2015 Infrastructure Act.³⁴ The Petroleum Act also specifies that the OGA/NSTA must produce strategies to support the principal objective. The latest revised OGA Strategy, published in 2021, supports the principal objective, but also gives the NSTA a non-statutory mandate to “take appropriate steps to assist the Secretary of State in meeting the net zero target”.³⁵

The NSTA holds the final decision over licensing processes and can challenge decisions by the Secretary of State if they come into conflict with its statutory obligations. This dynamic could present a scenario in which the NSTA has the power to override the government if it were to impose a restriction on licensing, based on a threat to the economic recovery of the UK petroleum sector. This has been exposed in a recent 2022 High Court case.³⁶ A review of NSTA's statutory obligations is thus necessary. This might indicate that the NSTA needs to bolster its commitments to the UK’s Net Zero target, such as by redefining or dissolving its primary objective, adding an objective to consider recommendations from the Climate Change Committee, or transferring certain responsibilities to alternative institutions and committees.

3. The NSTA’s role in offshore & onshore storage licensing processes

The incoming government may want to reassess the role and broader responsibilities of the North Sea Transition Authority as we approach net zero. This evaluation could include its remit over offshore and onshore storage activities, as well the impact of the recent supreme court ruling on Environmental Impact Assessment requirements for the NSTA's processes and the Climate Compatibility Checkpoint³⁷. Such a review may show that, for example, decommissioning requirements should include carbon storage provisions, or that all-scope emissions need to be taken into account at various regulatory stages. It may also indicate that, although the licensing for offshore carbon storage only began in 2021, future licensing rounds could link the awarding of production licences to storage licences - consistent with Test 6 (Geo-Net-Zero). This could facilitate the transition of the North Sea basin from a carbon source to a carbon sink, better aligning energy policy with UK net zero targets.

Implementing a new checkpoint

Any new checkpoint design is likely to generate significant interest and scrutiny.³⁸ Legal challenges to a new checkpoint should be expected, given past instances of the checkpoint being challenged in court by NGOs, as well as the current mandate of the NSTA to maximise economic recovery from the North Sea. It is important to ensure that a participatory stakeholder process drives decision-making on licensing. This should involve devolved governments, particularly the Scottish government, DESNZ, the CCC, and the NSTA, as well as industry, NGOs, and the public.

Once a new checkpoint is in place, maintaining stability and trust over time is key, especially as the checkpoint must survive a range of future energy markets and geopolitical scenarios. Incorporating a process for regularly updating the benchmarks within the tests would improve the real-time responsiveness of the Checkpoint, and provide a strong knowledge base for future decision-making.

Recommendations

In summary, establishing a new and credible Climate Compatibility Checkpoint requires policymakers to:

1. Strengthen and adapt the three existing tests and introduce three additional tests for net zero compliance.
2. Apply the checkpoint at all licensing stages of oil and gas production and grant it statutory status.
3. Conduct a ‘fitness test’ of the climate compatibility of the UK’s oil and gas policy regime.

Table 2. Existing Climate Compatibility Checkpoint

#	Test name	Question	Benchmarks	Rationale	Concerns
1	Scope 1 & 2 Test	<i>“Does the sector demonstrate cuts in the [scope 1 & 2] GHG emissions associated with their production of oil and gas?”</i>	Compares sector-wide operational emission reductions (scope 1 & 2) against the targets set in the North Sea Transition Deal (NSTD). No pass/fail threshold.	Assesses sector’s progress in meeting agreed operational emission targets, which are designed to adhere to the Paris Agreement and mitigate the climate impact of oil and gas production.	<ul style="list-style-type: none"> Excludes scope 3 emissions (80-90% of full lifecycle emissions)* NSTD target for scope 1 & 2 reduction is 50% by 2030, which is lower than the Climate Change Committee’s recommended reduction of 68%** Evaluates sector-wide progress rather than setting specific absolute targets
2	Carbon Intensity Test	<i>“Is extraction in the North Sea of a lower emissions intensity than alternatives around the world?”</i>	Ranks the carbon intensity of UK oil and gas production (scope 1 & 2) against international benchmarks – the global average for oil, and a basket of countries that export to the UK for gas. The test is passed if UK production remains below the carbon intensity of these producers.	Aims to mitigate carbon leakage. If domestic production has lower emissions intensity than imports, continuing domestic extraction avoids the need to importer higher carbon fuels from abroad, reducing overall emission impact.	<ul style="list-style-type: none"> Expanding UK extraction will likely lead to higher global emissions, as there is no evidence increased UK production displaces oil and gas production elsewhere. Comparing UK emission intensity to global averages is unhelpful, as oil and gas imports typically come from priority trading partners, some of which (e.g. Norway) have lower emission intensity than UK oil and gas*** Excludes scope 3 emissions Benchmarked internationally rather than against absolute reduction targets
3	Net Importer Test	<i>“Is the UK a net importer of oil and gas products for domestic consumption?”</i>	Evaluates if the UK remains a net importer of oil and gas, meaning it consumes more than it produces domestically. Passed if UK remains an importer.	Replacing domestic oil and gas production with imports may lead to higher overall emissions (e.g. due to more carbon intensive extraction processes abroad).	<ul style="list-style-type: none"> Some countries have a ‘cleaner’ production process than the UK – notably Norway, from which most gas is imported - meaning emission savings from domestic production are less than this test implies**** Does not include exported or scope 3 emissions

*IEA (2023) *The Oil and Gas Industry in Net Zero Transitions*. (November 2023)**Climate Change Committee (2022) *Letter: Climate Compatibility of New Oil and Gas Fields* (24 February 2022).***North Sea Transition Authority (2023) *Carbon Footprint of UK Natural Gas Imports Factsheet*. Accessed March 2024

****ibid

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Footnotes

[1] Scope 3 emissions comprise of all the CO₂ emissions within a company's value chain that are beyond the direct control or not directly caused by the company's activities. For oil and gas products, scope 3 encompasses all the CO₂ emissions embedded in oil and gas products, including the emissions from combustion by end-consumers.

[2] The Supreme Court ruled that Scope 3 or downstream emissions of hydrocarbon extraction must be included in Environmental Impact Assessments ([case of R \(on the application of Finch on behalf of the Weald Action Group\) v Surrey County Council and others \[2022\], UKSC 64](#)) setting a legal precedent for importance of inclusion of scope 3 emissions in evaluations of climate impact for fossil fuel projects in the UK.

[3] This test was dismissed in the original government consultation on the Checkpoint due to the absence of a predefined scope 3 target for domestic oil and gas production. By employing a trajectory-based approach instead of a fixed target, the test is made workable and addresses a notable limitation identified in the initial government checkpoint consultation regarding the scope 3 test.

[4] A question of this nature was initially included into the initial stakeholder consultation, yet faced criticism for its exclusive emphasis on hydrogen and CCUS. Consequently, the scope has been expanded to enable governments to include investment in a more extensive list of net zero technologies.

[5] A small producer should be defined, aligned with current benchmarks. Example criteria include maximum oil production of a pre-defined number of barrels per annum/day, maximum gas production of a pre-defined number of cubic feet/or barrels of oil equivalent, revenue generated per annum, geographical locations, employee-base, or other factors.

[6] For further information, please see the analysis of the Energy Profit Levy Design by University of Oxford, highlighting implications of the Energy Profit Levy and potential improvements to its design ([Walsh, Sen and Fankhauser, 2022](#))

References

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- 4 Cambridge Zero (2023) *'Hundreds of UK scientists and academics urge Prime Minister Rishi Sunak to prevent any new oil and gas field development'* (28 March 2023).
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