

ECONOMIC REPORT 2026



Unlocking our energy future



Back North Sea jobs.

Not imports.

An integrating offshore energy industry which safely provides cleaner fuel, power and products for everyone in the UK.

Working together, we are a driving force of the UK's energy security and net zero ambitions. Our innovative companies, people and communities add value to the UK economy.

[OEUK.org.uk](https://oeuk.org.uk)

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Cover photograph:

Cromoraty Firth, Aberdeenshire, UK.

The natural deep-water hub powering the North Sea oil and gas industry, from historic rig maintenance to the energy transition.

Inside cover photograph:

Fugro workforce supporting OEUK campaign work

This Summer our members backed our campaign to government, asking them to 'Back the North Sea. Not Imports', with coordinated activity taking place across the country.

FOREWORD

Dave Whitehouse,
Chief Executive Officer
Offshore Energies UK



For more than 50 years, the UK's offshore energy sector has been one of our greatest national assets. It has powered homes, businesses and industry, generated hundreds of billions of pounds for the public finances, supported hundreds of thousands of jobs and helped make the UK a global leader in energy production and engineering excellence. Today, that contribution remains as important as ever; the offshore energy sector continues to support around 245,000 jobs and contributes almost £37 billion in economic value to the UK economy each year.

The last year has provided a stark reminder that energy security cannot be taken for granted. Conflict in the Middle East has once again demonstrated how global events can reverberate through energy markets, affecting prices, inflation, supply chains and, ultimately, households and businesses across the UK. In an increasingly uncertain world, energy security and national security are becoming ever more closely linked.

Against this backdrop, the UK faces a fundamental choice about how it meets an enduring demand for energy. As this report shows, oil and gas continue to provide nearly three-quarters of the UK's energy needs, while electricity demand is expected to grow as transport, heating and industry increasingly electrify. If we do not produce the energy we need at home, we simply import more of it. What is at stake, therefore, is not whether the UK continues to use energy, but where that energy comes from: domestic production or an increasing reliance on imports.

Maintaining a strong domestic energy sector extends far beyond keeping the lights on. Domestic energy supplies underpin the competitiveness of our manufacturing base, support strategic industries such as chemicals, steel and advanced engineering, and provide the feedstocks needed to produce everything from medicines and fertilisers to the materials required for the energy transition itself. Affordable, secure and reliable energy is the foundation upon which modern industrial economies are built.

Our 2026 Economic Report demonstrates that the future of the UK Continental Shelf (UKCS) is not predetermined. Significant opportunities remain to strengthen domestic production, support investment, sustain critical infrastructure and reduce our growing dependence on imports. The geology of the North Sea has not changed, we still have vast quantities of domestic resources within our reach; what matters now are the policy and regulatory choices that determine whether investment is made here in the UK or elsewhere around the world.

Offshore Energies UK is the only trade association to represent oil and gas, hydrogen, CCUS and offshore wind in the North Sea.

1

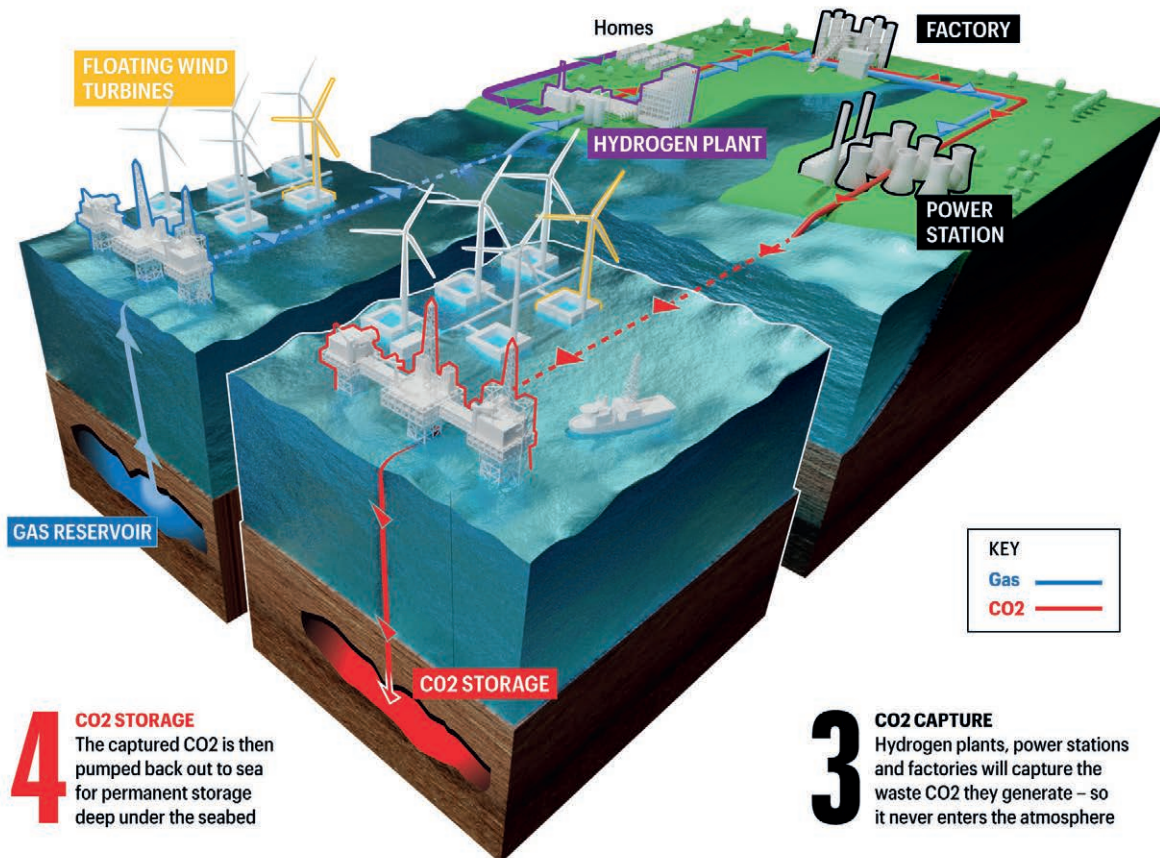
ELECTRIFICATION

Floating windfarms will power the rigs used to extract oil and gas and bury CO2

2

HYDROGEN PRODUCTION

Natural gas is pumped ashore and broken down into hydrogen, for heating homes or powering vehicles, plus waste CO2



4

CO2 STORAGE

The captured CO2 is then pumped back out to sea for permanent storage deep under the seabed

3

CO2 CAPTURE

Hydrogen plants, power stations and factories will capture the waste CO2 they generate – so it never enters the atmosphere

Diagram showing how offshore wind, oil and gas, hydrogen and carbon capture and storage (CCUS) can work together in an integrated UK offshore energy system.

The offshore energy industry is committed to delivering the secure, affordable and lower-carbon energy system that the UK needs; oil and gas, offshore wind, hydrogen and CCS each have a role to play. Together, they represent not only our energy future but a major opportunity to strengthen the economy, support skilled jobs and maintain the UK's position as a world-leading energy nation. In a more volatile world, the case for domestic energy has never been stronger.

David Ritchie

SECTION 1:

KEY MESSAGES

- I. **The war in the Middle East has tightened global energy markets**, increasing risk, driving up commodity prices and increasing inflation. Cost inflation is already hitting offshore energy supply chains.
- II. **In an increasingly volatile world, energy security is national security.** The UK currently relies on imports to meet over 40% of its energy needs. Domestic energy production strengthens our energy security, supports skilled jobs and limits exposure to geopolitical instability.
- III. **Terminals and midstream assets underpin energy resilience**, enabling flexible supply, supporting system balancing during periods of stress, and reducing the UK's vulnerability to international disruption.
- IV. **Fiscal reform and a pragmatic approach to licensing could unlock investment and improve long-term energy security.** A more competitive regime from 2027 could unlock 111 additional projects, £50 billion of private capital investment and 3.25 billion boe of production, helping sustain domestic output and reduce future import dependence.
- V. **The implementation of the OGRL in 2027, compared to the current 2030 proposal, delivers £2.4 billion more than the current trajectory (Corporation Tax, Energy Profits Levy, Petroleum Revenue Tax and Oil and Gas Revenue Levy) over the next decade**, with a further £12.6 billion from additional payroll taxes, totalling £14.9 billion.
- VI. **The UKCS remains a major economic contributor and a national asset.** The offshore energy sector supports around 245,000 jobs and generates £36.7 billion in GVA annually (twice the size of the farming sector).
- VII. **Industrial energy prices in the UK are roughly 75% higher than the G7 average**, undermining competitiveness for UK-based energy intensive industries and increasing the risk of deindustrialisation and offshore emissions.

The opportunity: Integrated industrial future

Back a modern industrial UK,
secured by homegrown energy.



Growth, sustainability, security.

SECTION 2:

GLOBAL ENERGY MARKET TRENDS

2

Global energy demand growth slowed to 1.3% in 2025, reflecting weaker global economic growth and continued improvements in energy efficiency. At the same time, energy markets remained highly exposed to geopolitical risk.

Escalating tensions in the Middle East reinforced concerns around energy security and the resilience of global energy markets. Global oil and gas markets have been materially impacted by the Middle East conflict, with persistent volatility and elevated risk premia driven by significant Qatari outages, Strait of Hormuz risks and intense global competition for resources.

The Strait of Hormuz, a critical chokepoint through which around 20% of global oil and gas supplies pass, has faced significant disruption since the conflict began. ICIS analysis shows that just 33 LNG cargoes have traversed the Strait-Hormuz since the start of the conflict. Before the war, combined exports from Qatar and the UAE averaged 100 cargoes per month¹.

These price signals have influenced global fuel choices, particularly across Asia. As LNG prices rose and supply uncertainty increased, several Asian economies increased coal-fired generation to preserve energy security and manage consumer costs. China's extensive coal fleet and significant oil reserves provided significant fuel-switching capability, while countries including India and parts of Southeast Asia relied more heavily on coal generation as a short-term response to tighter LNG markets.

The result has been weaker gas demand across a number of Asian markets, offsetting what would otherwise have been stronger growth in global natural gas consumption. This demonstrates how geopolitical events continue to shape not only commodity prices, but also energy demand patterns and the pace of the global energy transition.

Across Europe, natural gas remains an important source of supply, increasingly used to support rising electricity demand and maintain system reliability. The European Union remains a major consumer of oil and gas despite declining demand in recent years. Domestic production continues to fall, leaving the bloc increasingly reliant on imports to meet its energy needs.

Following Russia's invasion of Ukraine, Europe rapidly diversified away from Russian pipeline gas, reducing Russia's share of gas imports from around 40% in 2021 to 12% in 2025. The gap has largely been filled by LNG, particularly from the US; LNG now accounts for around 45% of EU gas imports, exposing Europe more heavily to global LNG markets and international price volatility.

¹ <https://pgjonline.com/news/2026/august/asian-spot-lng-prices-hit-five-month-high-on-hormuz-impasse>

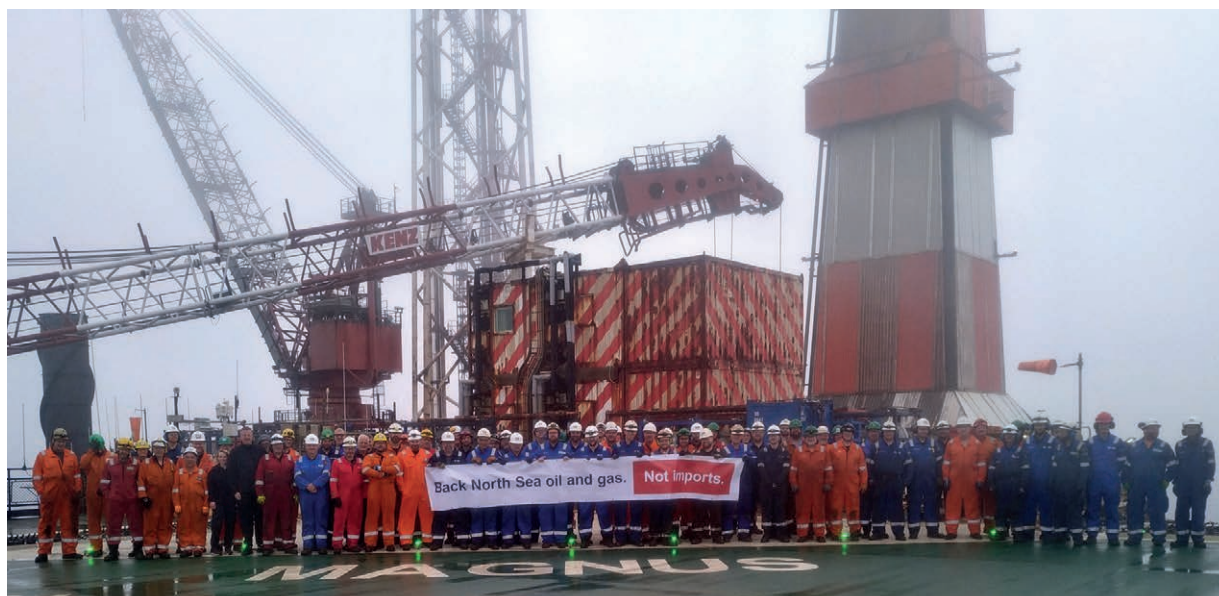
Europe's growing dependence on imported energy is introducing new vulnerabilities beyond simple reliance on international commodity markets. Analysis of the EU Methane Emissions Regulation suggests that implementation of new import requirements could constrain access to some international oil and gas supplies, increase costs and add further pressure on industrial competitiveness if compliance pathways fail to develop at pace.

While the precise impact of the regulation remains uncertain, the broader message is clear - as domestic production declines, Europe becomes increasingly exposed to policy, regulatory and supply-chain developments occurring outside its direct control. In this context, maintaining competitive and reliable domestic energy production should be viewed not only as an energy policy objective, but as a means of improving economic resilience and reducing dependency on increasingly complex international supply chains.

The other overarching trend in our modern world is how energy demand is increasingly driven by electricity. Rapid renewable deployment, growth in data centre build-outs, and electric vehicles (EV) adoption have all played a part in shifting global energy consumption patterns. These trends are reshaping the geography of power demand profiles, with data centres alone accounting for roughly half of the US's electricity demand growth. Per square metre, they typically consume 10-50 times more electricity than standard commercial buildings².

Electric vehicles have also played a major role in driving demand growth. In 2025, Europe overtook China as the fastest-growing EV market. The UK recorded strong momentum; EV sales rose by approximately 25% and adoption expanded further into the mass market. Despite this, the majority of electricity demand growth continues to come from more traditional sectors, including industry, households, and commercial buildings.

For the UK, the lesson is clear. Greater exposure to international energy markets increases vulnerability to geopolitical shocks, regulatory disruption and global competition for flexible supply. This makes the resilience of domestic production, infrastructure and supply chains more strategically important.



Industry personnel offshore supporting OEUK's Summer Campaign to 'Back North Sea Oil and Gas. Not Imports.' - highlighting the importance of domestic energy production.

² Typically using 10-50 times more electricity per square metre than standard commercial buildings

SECTION 3:

THE UK'S SECURITY CHALLENGE

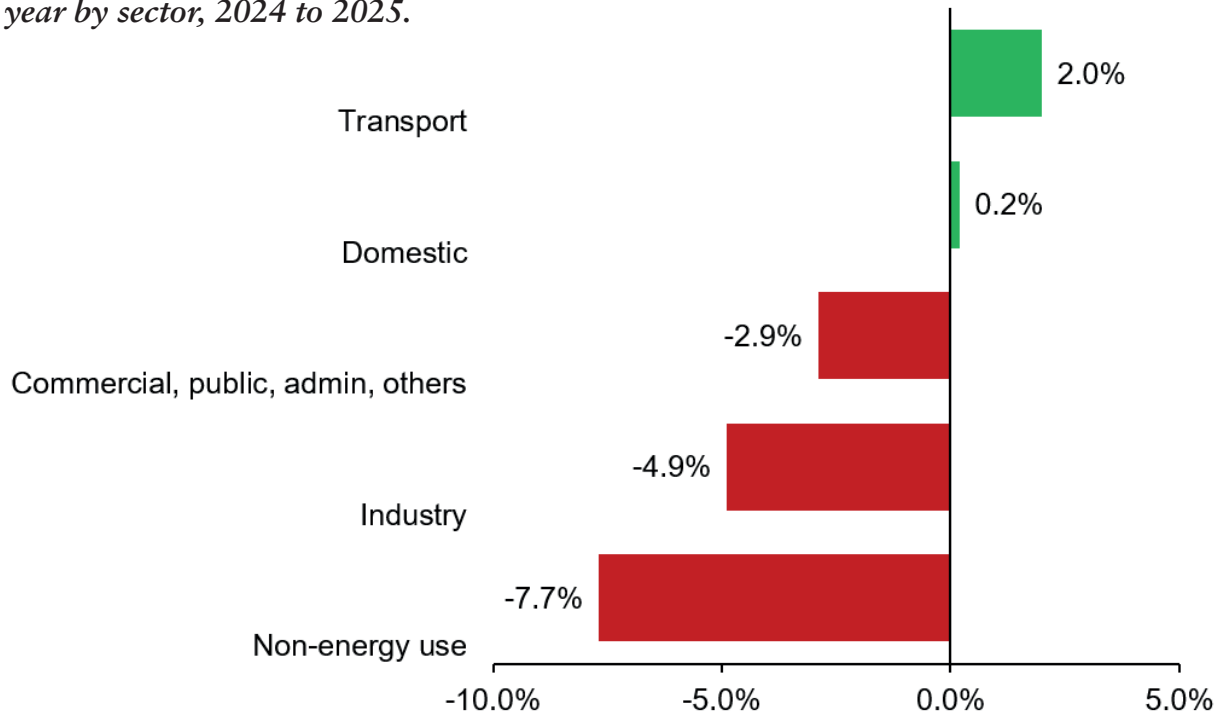
For over 50 years, the UK's offshore energy sector has been a strategic national asset, providing the energy needed to power homes, businesses, transport networks and industry while supporting jobs, investment and economic growth. While domestic production continues to supply a significant share of the UK's energy needs, there is a growing trend of import dependence. Last year, imports met more than 40% of the UK's energy needs. As domestic production declines, reliance on overseas energy is increasing, exposing the UK to greater geopolitical risk, widening the trade deficit and reducing jobs, investment and industrial capability.

If we do not produce this energy ourselves, demand does not disappear. We simply import more. The key question is therefore not whether the UK requires energy, but whether we choose to meet more of that demand through domestic production or through greater reliance on overseas suppliers.

Domestic Production & Consumption Trends

Consumption & Import Trends

Figure 1: Final energy consumption change year on year by sector, 2024 to 2025.



Source: DESNZ

UK energy demand continues to buck the global trend. Total UK energy consumption has been in consistent decline since the early 1990s and fell by a further 0.5% last year despite growth in the domestic (+0.2%) and transport (+2.0%) sectors. This reflects continued improvements in energy efficiency, gradual electrification, fuel switching and structural changes in the economy. However, it also reflects the long-term trend of deindustrialisation across the UK.

The latest Digest of UK Energy Statistics (DUKES) highlights the scale of this trend. Despite lower energy prices and relatively stable domestic energy production last year, industrial energy consumption and non-energy use (feedstocks) declined by 4.9% and 7.7%, respectively³. Industrial energy consumption is now at its lowest level for more than 50 years, highlighting the extent to which energy-intensive industrial activity has contracted across the UK economy. While efficiency improvements have reduced energy demand, a significant proportion of this decline reflects the loss of domestic industrial activity rather than a reduction in the UK's overall need for manufactured goods and industrial products.

While total demand continues to fall, the composition of energy demand is changing. Electricity demand grew for consecutive years for the first time in more than two decades. This reflects the electrification of transport, heating and parts of industry as the UK continues its energy transition. Meeting this growth will require sustained investment in power generation, networks, storage and system flexibility to ensure electricity remains affordable, reliable and available when needed.

Despite this, the UK remains heavily reliant on oil and gas. Last year, fossil fuels accounted for 74% of inland energy consumption, underlining their continued importance. As renewable power generation expands, the need for flexible and dispatchable energy supply remains. Natural gas continues to play a critical role in balancing the electricity system during periods of low renewable output, seasonal demand peaks and wider system stress.

Domestic energy production has not kept pace with demand, widening the UK's energy import gap. Imports now meet more than 40% of the UK's energy needs, increasing exposure to international commodity markets and geopolitical disruption. In 2025, the UK's net spend on imported oil, gas and electricity totalled £84 billion, equivalent to around 2.8% of GDP.

An increasing import dependence transfers economic value overseas. If we do not produce the energy we need ourselves, demand does not disappear - we simply import more. The result is that jobs, investment, tax revenues and industrial opportunities are increasingly realised elsewhere rather than within the UK.

³ https://assets.publishing.service.gov.uk/media/6a6a3b71bf4a7aca8f8976c9/DUKES_2026_Chapters_1-7.pdf

Production Trends

Oil & Gas

Oil and gas production remained relatively stable between 2025 and 2026, providing a stronger near-term outlook than many forecasts anticipated. However, this resilience has largely been driven by project delays, revised development schedules and asset life extensions rather than a new wave of sanctioned investment. While these factors have supported production in the short term, they do little to strengthen the long-term outlook for the basin. The pipeline of future developments remains constrained by the current fiscal and regulatory regimes.

This trend is reflected in the NSTA's production outlook, which has been consistently revised down in recent years. Expectations for both future production and total resource recovery are now significantly below the levels projected by the regulator only a few years ago. While the UKCS is a mature basin, the continued degradation of production projections mirrors the realities of the current fiscal and regulatory environment, with investment increasingly going overseas to competing basins.

Well activity is at record lows. Last year, for the first time since production started, the UK failed to drill a single exploration well. This comes at a time when the UK government maintains a ban on new licences. Compare this to our North Sea neighbour, Norway, where the latest licensing round saw 57 licence awards, including 31 in the North Sea. Through sustained fiscal regimes and regular licensing rounds, Norway has maintained oil and gas production between 3 and 4 million boe per day for the past 30 years. The UK, for comparison, has seen production levels fall from its peak in 1999, 4.5 million boe per day, to 1.1 million boe per day in 2025 (-75% in 26 years).

Fiscal reform from 2027 will be critical to the future of the UKCS. Industry has consistently highlighted the need for a stable and competitive long-term investment framework to restore confidence and unlock investment. Without it, declining activity levels, weaker production forecasts and growing reliance on imports are likely to continue. At a time when energy security remains a strategic priority, maximising domestic production should be a central objective of UK energy policy.

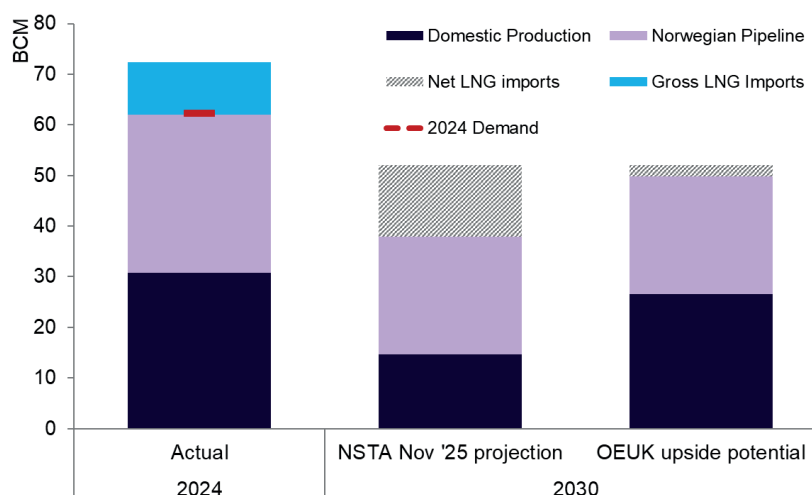
Offshore Renewables

The production of energy from offshore renewables has steadily gained momentum. Offshore wind power generation met almost 20% of the UK's electricity supply last year, producing 52 TWh at an average load factor of 38%. With almost 17 GW of offshore wind capacity now installed, offshore wind is second only to solar PV for installed renewable power generation and by far the largest producer of renewable electricity.

However, with just 500 MW of capacity installed in 2025, progress will need to accelerate if the offshore wind market is to make a material contribution to the overall energy market. This year's Allocation Round 7 (AR7) will have helped advance the sector, awarding contracts to more offshore wind capacity than any previous licence round, roughly 8 GW or half of currently installed capacity. While encouraging, we will need to start to see cost reductions in the forthcoming allocation rounds if we are to see a tangible impact on consumer bills and strengthen the UK's position as a leader in this field.

Figure 2:

With a supportive fiscal regime the UK could reduce its overall reliance on LNG from a projected 46% in 2035 to just 6%



Gas Security of Supply

Earlier this year, the government launched a consultation on gas security of supply. The consultation and August's interim response presented the UKCS as being in an unavoidable terminal decline. OEUK analysis disputes this claim and shows that the decline is not inevitable.

The policies of successive governments have undermined the sector and are accelerating decline in domestic gas production, increasing our reliance on imports at the expense of UK energy security. Over the period 2025-2035, the UK will require an estimated 561 bcm of natural gas. Under the current production projections from the NSTA, the UK is expected to produce 176 bcm. This could be as much as 288 bcm under OEUK's Upside Potential scenario. However, this opportunity can only be unlocked with an investable fiscal regime and a pragmatic approach to licensing.

Under a high import scenario, LNG imports can reach 46% of supply by 2035. However, our modelling shows that under a scenario where domestic supply is prioritised, LNG reliance can fall to 6% in the same year. The consultation assumes an annual decline in domestic production of 12%. Our upside case from data provided by OEUK member organisations identifies an additional 230 bcm, bringing the total potential gas production for the period 2025-2050 to 456 bcm. NSTA forecasts do not account for the impact of a change in fiscal and regulatory conditions that would slow or reverse decline as per OEUK modelling. Combining supportive fiscal policy with effective asset stewardship would materially improve energy security, cost and emissions.

Piped imports, LNG, interconnectors and gas storage all have an important role in an evolving UK gas system, with LNG providing valuable flexibility and the UK already benefiting from significant import capacity. However, LNG should be treated as a complement to domestic production, not a substitute. Future Norwegian piped imports also cannot be taken for granted.

Competition from European markets for those molecules is increasing, and the UK will only be able to fully benefit from such imports if its own gas infrastructure is sustained by reliable domestic throughput. Last year, imports of LNG from the US rose by more than a third; a growing reliance on LNG increases exposure to global market volatility, geopolitical risk and higher lifecycle emissions. UK gas storage has seen severe underinvestment and there is a significant scarcity of UK storage relative to neighbouring countries. A resilient system balances domestic supply with flexible import options and gas storage rather than replacing one with the other.

SECTION 4:

THE STRATEGIC VALUE OF DOMESTIC ENERGY

Upside Potential

Current production forecasts for the UKCS are often presented as an unavoidable consequence of a mature basin in decline. However, the geology has not changed. Significant remaining resources still exist and there are substantial opportunities that are not being pursued but which operators indicate could become investable under more competitive fiscal and regulatory frameworks.

Evidence provided by industry shows that with a more competitive and predictable investment environment, including reform of the fiscal regime from 2027, an additional 111 projects could be unlocked, extending the productive life of existing infrastructure, increasing domestic energy supply and reducing the UK's growing reliance on imports. The future trajectory of the UKCS is therefore not solely determined by geology, but by the policy choices made today.

Modelling

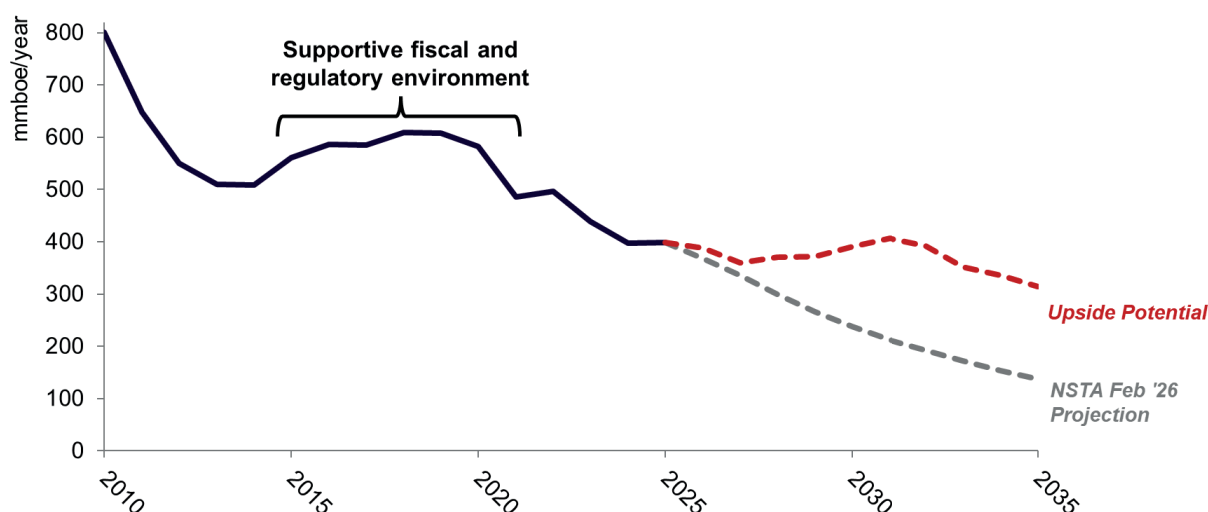
While production projections from the NSTA and government have declined over recent years, the geology has not. The subsurface still holds untapped potential; what is needed is a new perspective. In 2019, the NSTA projected that 6.5 billion boe could be recovered from the UKCS between 2025 and 2050. At the time, its strategic theme was maximising economic recovery from the basin, with a challenge for the sector to achieve 1.3 million boe/d in 2030. Since then, that projection has been routinely downgraded and now stands at just 0.6 million boe/d, and 3.8 billion boe total recovery between 2025 and 2050.

The opportunities identified in 2019 still exist today. While commodity price volatility has always been a challenge, it is the fiscal and political environment that has driven companies to defer or cancel both short and long-term investment plans. The downgrade from the NSTA's 2019 production projections reflects investor confidence, not a reassessment of the basin's geological potential.

OEUK modelling of the upside potential of the UKCS, based on data provided by operators, gives insight into the opportunities that are not currently being pursued but would be considered for investment if we saw reform to the EPL in 2027, along with a renewed approach to licensing. In total, operators identified an additional 111 projects, unlocking £50 billion in private capital investment and producing 3.25 billion boe. Developing these projects would almost double the UKCS' output over the next 25 years. Over the next decade alone, these projects would add 1.1 billion boe to production projections, maintaining production levels around 400 million boe (>1 million boe per day) well into the 2030s.

Figure 3:

The upside potential of the UKCS far exceeds the trajectory under current fiscal and regulatory regimes



The alternative is clear: a failure to invest in domestic resources increases the UK's reliance on energy imports. Maximising domestic production can reduce reliance on higher-emissions imports, strengthen the UK's balance of payments, safeguard jobs and secure long-term energy resilience at a time of heightened geopolitical uncertainty. Current trajectories see oil and gas production decline by over 40% by the end of the decade. Under alternative fiscal conditions, production could be maintained at current levels for the next decade.

Domestic Supply and Midstream Infrastructure Resilience

The impact of declining domestic production extends beyond jobs, investment and tax revenues. It also has important implications for the resilience of the UK's energy infrastructure and our ability to secure reliable future supplies.

For decades, the UK has benefited from a highly integrated North Sea energy system, with domestic production supplemented by a steady flow of oil and gas imports from Norway through an extensive network of offshore pipelines and processing infrastructure. This framework has been a cornerstone of UK energy security, providing flexibility, diversity of supply and access to one of the world's most reliable energy trading relationships.

However, future supplies from Norway should not be taken for granted. As production from the UKCS declines and uncertainty surrounding the future use of UK offshore infrastructure grows, producers and infrastructure owners are increasingly assessing alternative routes to market. Recent discussions surrounding the potential development of an export route from the Peon field via the Gjøa system directly to mainland Norway illustrate how changes in market conditions and infrastructure economics can influence long-term investment decisions.

As domestic production falls and infrastructure utilisation declines, assets that have historically strengthened UK energy security become progressively harder to maintain and justify. This can create a self-reinforcing cycle in which lower production weakens infrastructure economics, leading to further reductions in system resilience and flexibility. If future infrastructure investment increasingly favours direct access to European markets, the UK could become more exposed to global LNG markets, increasing vulnerability to international price volatility and geopolitical disruption.

The implications extend beyond energy production alone. The challenge is particularly acute for companies operating critical midstream infrastructure such as Kellas Midstream, Shell and Ancala Midstream. These businesses depend on sufficient volumes of oil and gas flowing through pipelines, processing facilities and terminals to maintain competitive operating costs. As production declines, fixed operating and maintenance costs are recovered across fewer molecules, increasing the marginal cost of throughput and placing pressure on asset economics.

This risks creating a self-fulfilling cycle whereby lower UKCS volumes undermine infrastructure viability, accelerating rationalisation across the system. Recent developments, such as the closure of ExxonMobil's Fife Ethylene Plant, demonstrate the broader consequences that declining throughput and weaker feedstock availability can have for industrial competitiveness. Sustaining domestic production is therefore not only important for upstream activity, but also for maintaining the infrastructure and industrial base that underpin the UK's wider energy system.

The viability of the UK's midstream system is therefore not determined solely by infrastructure policy, but by the production volumes available to utilise it.

Chemical Industries Association (CIA) | Case Study

UK's industrial resilience

Why secure, affordable domestic energy and feedstocks matter

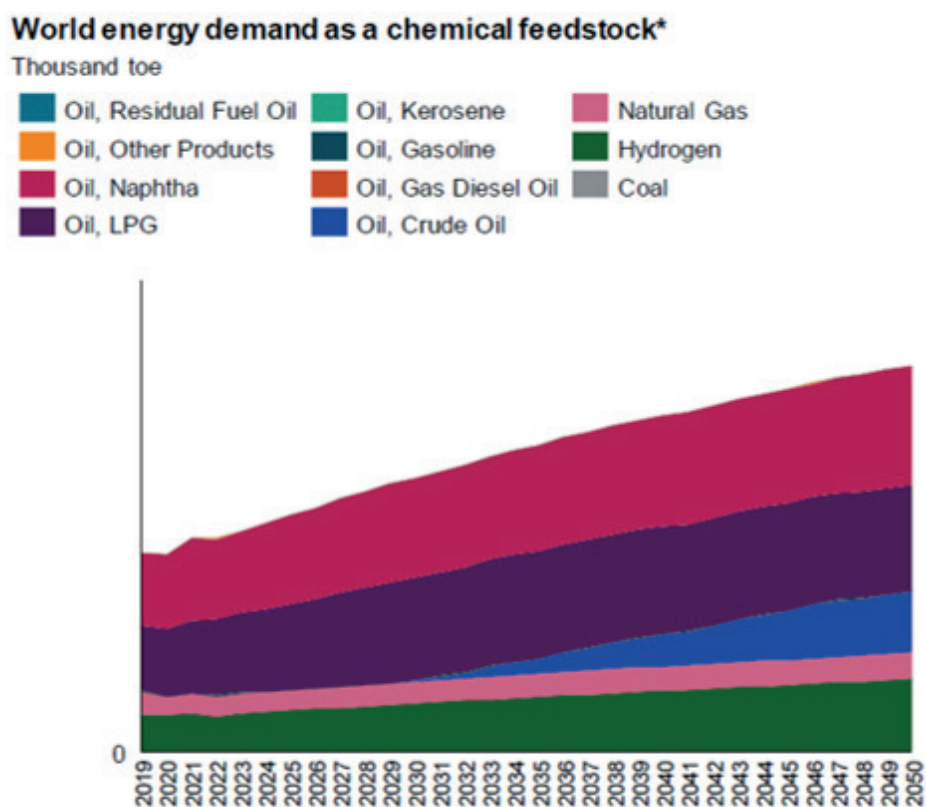
The UK's chemicals sector is a strategic national asset, supplying essential materials to industries including pharmaceuticals, defence, energy, aerospace, automotive, food production, water treatment and clean technologies. It contributes £61 billion in annual exports, around 15% of UK exports, and supports nearly 500,000 jobs across the economy.¹

Beyond their economic value, chemicals are critical to national resilience and industrial competitiveness. Domestic production underpins healthcare, defence, critical infrastructure and water security, while providing essential inputs for manufacturing supply chains. The sector is also central to the net zero transition, enabling technologies such as batteries, hydrogen, sustainable aviation fuels, offshore wind, carbon capture and advanced recycling. A decline in UK chemical production would increase import dependence, weaken supply chain resilience and risk losing clean growth opportunities to competitor nations.

Chemistry is also fundamentally about energy. Chemical businesses need energy to run their factories, but equally, energy serves as our feedstock, underpinning many of the core chemical processes needed to manufacture products we, as a society, rely on. Natural gas, electricity, ethane, propane, naphtha, hydrogen and recycled carbon sources are all the building blocks for chemicals that underpin wider UK manufacturing. Therefore, it's no surprise that the competitiveness of such a strategic sector depends on access to secure, affordable and reliable energy and feedstocks.

The CIA's Project 2035 work, developed with S&P Global⁴, like many others, confirms that the country will continue to need oil and gas alongside alternative feedstocks for decades to come. Part of this means backing North Sea oil and gas alongside renewables. This is not about slowing progress but, on the contrary, it is about strengthening industrial competitiveness, protecting jobs and reducing reliance on imports in an increasingly volatile world. Domestic production from the North Sea remains important because it supports access to much-needed energy and feedstocks, reduces exposure to import disruption and helps manage transportation, logistics and price volatility.

As domestic production declines, UK manufacturers face greater exposure to international energy markets and geopolitical risk, while competitor countries with lower-cost resources can attract investment more easily; this imbalance, together with high energy and carbon policy costs, has eroded competitiveness.

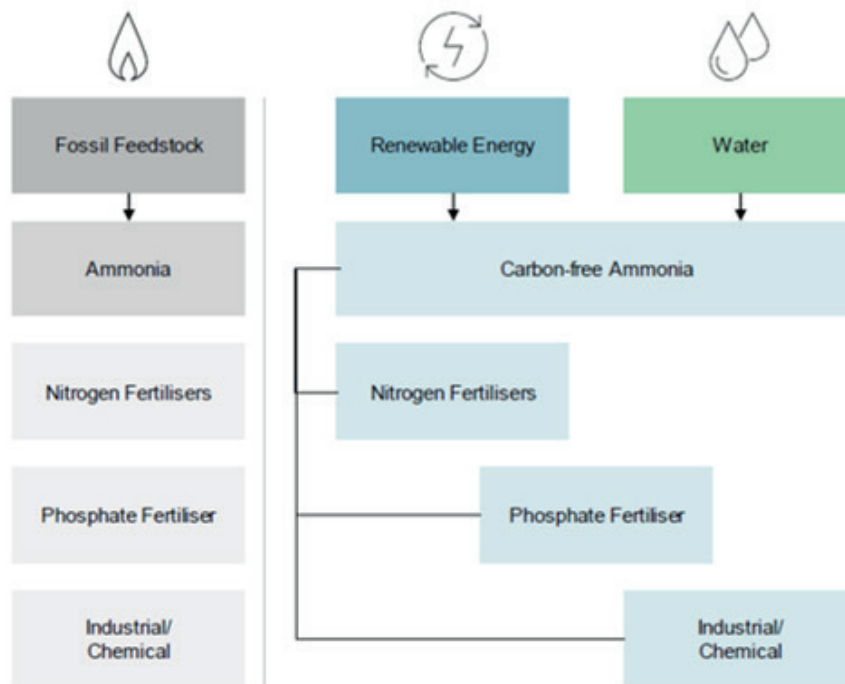


⁴ <https://www.cia.org.uk/the-chemical-industry/project-2035-a-decade-of-opportunity>

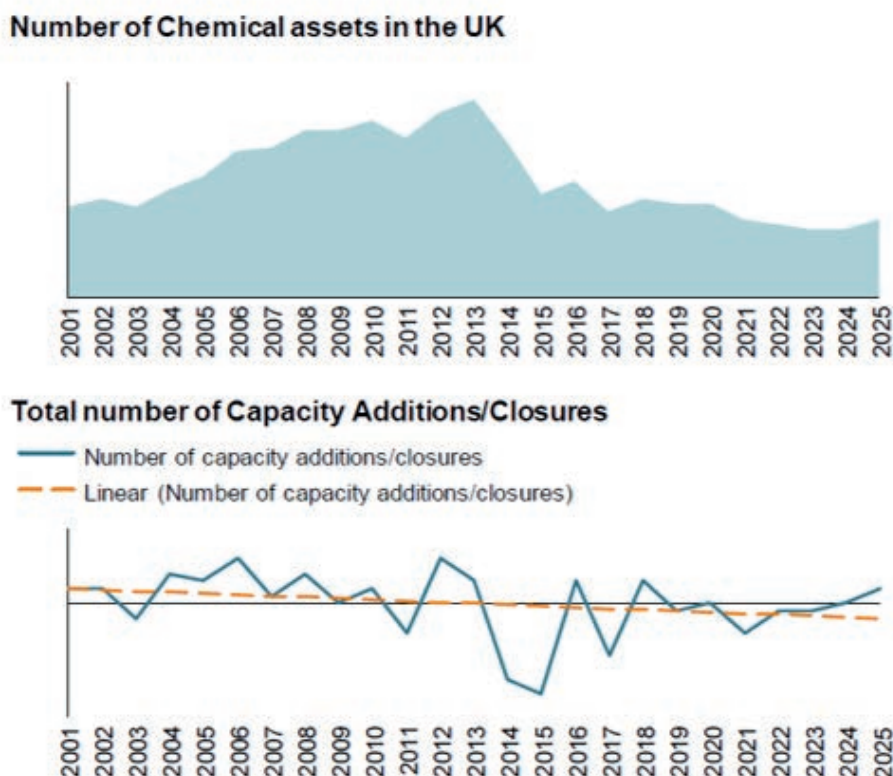
Take green hydrogen and ammonia - both are key feedstocks for the food, shipping, energy and defence sectors, with demand expected to grow significantly by 2050. The challenge is making them economically competitive at scale. The UK has significant advantages, including offshore wind, ports, research capability and domestic demand - but investment will depend on affordable electricity, infrastructure, and stable policy frameworks.

The experience of ammonia illustrates the challenge. The UK historically produced ammonia using natural gas, but high and increasingly volatile gas prices undermined the competitiveness of domestic production, leading to greater reliance on imports. Unless the UK can secure affordable, reliable energy and competitive feedstocks, green hydrogen and ammonia will remain difficult investment propositions at scale. Without the right conditions, the UK risks continuing to rely on imports of strategically important raw materials such as ammonia, rather than capturing the economic, industrial and energy-security benefits of producing them domestically.

The production pathway for low-carbon fertiliser



This one example reflects a broader pattern seen across the sector. Between 2021 and 2025, almost 30 chemical businesses have shut their UK doors for good, with the majority citing uncompetitive energy cost as the primary driver. In that timeframe, chemical output fell by over a third and so did the sector's emissions – a clear-cut case of decarbonisation through deindustrialisation.



But why should this matter for the UK or indeed any other developed or developing economy of the world that is serious about enhancing economic growth, national resilience and societal wellbeing?

The competitiveness of the UK chemicals sector is fundamentally linked to energy production and feedstock security. These factors shape manufacturing costs, investment decisions, regional jobs, and supply chain resilience. A balanced whole-systems energy strategy would maintain security of supply while accelerating the transition to lower-carbon energy and feedstocks. Done well, this approach can protect strategic manufacturing capability, support regional growth, strengthen national resilience, and position the UK chemicals sector as a foundation for a competitive low-carbon industrial economy.

SECTION 5:

ECONOMIC AND SOCIETAL VALUE OF THE UK'S OFFSHORE ENERGY SECTOR

Tax Receipts

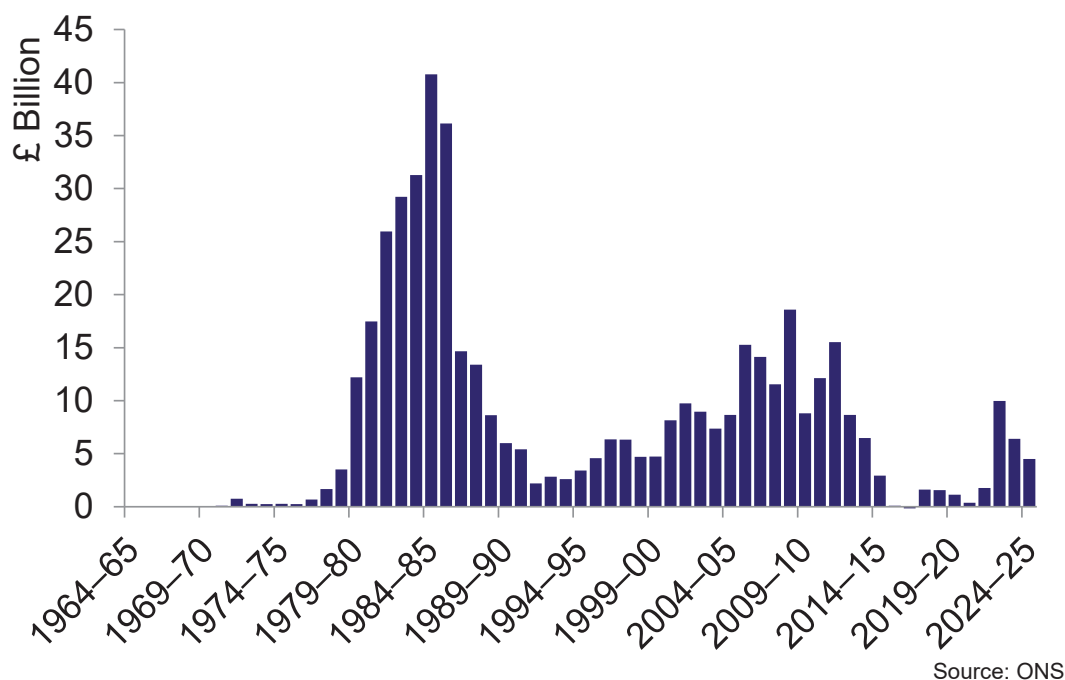
Historic Tax Receipts

The UKCS has been one of the UK's most important sources of tax revenues over the last 60 years. Since first production from the basin in the early 60s, the sector has generated almost £500 billion in cumulative tax receipts (real terms), substantially contributing to public finances, while supporting domestic energy security and economic activity. Since the financial year 1980/81, the UKCS has contributed an average of more than £10 billion per year in net tax revenues to the UK government.

Tax receipts are reflective of changes in commodity prices, production levels, investment activity and, crucially, fiscal regimes. Revenues peaked in the mid-1980s, exceeding £40 billion in 1984/85. Despite declining production from the basin over recent decades, offshore oil and gas remains a meaningful contributor to government revenues. In 2024/25, the sector contributed £4.5 billion in net tax revenues. This highlights the ongoing fiscal value of domestic production, particularly at a time when public finances face increasing pressure, and the UK seeks to balance energy security, economic growth and the transition to lower-carbon energy systems.

Figure 4:

The UKCS, on average, has contributed over £10 billion in net tax revenue per year since the financial year 1980/81.



Additional Benefits of Ending the Energy Profits Levy in 2027

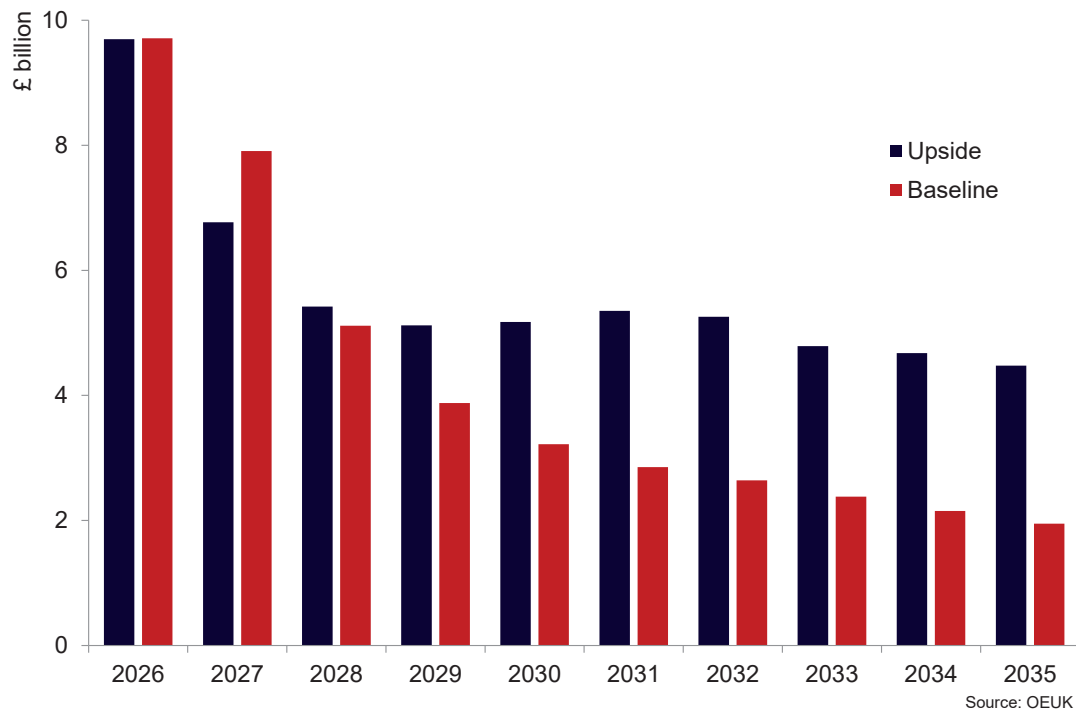
There is a clear case for replacing the EPL with the OGRL in April 2027, allowing the UKCS to continue to contribute significant tax revenues for a prolonged period. The existing EPL was introduced in response to a short-term price shock that has since ceased. The levy no longer reflects the market conditions and is constraining long-term investment in the UKCS.

A decision to replace the EPL in April 2027 would generate significant economic value, benefit energy security, maintain jobs and support local supply chains. OEUK's upside potential case delivers £2.4 billion more than the current trajectory scenario (CT/EPL/PT and OGRL) over the next decade, with a further £12.6 billion from additional payroll taxes, totalling £14.9 billion.

The UKCS urgently needs a competitive, progressive and stable regime that promotes investment. Many of the opportunities outlined in this paper extend the lifeline of existing infrastructure and rely on such infrastructure for their commercial viability. The longer it takes to implement the OGRL, the less impact fiscal change will have.

The offshore energy supply chain, which will be critical for a homegrown energy transition, is already being pulled to other regions around the globe which offer a more stable and attractive investment opportunity. Only one-in-five surveyed OEUK supply chain members stated that they have plans in the next 12 months to expand the proportion of their investment that is outside of the UK.

Figure 5:
Replacing the EPL with the OGRL in April 2027 would generate roughly £15 billion in additional tax receipts over the next decade.

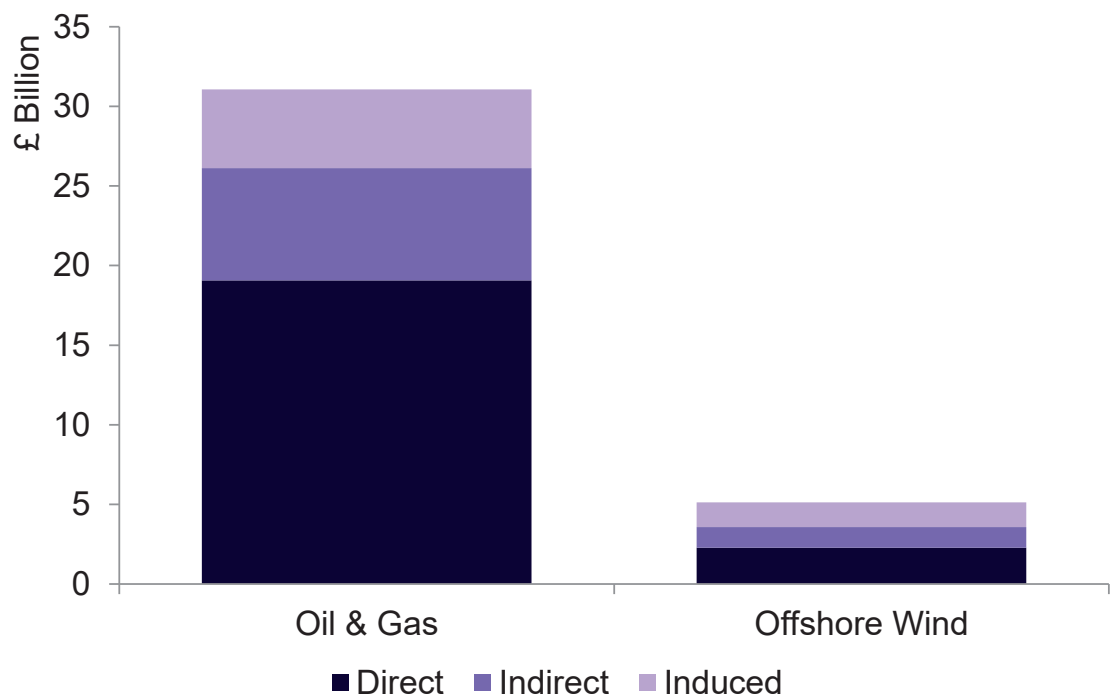


Our supply chains and operators are increasingly directing capital towards more attractive international investment opportunities. If supply chain capability, critical infrastructure and skilled personnel leave the UK, replacing them will become progressively more difficult and costly, with consequences for economic growth, employment and industrial capability. This would weaken both the UK's energy security and its ability to deliver an orderly and just energy transition.

Reforming the EPL would help address these challenges. It would provide government with confidence that periods of unusually high commodity prices continue to generate an equitable return for the public finances, while supporting investment, protecting domestic supply chain capability and demonstrating that the UK remains open for energy investment.

Figure 6:

The UK offshore energy sector delivers more than £36 billion in GVA to the UK economy each year



Source: Oxford Economics

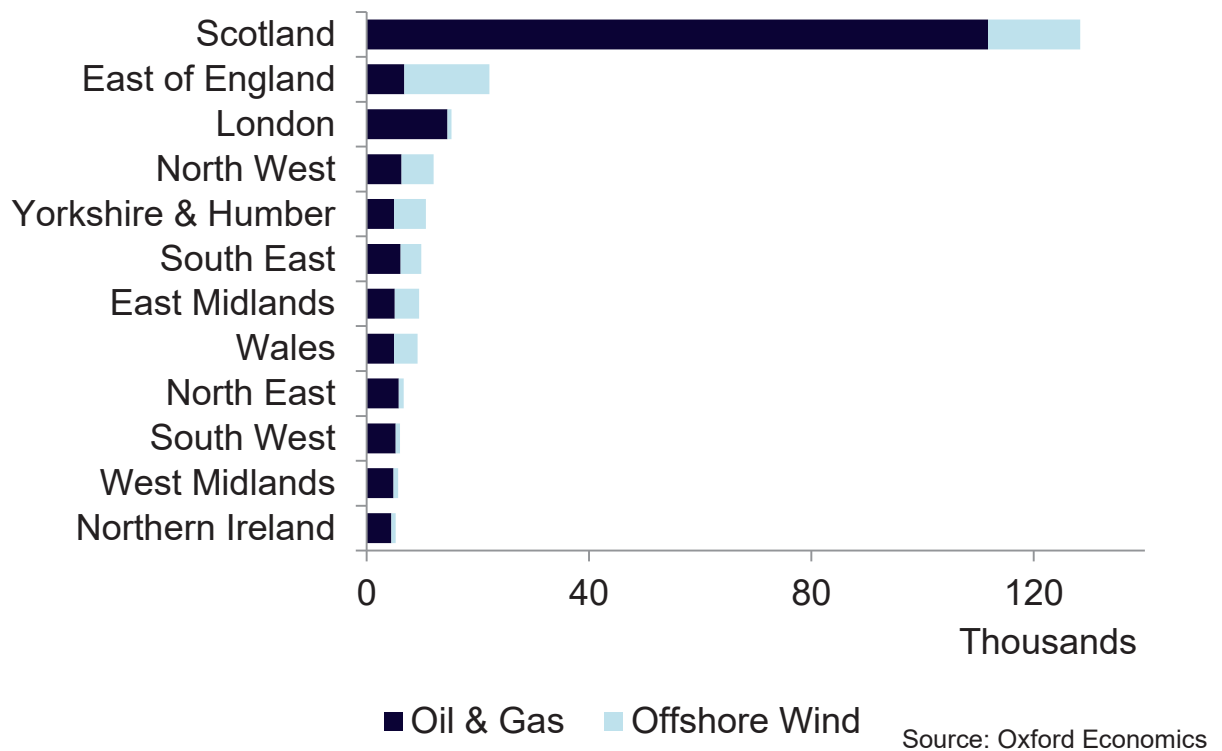
Jobs & Gross Value Added (GVA)

For more than five decades, the offshore energy sector has been a major contributor to UK economic growth. The combined offshore energy sectors support hundreds of thousands of jobs, provide billions in annual tax revenues and add tens of billions to the UK economy each year.

Oxford Economics estimates, commissioned by OEUK, show that the offshore oil and gas, offshore wind, carbon capture and storage (CCS) and hydrogen industries have a combined economic impact on the UK economy of a £36.7 billion gross value added (GVA) contribution to UK GDP, and support around 245,000 full-time equivalent (FTE) jobs through their economic footprint -the direct, indirect, and induced channels.

Figure 7:

The UK's offshore energy sectors are distributed across the UK, holding a significant presence outside of its central hub of Scotland



Oil & Gas

OEUK estimate that the offshore oil and gas industry contributed £31.1 billion of GVA to the UK economy in 2024 and supported 180,800 FTE jobs. £19 billion and 28,200 FTE jobs were supported by direct activity in the industry. This means that the UK's offshore oil and gas industry is highly productive, averaging £677,000 of GVA per direct FTE job, or more than eight times the UK average (approximately £80,000 per FTE job). This places the UK's offshore oil and gas sector as one of the most valuable sectors in the UK's economy, crucial not just for energy security but for economic security as well.

The offshore oil and gas industry's indirect (supply chains) impact has the largest employment impact, contributing £7 billion of GVA and supporting 93,700 FTE jobs across the UK, reflecting the strength of domestic supply chain capability. Wages earned in direct and indirect channels create a further induced (wage consumption) impact, which added £4.9 billion of GVA to UK GDP in 2024 and supported 58,900 jobs.

Offshore Wind

The UK's offshore wind sector is the second-largest contributor among offshore energy industries. With roughly 17 GW of offshore wind installed, the sector is established and a strong contributor to the UK economy. In 2024, the offshore wind industry added £5.1 billion of GVA and supported almost 60,000 FTE jobs. The industry directly generated £2.3 billion of GVA and supported 21,800 FTE jobs. While contribution per worker was significantly above the national average, roughly £105,000 per FTE job (+30%), this remains significantly below the average contribution of the oil and gas sector.

The offshore wind industry's indirect (supply chains) impact generates almost £1.3 billion and supports a further 19,200 FTE jobs, while the induced (wage consumption) impact sustains a further £1.5 billion of GVA and supports an additional 18,700 FTE jobs.

Carbon Capture, Utilisation & Storage (CCUS) and Hydrogen

Despite the relative immaturity of the UK's CCUS & hydrogen sectors compared to the more established oil and gas and offshore wind sectors, their growing contribution to the UK economy is not insignificant. In 2024, the sectors combined added roughly £500 million of GVA and supported around 5,000 jobs.



Representatives from industry, trade unions and the skilled workforce gather at Westminster during OEUK's Summer Campaign to call for continued support for homegrown energy and UK industrial capability.

SECTION 6:

INVESTMENT, COMPETITIVENESS & SUPPLY CHAINS

6

The UK's offshore energy supply chain represents one of the country's most internationally competitive industrial capabilities. Built over more than five decades of operating in the technically challenging conditions of the North Sea, it encompasses world-leading expertise in subsea engineering, marine operations, fabrication, project management, inspection and maintenance, drilling services, environmental services and offshore logistics. These capabilities support not only domestic energy production but are exported globally, generating economic value and reinforcing the UK's position as a leader in offshore energy development.

The skills, technologies and businesses developed through decades of oil and gas activity are also critical to the deployment of the next generation of offshore energy projects. Many of the capabilities required to develop offshore wind, carbon capture and storage, hydrogen infrastructure and decommissioning already exist within companies that today support the oil and gas sector. This transferability of expertise means that the UK's offshore energy sectors should not be viewed in isolation. They are connected through a common workforce, shared infrastructure and an integrated supply chain.

Maintaining this capability base requires a sustained pipeline of domestic activity alongside commitments to develop local content. Supply chain companies make investment decisions years in advance, developing specialist skills, facilities and equipment based on expected demand. Where activity declines sharply, or investment becomes increasingly uncertain, capability can leave the UK and establish itself in more active international markets. Once lost, these skills, facilities and relationships are both difficult and expensive to rebuild. A successful energy transition therefore depends not only on delivering future offshore wind, CCS and hydrogen projects, but also on maintaining the industrial capability that will be required to design, build, operate and maintain them.

Local Content

The UK's energy supply chain is a strategic national asset, built on more than five decades of experience supporting offshore oil and gas production in the North Sea. Operating in one of the most technically demanding regions in the world has created deep expertise across engineering, project management, manufacturing, procurement and installation services. These capabilities now support not only oil and gas production, but offshore wind, CCS, hydrogen and decommissioning activities. The extent to which future energy investment translates into UK jobs, economic growth and industrial capability will depend heavily on the strength of this domestic supply chain.

Recognising its importance, the North Sea Transition Deal established a 50% local content ambition across the offshore energy sector. OEUK and Xodus analysis demonstrates that

UK local content varies considerably across energy sectors. UK content is highest in oil and gas activities, with local content estimated at 63% for oil and gas developments and 66% for decommissioning projects. By comparison, local content is substantially lower across offshore wind, at around 36% for fixed-bottom and 38% for floating offshore wind projects. These differences highlight both the strengths of established UK supply chains and the scale of the economic opportunity yet to be captured in growing energy sectors.

The UK remains highly competitive across sectors in engineering, design, environmental services, project management and marine operations. However, some persistent challenges limit the ability of domestic companies to secure a greater share of project expenditure. Manufacturing capacity in some strategic areas remains limited, while international competition, supply chain constraints and high industrial energy costs can make overseas suppliers more competitive.

There is a significant opportunity to strengthen local content across the offshore energy sector. Greater visibility of future project pipelines, improved coordination between sectors and targeted investment in supply chain capability would help UK businesses compete more effectively for future work. A stable flow of projects is also essential, allowing companies to invest in facilities, equipment and workforce development with greater confidence.

To maximise the economic value of future energy investment, policymakers and industry should focus on five priorities:

1. Align and simplify local content frameworks across offshore energy sectors.
2. Promote investment in Tier 2 supplier development and capability building throughout the supply chain.
3. The UK should leverage its internationally recognised strengths in subsea engineering and offshore operations to secure competitive advantage in emerging markets.
4. Procurement partnerships between developers and suppliers should be strengthened to improve visibility of opportunities and facilitate long-term investment decisions.
5. A consistent cross-sector monitoring framework should be established to track progress, identify capability gaps and support evidence-based policymaking.

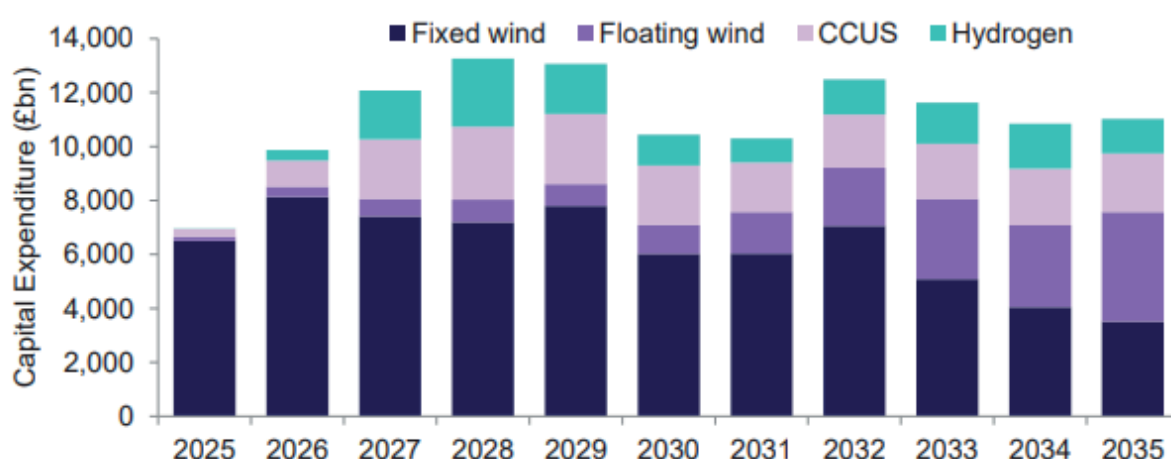
Taken together, these measures would help ensure that future energy investment delivers not only energy security and decarbonisation outcomes, but also sustained economic value, jobs and industrial capability within the UK.

Risked Project Pipeline – Offshore Renewables

OEUK's risked pipeline of offshore energy projects shows that the offshore renewable energy sector is likely to invest around £105 billion over the next decade, with risked capital expenditure totalling £85 billion in offshore wind and a further £20 billion across CCS and hydrogen. Alone, these sectors represent an opportunity greater than the announced spend on the build-out and upgrading of the UK's onshore energy networks.

The scale of activity that could happen on the UKCS over the next 10 years is monumental. However, to deliver on our ambitious capacity targets, the UKCS needs to continue to be seen as an investable basin to attract investment and maintain the workforce. Failure to deliver a smooth transition will see our reliance on imports rise, threatening energy security and downgrading the nation's energy resilience.

Figure 8: The total risked project pipeline of offshore renewables is likely to reach £105 billion over the next decade



Offshore Wind

The offshore wind sector represents the largest growth area for the offshore renewable energy sector. OEUK's risked project pipeline identifies more than £80 billion of risked capital expenditure that is likely to be spent between 2026 and 2035. The largest share is expected to be in fixed-bottom wind, while floating wind holds the potential to become an important contributor in the 2030s.

The risked investment profile shows annual offshore wind expenditure peaking at around £8-10 billion per year during the late 2020s and early 2030s. The scale of investment presents a significant opportunity for UK supply chains; demand is expected across a wide range of activities, including fabrication, engineering, installation, operations, maintenance and project delivery services. Many of these capabilities already exist within the UK's offshore energy supply chain, reflecting decades of experience in the North Sea.

However, securing the economic value associated with this pipeline is not guaranteed. Project delivery remains dependent on competitive project economics, planning and

consenting timescales, grid availability, supply chain capacity and a stable policy environment. Delays or a loss of investment confidence could reduce opportunities for UK suppliers and weaken domestic capability.

As highlighted in the Local Content section, the key challenge is not simply delivering offshore wind projects but ensuring that a greater proportion of the associated investment, jobs and economic value are retained within the UK. A credible long-term project pipeline, combined with targeted investment in domestic capability, will be essential if the UK is to maximise the economic benefits of offshore wind deployment and strengthen its position in the global energy transition.

CCS

The UK's offshore CCS sector represents a significant emerging investment opportunity for the offshore energy industry. While progress over the past 12 months has been slower than many anticipated and the development pipeline has narrowed, OEUK's risked project pipeline continues to identify substantial investment potential over the coming decade. Annual expenditure in transport and storage of CO₂ is expected to reach £1.1 billion per year, driven primarily by the development of the East Coast Cluster and HyNet, alongside future transport and storage projects.

The economic value of the Track 1 projects alone is substantial; together, they are expected to attract billions of pounds of public and private investment. Construction is now well underway, with OEUK members supporting industrial decarbonisation while creating opportunities across engineering, fabrication, construction, offshore operations and project delivery services.

However, securing the full economic value associated with this pipeline is not guaranteed. While government support has been instrumental in helping the first projects reach FID, long-term growth will require a sustainable commercial environment capable of attracting private capital at scale. Progress towards UK-EU ETS linkage and a stronger carbon pricing framework could help improve investment certainty and support future project development. Delays to projects beyond the current Track process, or a loss of investor confidence, risk slowing deployment and reducing opportunities for UK supply chains.

As with offshore wind, the challenge is not simply delivering CCS projects but establishing a credible long-term pipeline capable of supporting investment, skills and domestic capability. A stable policy framework and clear route to market for future projects will be essential if the UK is to maximise the economic and industrial benefits of carbon storage and strengthen its position as a leading carbon management hub.

SECTION 7:

ENERGY PRICING AND MARKET TRENDS

Oil & Gas Prices

Global oil and gas markets experienced significant volatility during the first half of 2026 as conflict in the Middle East disrupted one of the world's most important energy-producing regions. Hostilities earlier in the year constrained the flow of crude oil, refined products and LNG through the Strait of Hormuz and surrounding shipping routes, a critical corridor for global energy trade through which roughly one-fifth of global oil and LNG volumes pass.

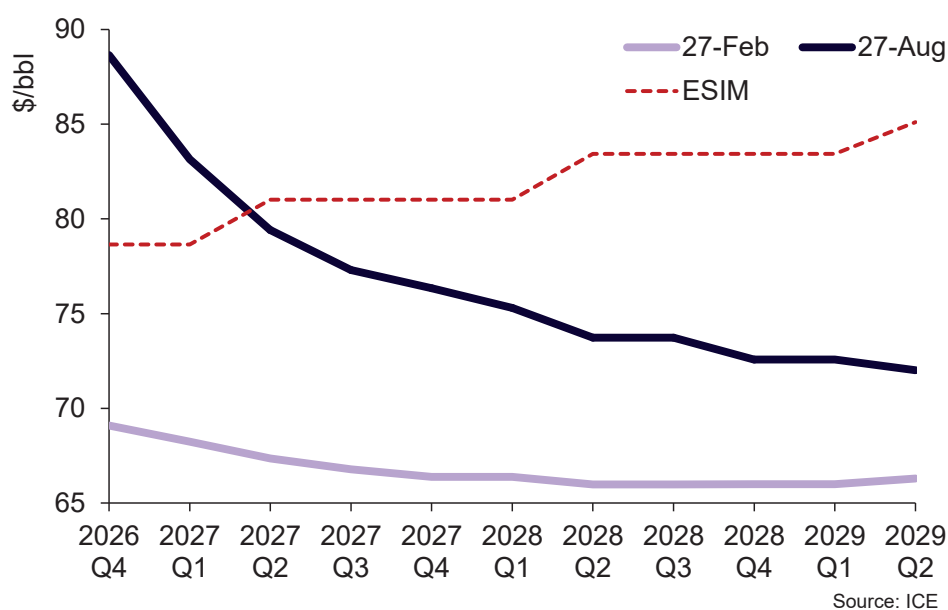
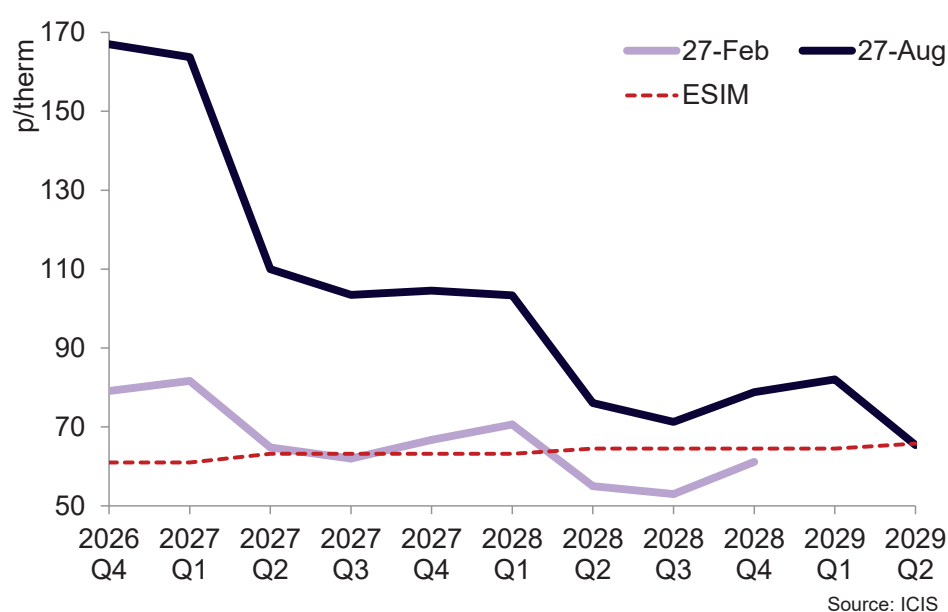
Oil and gas prices rose sharply in response. Brent sat above \$100/bbl for roughly three months, the first time this milestone had been breached since Q3 2022, while UK gas prices reached their highest sustained levels since 2023. Although the Memorandum of Understanding (MoU), agreed between the United States and Iran, in June initially helped stabilise markets, the conflict is expected to have lasting effects on regional energy infrastructure and production capacity. Damage to export facilities, refineries and shipping infrastructure, combined with heightened security concerns in the Strait of Hormuz, is likely to delay a full recovery in production beyond 2027. As a result, commodity prices are expected to remain elevated for at least the near term.

However, NBP future contracts are still trading at levels that indicate that commodity prices could dip below pre-crisis levels and trigger the ESIM thresholds before 2030. Despite the war in the Middle East driving up near-term prices, the impending expansion of global LNG supply, edges gas closer to being a truly globalised commodity in the mid to long-term. Increased flexibility of supply has put bearish pressure on future gas prices. The magnitude of this has seen futures contracts consistently trading below the expected ESIM thresholds before 2030, even when day-ahead gas prices topped 180p/therm (+150% the ESIM threshold).

These developments have important implications for the future of the Energy Profits Levy (EPL). Under the current framework, the ESIM provides a mechanism through which the levy can be removed before its statutory end date if both oil and gas prices remain below defined thresholds over a sustained six-month period. Prior to the Middle East conflict, market pricing had begun to indicate that these conditions could potentially be met during 2027. Although the conflict delayed that trajectory, subsequent market developments have once again brought futures prices closer to ESIM-compatible levels.

OEUK's modelling suggests that replacing the EPL with the Oil and Gas Revenue Levy (OGRL) from 2027 could unlock significant additional investment, supporting domestic energy production, strengthening supply chain activity and generating substantial economic value across the UK. By linking fiscal intervention more directly to periods of genuinely exceptional prices, the OGRL would provide a more predictable and proportionate framework for investors while preserving the government's ability to capture a share of windfall profits when market conditions justify intervention.

Figure 9 a & b: Despite heightened near-term energy prices during the war in the Middle East, both gas and oil prices are set to trade below the ESIM threshold again before 2030





Apprentices, offshore workers and industry representatives gathered in Westminster to highlight the importance of homegrown energy production and the skilled jobs it supports across the UK.

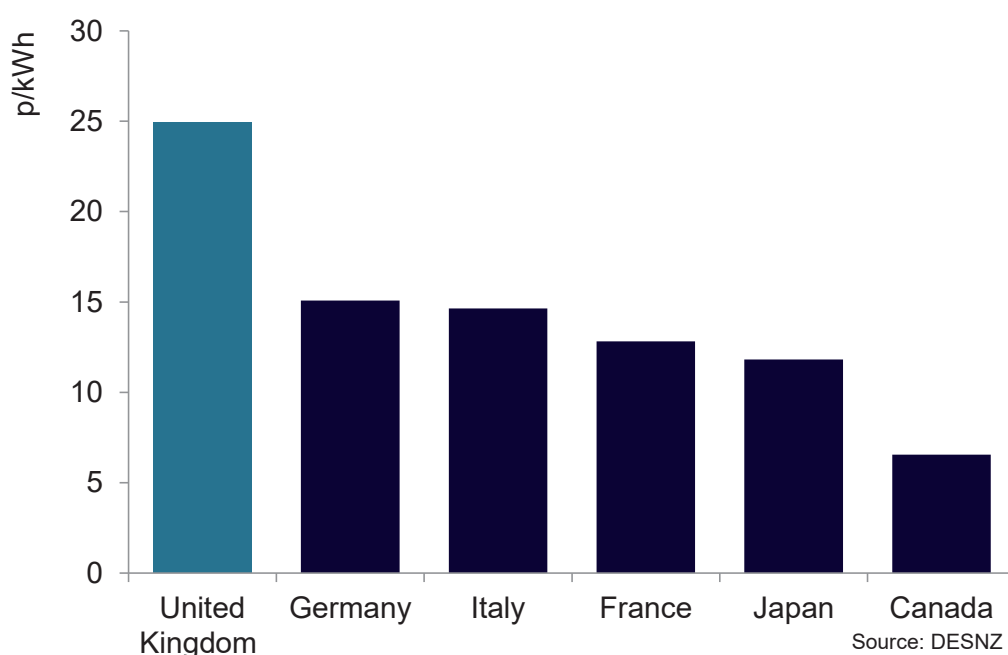
Industrial Electricity & Gas Prices

The UK's industrial electricity and gas prices remain among the highest in the G7 and above many European competitors. This reflects a combination of high network charges, policy costs and market design. Electricity prices are particularly affected by the UK's marginal pricing system, with gas-fired generation setting wholesale power prices around 70% of the time, compared with roughly 15% in Spain, 40% in Germany and 42% in the Netherlands. As a result, industrial electricity prices reached 24.91 p/kWh in 2024, significantly above most G7 competitors (11-15 p/kWh), while industrial gas prices were the highest in the G7 at 5.23 p/kWh.

High energy costs remain a significant challenge to UK competitiveness, particularly for energy-intensive industries such as chemicals, steel, glass and manufacturing. Elevated electricity prices increase operating costs, reduce investment returns and weaken the business case for expanding domestic production. This risks slowing reindustrialisation efforts, undermining supply chain resilience and reducing the attractiveness of the UK as a destination for industrial investment. Recent volatility stemming from the conflict in the Middle East has further highlighted the UK's exposure to international energy markets and the importance of maintaining secure domestic energy supplies.

This challenge is particularly relevant to the local content ambitions outlined earlier in this report. Capturing a greater proportion of future energy investment within UK supply chains will require a competitive industrial base. Sustained industrial electricity prices that remain significantly above international competitors risk limiting domestic manufacturing capability and increasing reliance on imported goods and services.

Figure 10:
Network costs, policy costs and market design responsible for UK's high industrial electricity prices compared to the rest of the G7.



Reducing industrial electricity costs should be a policy priority. Government should assess reforms to network charging arrangements, policy cost recovery mechanisms, and market design to improve industrial competitiveness while maintaining progress towards decarbonisation. A secure and diverse domestic energy mix will also remain important in reducing exposure to international price shocks and strengthening long-term economic resilience.

Offshore Wind Investment and Competitiveness

The Contracts for Difference (CfD) mechanism remains central to UK offshore wind deployment. Allocation Round 7 (AR7) delivered a record 8.4 GW of offshore wind capacity, demonstrating continued investor confidence in the UK market and reaffirming the importance of the CfD regime in attracting private capital into low-carbon infrastructure.

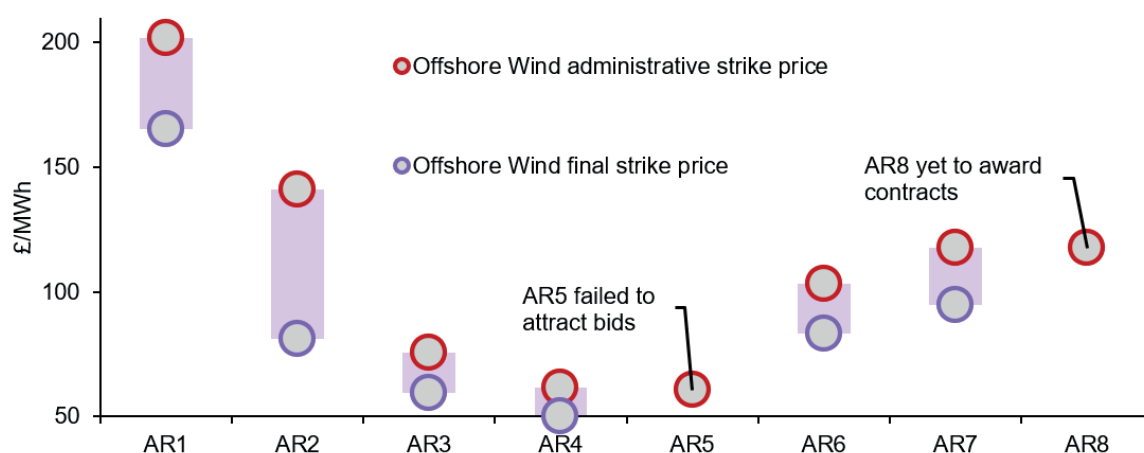
While AR7 has helped maintain momentum towards deployment targets, the challenge facing the sector is increasingly shifting from securing capacity awards to delivering projects cost-effectively and at pace. Higher strike prices relative to previous allocation rounds reflect the continued impact of inflation, higher financing costs and supply chain pressures. The next phase of offshore wind deployment must focus on improving competitiveness, not simply increasing auction volumes.

The decision to retain AR7 Administrative Strike Prices (ASPs) for AR8 provides continuity for developers. However, it also places greater emphasis on the industry's ability to reduce costs through improved supply chain efficiency, lower financing costs and increased competition. If underlying costs continue to rise, project economics may become more challenging, particularly for higher-cost technologies such as floating offshore wind.

Looking beyond AR8, the priority should be addressing the structural factors that influence project costs. Supply chain constraints, network charges, planning and consenting timelines, and project financing costs are playing an increasingly important role in determining project viability. Transmission charging arrangements, particularly

Figure 11:

Administrative strike prices for AR8 have been set at the same level as AR7, marking a departure from the pattern of recalibration seen in AR5 through AR7.



for projects in Scotland and further offshore, remain a significant concern and continue to affect investment decisions.

The UK has many of the capabilities required to support offshore wind deployment, but securing the full economic benefit of future investment will require a competitive domestic supply chain, continued investment in infrastructure and a stable pipeline of projects. As highlighted in the Local Content section, the challenge is not only to deploy offshore wind at scale, but also to maximise the proportion of investment, jobs and industrial capability retained within the UK.

AR7 demonstrated that the CfD mechanism remains effective at delivering offshore wind deployment. The focus for policymakers and industry must now shift towards improving competitiveness, reducing structural costs and strengthening domestic supply chains to ensure that future deployment delivers both energy and economic value.



From Westminster to offshore installations across the UK, OEUK's 'My Energy Job, Our Energy Future' campaign highlighted the contribution of the domestic energy sector to jobs, investment and energy security.

The Energy Price Cap

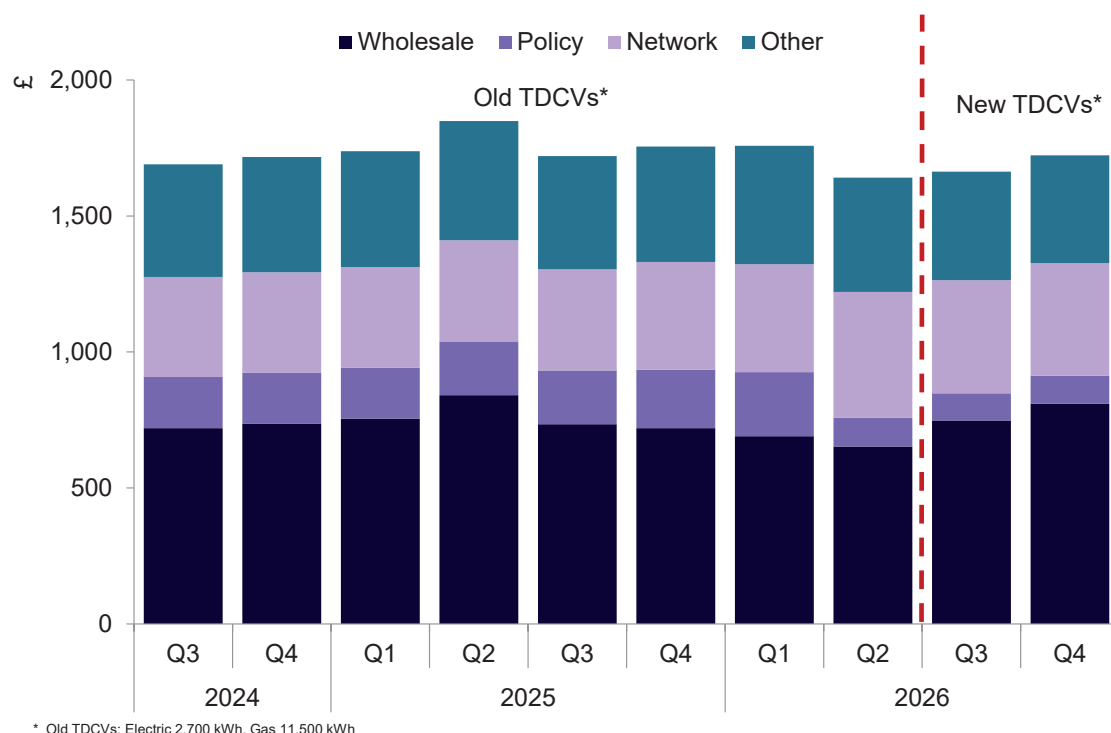
The Energy Price Cap remains a key measure of household energy affordability. With more than 4 million households across the UK in fuel poverty, keeping consumer bills down is becoming increasingly challenging. The UK faces a period of substantial investment in energy networks and infrastructure to support electrification, improve system resilience and deliver the energy transition. While these investments are essential, they place upward pressure on network costs. In just the last 18 months, network charges have risen by 25%, far outstripping inflation.

At the same time, recent events have highlighted the continued influence of global energy markets on household energy costs. The conflict in the Middle East contributed to higher wholesale electricity and gas prices, increasing the cost of energy for suppliers and driving pressure on the price cap upward. The wholesale cost allowances rose 11% this quarter, with gas and electricity costs up 13% and 10%, respectively. Despite the removal of VAT on electricity prices, UK consumers remain exposed to international market volatility.

Looking ahead, policymakers face a difficult balancing act; significant investment will be required to modernise the UK's energy infrastructure, while households continue to expect affordable and stable energy bills. Reducing exposure to future price shocks will require a more resilient energy system, supported by a diverse domestic energy mix, efficient network investment and a focus on delivering infrastructure at the lowest possible cost to consumers.

Figure 12:

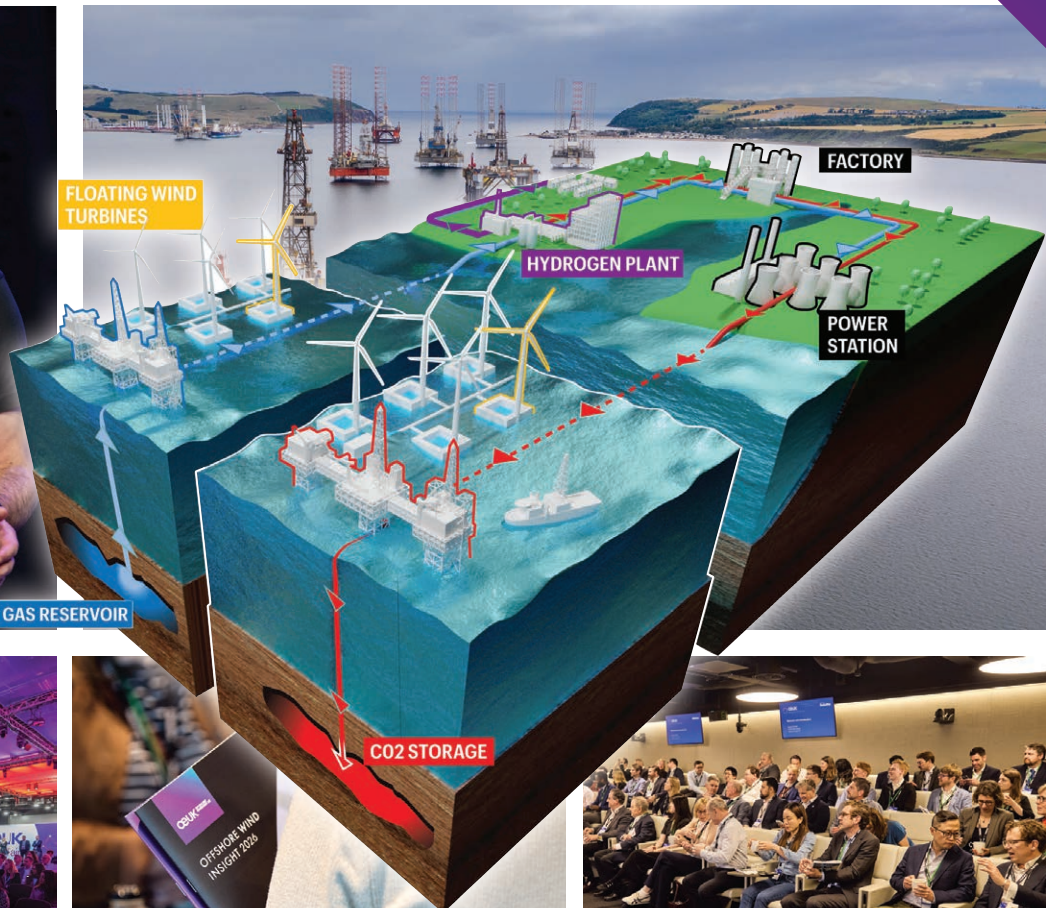
Energy Price Cap increases driven by network costs and wholesale energy prices



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