ESNZ Committee Inquiry - Managing the future of UK oil and gas

Fuels Industry UK
January 2026

Fuels Industry UK is the nation's biggest fuels sector trade association. Our members manufacture and supply over 85% of the UK's transport fuels, investing in sector-wide transformation to help the country reach net zero. Our membership includes the UK's 4 remaining refineries companies manufacture and supply conventional and lower-carbon alternative fuels, alongside managing critical national infrastructure including terminal and pipeline operations.

1. What should be the underlying principles of the UK's strategic policy for keeping the oil and gas sector competitive during the energy transition?

Principle 1: A stable domestic refining base is essential to the UK's resilience

The UK relies on a resilient liquid fuels supply whether they be conventional or lower carbon fuels, or both. Today, 100% of aviation, 97% of road, and 61% of rail still rely on liquid fuels[1]. Various projections show oil demand is still growing globally and will still be used in a net zero 2050[2] [3].

The reason for such high use is due to three things: the ease of storage of hydrocarbons over long periods; their high energy density; and the ability to move them relatively easily to where they are needed. Therefore, liquid fuels will remain essential for decades, supporting critical sectors, as well as being the backup power source of choice even if they have moved to alternative power sources in business as usual operations.

But in the past year the UK has lost one-third of its refineries, with the closures of Lindsey and Grangemouth leaving only four operational sites. Once a refinery closes, it does not return — skills, infrastructure and investment are lost permanently.

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[1] DfT Vehicle licensing statistics data, https://www.gov.uk/government/statistical-data-sets/vehicle-licensing-statistics-data-tables

[2] International Energy Agency, World Energy Outlook, https://www.iea.org/reports/world-energy-outlook-2025/overview-and-key-findings

[3] Committee on Climate Change, The Seventh Carbon Budget, https://www.theccc.org.uk/publication/the-seventh-carbon-budget/

Refineries supply 47% of the UK's total energy[4], support over 100,000 skilled jobs, and collected £37 billion in tax revenues last year.[5] Losing further capacity would leave the UK increasingly dependent on imports from regions with unstable geopolitics and weaker environmental standards. They also underpin the future, from Sustainable Aviation Fuel to low carbon hydrogen, biofuels and carbon capture as thy are not merely fuel producers but industrial anchors for those technologies, offering essential scale as for new technologies that rely on it (e.g. carbon capture or hydrogen) and infrastructure (e.g. for delivery of SAF into the existing supply chain). Refining operations are co-located manufacturing and logistics sites where existing fossil fuel assets provide the immediate demand, technical expertise, and cash flow necessary to enable multi-billion pound investments. We cannot simply 'switch' to a low-carbon future in isolation or indeed after existing oil and gas assets have all closed; green technologies are physically and economically integrated to the refining and North Sea base.

Principle 2: The UK must mitigate against carbon leakage

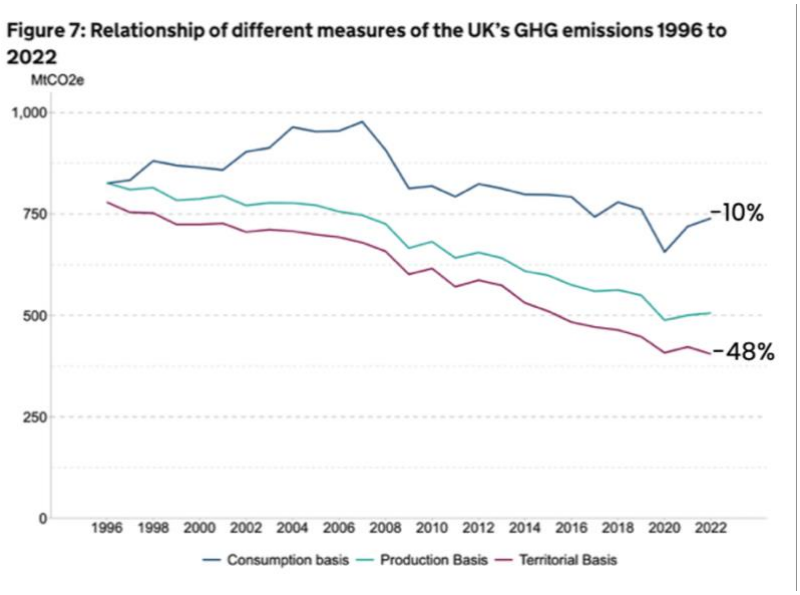
Closing UK refineries does not cut emissions, it raises them by relying on fuels imported from countries with weaker standards. 80% of the UK's top 10 import partners produce fuels with a higher carbon footprint than those made in Britain[6].

This this can be seen through DEFRA's consumption-based emissions measures which show that that while UK territorial emissions have fallen significantly since 1996 (-48%), consumption emissions have only fallen 10%. This indicates that the UK has seen carbon leakage – appearing to reduce emissions domestically but in fact simply shifting most of its emissions to other countries.

[4] DESNZ, Digest of UK Energy Statistics (DUKES 2024) 1.1, https://www.gov.uk/government/statistics/energy-chapter-1-digest-of-united-kingdom-energy-statistics-dukes

[5] DESNZ, Weekly road fuel prices, https://www.gov.uk/government/statistics/weekly-road-fuel-prices

[6] WoodMac report on Carbon Border Adjustment Mechanism for Fuels Industry UK, 2025.



Source: DEFRA Carbon footprint for the UK and England to 2022,

Between 1996-2022, while UK demand fell 24% (75MT to 57MT), refining output fell further - by 43% (89MT to 51MT) and imports as a proportion of total inland supply rose from 12% to over 50%[7]. Global fuel demand rose by 21%[8] during this period meaning that the UK refining sector could have grown during this time to meet rising global demand.

Looking ahead, it is expected that demand for fuels will continue to grow globally for some time[9], so it is preferable that the products to meet this demand be produced in existing, efficient UK refineries. than inefficient, new refineries overseas with new carbon emissions needed during the construction phase as well as the UK potentially losing still further jobs and its manufacturing base.

Principle 3: The UK should be technology neutral in policymaking

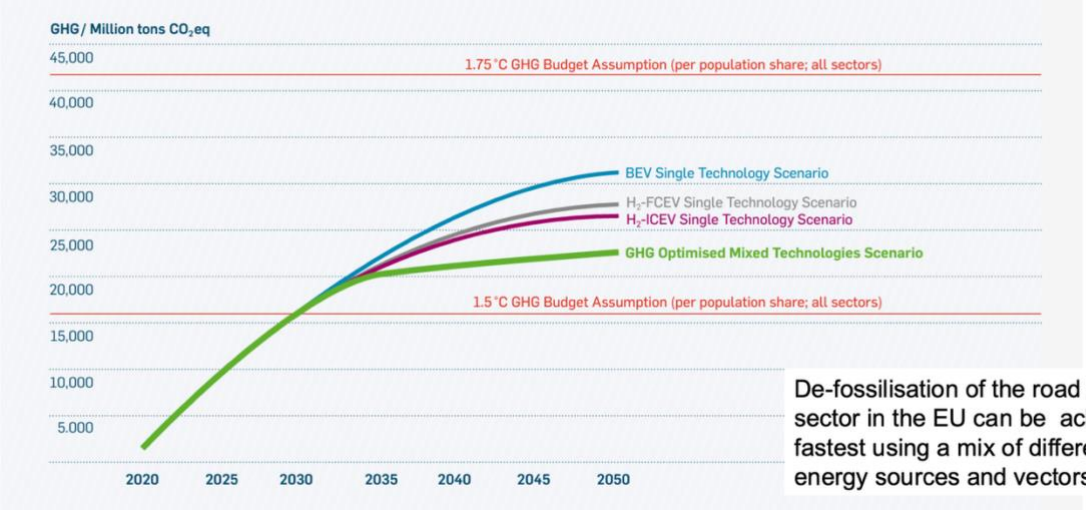
Policy should support the most efficient decarbonisation pathway towards government's net zero goal or else the consumer and businesses will be encumbered with high and unproductive policy costs. The only proven means to delivering efficient change at a national scale is to allow market forces to drive delivery. The UK government needs to stop picking winners and allow consumers to pick them.

[7] DESNZ, Digest of UK Energy Statistics (DUKES): petroleum, https://www.gov.uk/government/statistics/petroleum-chapter-3-digest-of-united-kingdom-energy-statistics-dukes

[8] IEA, World oil supply and demand, 1971-2020, https://www.iea.org/data-and-statistics/charts/world-oil-supply-and-demand-1971-2020

9 S&P Global, "IEA sees global oil demand rising until 2050 under current policies", 12 November 2025"

The example of the internal combustion engine phase out (ban) from 2030 shows that technology choices are being restricted by policy. Electrification of transport is an important route to transport decarbonisation, however, it must not be the only route to be allowed and pursued. The analysis overleaf from FVV[10] which assesses pathways to road transport decarbonisation (in Europe) shows that a blend of technologies is the fastest and most efficient means to reduce emissions, with the report itself noting "using only one technology to achieve carbon neutrality would dramatically delay the achievement of net-zero emissions."



De-fossilisation of the road transport sector in the EU can be achieved fastest using a mix of different energy sources and vectors

A comprehensive, technology neutral policy framework assessed over the lifetime of an asset is vital. This would be expected to lead to a reduction in the emissions of vehicles in their production and end of life treatment, as well as in the energy they require for operation. It would likely result in a fuller role for lower carbon fuels and the reduction in weight for passenger vehicles, given the proliferation of larger passenger vehicles which are less efficient.

2. How can the UK continue to make best use of its oil and gas infrastructure as an asset while delivering the transition?

Priority 1: Address carbon policy issues so the UK has a more level playing field

The UK's current policy and investment framework fails to adequately mitigate carbon leakage nor reward the decarbonisation efforts of UK industry. The UK's carbon costs are higher than our main global competitors (£400m peak in 2022 and £200m in 2024 for refining[11]) and the lack of adequate leakage mitigations in place has resulted in a severe loss of UK competitiveness across refining.

[10] FVV, Climate-neutral mobility that is resource-friendly: How we are speeding up the green transformation, 2022
[11] Fuels Industry UK estimate using UK ETS emissions data and Ember costs.

At present, the country is experiencing deindustrialisation rather than decarbonisation because carbon policy is not being delivered well enough. Recent policy announcements from HMG have not benefitted the refining sector, with the ETS Free Allowance Allocation review likely resulting in a diminished level of free allocations and therefore growing carbon costs for the sector beyond 2028.

As was raised in the initial hearing of the Committee, the most impactful change would be the introduction of a well-designed Carbon Border Adjustment Mechanism for the fuels sector, with an effective export mechanism, as soon as is practicable.

If the sector cannot be included in the UK CBAM in January 2027, interim measures are needed to level the playing field. While interim measures before a CBAM could take many forms they should focus on reducing or removing the high carbon costs which refineries must meet to ensure that there remains a refining sector at the point of the sector's CBAM inclusion when other refiners experience the same costs.

Priority 2: Improve UK competitiveness to attract investment

As was identified in the Modern Industrial Strategy (MIS), the UK's high energy prices and regulatory burden are detrimental to the general attractiveness of the UK as a place to invest. This is equally common for the fuels sector whose owners are often global businesses which assess where to allocate capital based as part of a global portfolio – indeed UK refineries must be globally competitive, not just against its nearest European neighbours. It is essential that the UK can show it is a low cost, low regulatory burden place to do business if it is to compete for investment.

The UK's electricity is globally highest, with gas 4x cost of industrial gas in Gulf Coast America. The British Industrial Competitiveness Scheme, which was announced in November to address such costs, does not include the refining sector in scope. This is because the sector has not been included as a foundation sector in the MIS, despite supplying 47% of the UK's final energy consumption in 2024. The already implemented Supercharger scheme cannot be accessed to a meaningful degree by the sector, despite its eligibility, as its design does not account for the sector's complex electricity arrangements and self-generation capability.

Priority 3: Introduce a coherent and explicit strategy for the fuels sector

Producing a clear strategy reflecting the fuels sector's importance today, during and transition and beyond 2050 would help Government ensure greater coherence across policies which are impacting the transition of the sector and

leading to deindustrialisation by the back door. Such a strategy should also recognise the refining sector is a foundational sector even though it was omitted from the MIS.

Government should consider the introduction of an Oil and Gas Sector Council, as exists for steel. This would be a joint industry and policymakers' body that aims to improve understanding of the sector's wider impacts and benefits and improve policies which undermine it. A council – whether sector specific or more broadly on manufacturing - could also consider the policy treatment of Critical National Infrastructure including refineries, pipelines and other major assets to better ensure they are not lost due to market/policy forces.

Similarly, the UK should learn from other jurisdictions like the United States in designing simple and efficient support schemes. The US approach focusses on 'carrots' such as tax breaks which are available to all companies who can meet their requirements. In contrast, the UK's complex carbon capture sequencing system has created several unfavourable outcomes by restricting access. Schemes included in Track 1 are left waiting for Government finance and those in Track 2 are left unsure what support they may get. Meanwhile those outside the process are left at a significant disadvantage, reflected in the decision announced in 2024 by Exxon Mobil not to pursue its carbon capture project on the south coast. UK businesses need a rationalised approach to the tracks and clusters which rewards entrepreneurialism.

A further option may be to leverage UK Government procurement of domestically produced goods and supply chains – both for the existing conventional fuels, but also for lower carbon fuels. Following the publication of the Strategic Defence Review in 2025, there may be opportunity the MoD, which is a high user of liquid fuels, to work with industry to build demand for domestically produced and derived fuels.

3. **How can the UK ensure that critical services that currently rely on a reliable fuel supply chain (from hospitals generators, to freight logistics, to food supply) can transition to low carbon alternatives without any disruption.**

The simplest way to reduce emissions for many critical services is the immediate adoption of Low Carbon Fuels (LCFs), such as renewable diesel (HVO) and biomethane, such "drop-in" solutions require minimal investment, infrastructure and operational change. This seamless switch is vital for freight logistics, or generators which have long payback periods and years of operation and reduces the need for new build infrastructure and consumer behavioural change.

The November 2025 report from Logistics UK "Powering Change" notes the logistics industry needs LCFs at least until Zero Emission Vehicles (ZEVs) are

commercially viable for all Heavy Goods Vehicle (HGV) use cases[12]. LCFs offer immediate impact – whether deployed in logistics or other critical sectors - delivering well-to-wheel Greenhouse Gas (GHG) emission savings ranging from 76% to 125%. Achieving just a 50% uptake in the long-haul HGV fleet would require 4.5 billion litres of LCF.

Already UK fuel suppliers blend volumes equivalent to removing over 3 million cars from the road every year[13]. Such fuels are delivered through the existing supply chain, showing that it can be adapted to meet existing conventional fuel demand and changing regulatory or market requirements.

4. <u>What does the Government need to do to ensure that the transition from oil and gas does not simply de-industrialise areas and damage the communities that currently benefit from the fossil fuel industry?</u>

The UK government should avoid approaching the transition as a managed decline and instead recognise the strategic value of maintaining and adapting refining and fuel-manufacturing capability with a skilled, safety-driven workforce and world-class industrial infrastructure

The UK can deliver products to any international market; that means that with global demand for liquid fuels projected to remain resilient in many countries and fuel sectors rather than shrink, the UK has an opportunity to continue to modernise its plants, diversify outputs, and secure a competitive export position of our lower emission sites. As noted in Q1, UK refineries should be preferred suppliers given they have already invested in being lower carbon intensity producers than most others.

The potential of the sector can be seen in recent investments by refinery owners in the UK and overseas as well as those that are or have been considered - proving that expertise and investment capital could be applied in the UK if the recommendations above are implemented.

Investments:

- The Esso Fawley Refinery recently completed delivery of a £1 billion investment to increase diesel output and reduce UK import dependence.
- Phillips 66 (P66) Humber is already producing SAF at scale which is derived from used cooking oil.

[12] Logistics UK, Powering Change: building a credible plan for the decarbonising road logistics, https://logistics.org.uk/research-hub/reports/powering-change-building-a-credible-plan-for-decar
[13] Ibid

- Valero has invested more than $5 billion in the USA in low-carbon fuels such as ethanol and renewable diesel (HVO) production including £315m in a SAF from HVO facility at the Port Arthur site.

Proposals:

- EET Fuels (Stanlow) has committed £1.2 billion investment, aimed at reducing refinery emissions by 95% by 2030 and is central to the HyNet cluster, driving development in CCS and hydrogen production
- P66 is developing world-scale Carbon Capture and Storage (CCS) projects as well as recently signing an MOU with UNIPER as a potential offtaker of green hydrogen.

A well-designed transition would therefore prioritise continuity, capability and competitiveness. This includes supporting investment that allows existing sites to manufacture a broader slate of lower-carbon products, such as SAF, lower carbon fuels and low carbon hydrogen while retaining the core engineering, operational and process expertise that already exists.

5. **How should the UK manage a declining domestic market in gas, including how the gas infrastructure can be partially, or completely, decommissioned without putting the burden on a shrinking number of consumers?**

Government policy should support continued development of the UK's own natural resources and industrial capabilities rather than choose to rely on imports. As Rachel Reeves said in the 2025 Spring Statement "where things are made, and who makes them, matters." While there has been a shrinking use of natural gas in recent years, that is in part due to the deindustrialisation we have seen. It is not inevitable that the UK manufacturing base will continue to fall and the UK government's growth agenda - if successful - should see demand for gas growing. In that scenario, the UK should be looking for its domestic oil and gas supply to be growing – with Westwood analysis for OEUK[14] identifying potential UK supply of over half of the UK's forecast demand.

To maximise the amount of UK-produced oil and gas, it will be necessary – as for the refining sector – to urgently address the economic framework within which the sector is working, providing; a stable policy framework and making the UK more globally competitive on carbon and energy costs (with support for North Sea production in itself reducing exposure to global price volatility).

[14] Westwood Insight, "UKCS geological potential remains but sentiment shift is needed", 2025

6. **What should the Government be doing to ensure the supply chains for the oil and gas sector are sustained as North Sea outputs decline and they transition to supporting the renewables sector?**

The UK Government must deliver a holistic skills transition policy which includes the broader oil and gas sector in it, to safeguard the highly skilled supply chain, ensuring that its expertise is successfully retained. The North Sea, while currently seeing a contraction, could see growth of jobs, with OEUK analysing that with the right policy and investment environment it could grow "from 154,000 jobs in the integrated energy workforce today to 212,000 by 2030 with continued growth in oil and gas playing a central role".

It is critical to prevent the rapid erosion of the common contractor workforce and the contagion risk this poses to interlinked manufacturing capabilities. The past few years have seen significant closures in the North Sea, refining, bioethanol and biodiesel plant as well as the chemicals industry and highlighted this contagion, with warning of tens of thousands more losses potentially to come by 2030[15] Stemming the flow of losses is critical if we are to successfully use the experience of the oil and gas sector to build the industries of the future. The highly relevant engineering and trades roles developed for the oil and gas sector – which the UK continues to need for decades to come - will enable us to make faster progress towards the UK's net zero ambition as well as maintaining our own high-value jobs and energy security.

The energy sector operates with a single, integrated supply chain that historically supported oil and gas and is of growing importance for offshore wind and Carbon Capture and Storage (CCS). This supply chain possesses between 60% and 80% of the capabilities required for low-carbon energy development based on initial mapping done as background for the Energy Skills Passport.

As the Committee on Climate Change and others have assessed, the acceleration of CCS rollout is a vital means to enable many industries to reduce carbon emissions. It also represents a UK advantage and therefore potential growth area that other countries do not have. CCUS development in the UK is complicated by the sequencing process as well as particularly challenging for those who need non-pipeline transport options for carbon capture, and the Government must provide a clear, long-term CCUS project pipeline to build investor confidence and align supply chain readiness with project deployment.

[15] Robert Gordon University, RGU report issues UK offshore energy industry jobs warning, June 2025