EXECUTIVE COUNCIL

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Previous papers:	**187/15, 124/16, 73/19, 135/19 and 181/19.**
List of documents:	Annex 1: Emission sources to which offsetting requirement will apply Annex 2: Carbon pricing in other countries

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1 Recommendations

1.1 Honourable Members are recommended to:

1. Agree that operators[1] of offshore hydrocarbons projects in the Falkland Islands shall be required to offset their residual impacts on the natural environment in line with the proposals set out in this document using the Environment Trust described in the Falkland Islands Environment Trust Ordinance 2021.

2. Agree that payments shall be made to the Environment Trust at quarterly intervals based on emissions of CO_{2e} at a price-per-tonne value set periodically by the Governor.

3. Agree the that the scope of emissions for which payment is due is as set out in Annex 1, being emissions directly associated with the oil and gas operations.

4. Agree that this approach to offsetting shall be implemented through its inclusion in the planned Field Development Guidelines and via conditions placed on field development consents.

5. Agree that the Falkland Islands Environment Trust Ordinance 2021 be amended to allow the Trust to function in the manner set out in this report and direct officers to produce the legislative drafting required to implement this decision.

6. Agree that section 97A of the Taxes Ordinance 1997 shall be amended to ensure payments to the Environment Trust are tax deductible and direct officers to produce the legislative drafting required to implement this decision.

7. Note that, it is intended that, should consideration be given to approving any development and production consent applications made before the revised legislation is in place, the agreed policy will be given effect via a condition on the field development consent.

2 Additional budgetary implications

2.1 There are no additional budgetary implications arising from this report. Any budgetary implications arising from the future implementation of what is proposed will be considered separately.

3 Executive summary

3.1 The Falkland Islands is committed to action on addressing the causes and impacts of climate change and protecting the natural environment (including biodiversity) via multiple national and international instruments and policies.

3.2 The Offshore Minerals Ordinance 1994 (as amended) Schedule 4(2) requires licensees (usually represented by an appointed Operator) to include within Environmental Impact Statements (EISs) a description of the measures envisaged to eliminate, reduce, remedy and offset significant adverse effects to the environment arising out of their projects. Impacts from residual greenhouse gas (GHG) emissions and impacts on biodiversity

[1] The word Operator is used generally for simplicity of language, but it should be noted that all of the licensees are jointly and severally liable for a project's obligations, while the Operator is appointed to organise and supervise the works (Model Clause 22 in Schedule 2 to the Offshore Petroleum (Licensing) Regulations 1995 and 2000). Accurate reference to the parties will of course be incorporated in any legal documents.

are routinely assessed as significant under prevailing EIS practice and guidelines and therefore offsetting has been judged applicable.

3.3 Previous policy development (papers 187/15, 124/16, 73/19, 135/19 and 181/19) resulted in the creation of a statutory Trust via the Falkland Islands Environment Trust Ordinance 2021 to manage funds for purposes including support for activities to offset negative environmental impacts. This paper revisits these topics in the light of the passage of time and progress in the understanding and implementation of offsetting.

3.4 The objective is to show proportionate and meaningful action to address the impacts of emissions and other effects on the natural environment that is a fair and defensible outworking of the Offshore Minerals Ordinance 1994 (as amended) in the context of applicable policies and good practice.

3.5 Given the most recent understanding of offsetting opportunities and the local impacts of climate change, it is considered that offsetting obligations should be targeted to projects within the Falkland Islands and not overseas offsetting. Overseas offsetting should only be considered if it can be demonstrated that there is no remaining scope for local offsetting.

3.6 ExCo is asked to agree that offsetting of the residual impacts from offshore hydrocarbons projects be managed according the following key principles:

- An Environmental Trust fund will be created based on the Falkland Islands Environment Trust Ordinance 2021, to which some amendments are proposed to align with the revised approach set out in this paper.
- Payments will be made into the fund by operators of offshore hydrocarbons projects proportional to relevant greenhouse emissions, with the fund used to offset the effects of those emissions.
- Field Development Guidelines will include an expectation for Operators to offset their emissions using this fund and the requirement will be imposed on them via condition on any field development consent issued.
- The calculation of the monetary value of the payments will be via a carbon value set by the Governor from time to time, having reviewed the results of offsetting projects and practices in other countries (see Annex 2).
- The scope of emissions to which the offsetting obligation will be calculated is those emissions clearly accountable to oil and gas operations using established practices and protocols (see Annex 1).
- While the effects occur worldwide, the nature of the global climate mean it is legitimate to address carbon balance and climate effects local to the Falkland Islands, and the fund will have that focus.

4 Background [and Links to Islands Plan and Directorate Business Plan/s]

4.1 The Falkland Islands' commitments to addressing climate change include:

- Obligations under the United Nations Framework Convention on Climate Change (UNFCCC) in which the UK's participation is extended to the Falkland Islands, especially Article 4 (commitments to combat climate change).
- Guiding Principle 9 of the Falkland Islands Environmental Charter ('Polluter Pays') and the associated commitment to Rio Declaration principles including the use of economic instruments.

- Commitments under the Convention for Biological Diversity including Article 8 (conservation and environmentally sound development) and Article 11 (economic incentives).
- The Islands Plan 2022-2026 commitment to progress extractive industries in an environmentally conscious way.
- Other environmental and biodiversity policies including those in the Falkland Islands Environment Strategy 2021-2040.

4.2 The Offshore Minerals Ordinance 1994 (as amended) Schedule 4, paragraph 2 requires operators to include within an EIS a description of the measures envisaged to eliminate, reduce, remedy and offset significant adverse effects on the environment of the project.

4.3 In 2015-2016 detailed policy work resulted in ExCo approving principles for the offsetting of impacts from offshore hydrocarbons projects and the establishment a Falkland Islands Environment Fund for the purpose of administering payments that would fund offsetting projects (124/16P). In 2019 ExCo provisionally approved the establishment of a Statutory Environment Trust to receive and administer offsetting payments (73/19P) and following a stakeholder workshop (135/19P), final approval was given (181/19P). The necessary requirements were drafted into law via the Falkland Islands Environment Trust Ordinance 2021 following ExCo approval (04/21P) (the 'Environment Trust'). This has not yet been commenced and brought into effect, as progress on the Sea Lion Project halted for a time and certain important issues remained unresolved.

4.4 Discussions held with the Operator in an earlier version of the Sea Lion project around the level of contributions that may be appropriate in relation to offsetting, were reported to ExCo via paper 181/19P. The level then discussed was based on three factors: carbon pricing in the UK (then, the EU Emissions Trading Scheme), the size of similar local spending on environmental projects, and the size of comparable spends by the Operator in other countries. Since then, carbon pricing in the UK and EU has increased significantly.

4.5 The EIS for the Sea Lion Northern Development Area Phase 1&2 Project (the Sea Lion Project), which has been reviewed by ExCo (paper 188/24) has identified greenhouse gas emissions as having a significant residual impact.

4.6 Offsetting is a final stage of mitigation of significant environmental impacts. For an offshore hydrocarbons development, offsetting may be a consideration for several types of significant residual impact. The most conspicuous of these impacts will normally be the impacts on climate due to greenhouse gas emissions, given the significant power requirements of the operation and essential flaring and venting. These can be offset by reducing carbon emissions or by reversing biodiversity loss.

4.7 Because of the global nature of climate change it is extremely difficult to link one project's emissions with specific impacts, hence concerted global agreements to tackle the issue including the UNFCCC, which promotes the use of economic instruments. Carbon pricing for large sources has become a widely accepted mechanism to fund mitigation of impacts. However, global carbon pricing varies widely. Annex 2 contains more information on global carbon pricing examples.

4.8 The Falkland Islands are vulnerable to climate change, with potential impacts including drying soils. Measures to address these impacts are also available, some immediately, some with further development and some being uncertain. It should be stressed that the legal requirement is to offset effects, not to balance emissions in a tonne-for-tonne sense. Therefore it is more important to agree that offsetting projects have a beneficial effect than to be able to quantify that accurately in terms of carbon, though that is also desirable and steps should be taken to increase accuracy over time.

5 Analysis

5.1 After considerable work and stakeholder dialogue by DMR in 2015/16, the nature of the 'offsetting' obligation was discussed in ExCo Paper 124/16. The practical implementation of this, including the principle of contributing monies into a fund, was the subject of further dialogue and the conclusions were presented to ExCo (181/19P). Given ongoing dialogue and advances in scientific knowledge and international policy, this paper recommends updates to the policy position. .

5.2 The objective is to show proportionate and meaningful action to address the effects on climate and the natural environment arising from any projects approved under Offshore Minerals Ordinance 1994 (as amended). For example, projects to reverse ecological damage from climate change, which is observable in the Falkland Islands, may not produce a reduction in carbon emissions or sequestration of carbon, yet it would be allowable mitigation of a project's impact. Of course, many ecological improvements will also reduce carbon emissions, and projects scoring on both counts will be favoured. On the other hand, projects such as renewable energy installations that displace fossil fuels might have easily quantifiable carbon benefits, but no immediate biodiversity gain.

5.3 Building on the previous policy work and consultation, the following principles will be used to manage offsetting obligations of hydrocarbons licensees:

- A statutory trust will be established and operated according to good financial practices. The Board will be constructed with equal membership of FIG officers and representatives of hydrocarbon licensees (though only hydrocarbon licensees in the exploitation term of their licence) plus an independent Chairperson with a casting vote. To avoid a risk of conflict of interest, hydrocarbon licensees will not be able to form a majority at a meeting of the Board.
- The Operator will make payments into the trust that are proportional to emissions under the direct control of the developer at a set rate per tonne (carbon price).
- Invitations will be made for third parties to apply for funding for offsetting projects that reduce carbon emissions or remove carbon from the atmosphere, protect and enhance biodiversity, or assist land recovery, with notification made at least three months before the application deadline.
- Projects must be delivered within the Falkland Islands unless the proposers can demonstrate there are no remaining viable offsetting projects that can be carried out on the Islands.
- Operators and any affiliated organisations may not put forward projects that were commitments made in the EIS or Environment Plan or are addressing direct impacts caused by their development (for example, cleaning up oil spills).
- Standalone research projects will not be eligible for funding. However, projects that involve both research and delivery of offsetting will be.

- The Board will assess new project proposals and award funding to projects that score the highest against a set of criteria, including:
  - Value for money;
  - Capacity of the applicant to successfully deliver the activity;
  - Measurable outcomes, including clearly described metrics that are measurable from a baseline;
  - Reduction in greenhouse gas emissions or removal of greenhouse gases from the atmosphere;
  - An increase in biodiversity, ecological value or ecological resilience relative to baseline;
  - The level of permanence or irreversibility;
  - Positive associated socio-economic factors;
  - Positive environmental legacy for the Falkland Islands;
  - Compatibility with the principle of additionality;
- The Board will monitor the implementation of committed projects and persons or organisations in receipt of grants must provide annual reports on their projects' progress.
- The Board will receive advice from appointed scientific and conservation observers for both decisions on awarding funding and the monitoring process.
- The effectiveness of the projects funded will be reviewed at five-yearly intervals by the Department of Mineral Resources or at any other time deemed necessary, and at these times an additional adjustment may be made to the carbon price.

5.4 The board membership proposed is different to the current provisions in the Environment Trust Ordinance, which include one person from a list of people nominated by contributors, one person to represent FIG and 4-6 people "who have an interest in the Falkland Islands environment". This change has been proposed (a) because it is expected that many of those who have an interest in the Falkland Islands environment may be potential applicants to the fund and this reduces the risk of conflicts of interest when assessing applications and (b) it gives hydrocarbons licensees greater scrutiny of how funds are to be spent, which could be important where there are obligations placed on them by their financers.

5.5 The paper also proposes that, in principle, consideration should be given to implementing this policy, so far as possible, by imposition of condition(s) in relation to the Sea Lion Northern Development Area Phase 1&2 Project (the Sea Lion Project), if that project receives a development and production consent prior to the implementation of the legislation contemplated by this report.

5.6 <u>Carbon price</u>

5.7 Various methods for pricing carbon exist worldwide, as set out in Annex 2. Countries with more developed economies tend to have a higher carbon pricing structure. Setting a carbon price provides a reasonably objective approach that leans on emerging international policy development. The price is then adjusted from time-to-time taking into account international context and the success or otherwise of the projects undertaken.

5.8 Any carbon price would need to be subject to review and adjustment to maintain a defensible position that impacts are being offset and this depends on a wide range of

factors. It is proposed that a carbon value be set periodically by the Governor in light of international practices and, in due course, by review of the performance of projects funded. This would be set by the in light of advice from the relevant departments within FIG and any other parties the Governor wished to consult.

5.9 REDACTED

5.10 Scope of relevant emissions to which the offsetting fund will apply:

5.11 It is accepted that the Operator will have decreasing influence on emissions the further away they are from the construction of works, the drilling of wells or the production of oil and gas. While being mindful that the EIA process should be open to all causally-related impacts, there needs to be a practical outworking of what constitutes a reasonable interpretation of mitigation. Very large companies may be able to influence their end-use emissions profile, for example, by market campaigns and strategic investments. Smaller companies will be less able to do this but may yet influence their supply chain and downstream emissions by vetting companies and putting incentives into contracts. The following principles are considered well-founded given the state of knowledge of this topic at this time:

- EIS should document the relevant set of emissions, and that in future, following follow the 2024 UK Supreme Court judgment (the 'Finch' judgment), arguably this should include downstream emissions.
- The EIS should assess the significance of these emissions and, if significant, document the mitigation measures. To date, using the protocol developed via previous policy work, which is compatible with guidance from the professional body IEMA, GHG emissions from the operations are likely to be 'significant impact' and end-use emissions are also likely to be 'significant impact'. Significant impacts are a routine outcome of the EIA process in the UK and elsewhere.
- Mitigation must be applied to significant impacts. There will be a set of emissions that are more or less 'direct' effects of the project for which obligations towards mitigation are naturally stronger.
- There is a set of further emissions that are downstream of this envelope, including export tankers, terminals, refineries, distribution and end-use. Expectations around mitigation are naturally lower for such emissions and they involve other actors who have a greater influence on emissions. Nevertheless, the Operator must document any reasonable measures they can and will take, and be very clear why there is no mitigation, if that is the case.
- There is another set of emissions coming from the manufacturing supply chain for facilities, equipment and consumables that may be relevant. It is not customary to document these in the EIA process but it is likely that the Operator can influence these via contracting processes. The EIS should give a description of these emissions sources and the measures the Operator will take, and describe reasonable attempts made to quantify those emissions e.g. from the literature.

5.12 It is recommended that a quantity of relevant emissions in tonnes of CO_2-equivalent is calculated using the principles given in Annex 1 to this paper. Being mindful that there is recent and ongoing legal debate about the interpretation of the scope of EIAs, the scope is intended to be the emissions that are more or less 'direct' emissions from the oil and gas operations, and these are recognisable in recent and current EISs that have

been received by the Department. The exact set of activities and emissions in any particular case will need expert examination and will ultimately be a matter of judgment by the regulator, mindful of existing guidance and good practice.

5.13 The emissions will require standards of measurement and uncertainty to be applied which will be determined by future powers via the Governor. It is recommended that the reporting of emissions to DMR will be done on a quarterly basis, with payment to the Trust required within one month of the emissions figure being provided. Payments are to be made provisionally with the power for a correction notice to be made by the Governor up to two years after the end of the relevant quarter, as DMR will carry out an annual audit of the reported figures to ensure they are in line with the calculation methodologies and identify if there has been an under or overpayment.

5.14 Making use of the Trust a requirement for Operators

5.15 If the proposed approach to offsetting for the offshore hydrocarbons industry is adopted, it also needs to be decided how it is made a requirement for Operators.

5.16 One approach would be to include this approach in the Field Development Guidelines that are planned to be adopted in the near future. The guidelines would set out the expectation that offsetting of any impacts on the natural environment (including but not limited to those identified in schedule 4, section 4(2)(b)-(h) of the Offshore Minerals Ordinance) be delivered by making payments into the Environment Trust for relevant emissions at a rate per tonne set by the Governor.

5.17 The Guidelines would also define relevant emissions (as proposed in Annex 1).

5.18 In the longer-term, it is planned that the new Offshore Petroleum (Safety and Environment) Ordinance will result in the production of a code of practice for Environmental Impact Statements, and that this information would be moved to that document.

5.19 This option would not make it a legal requirement for Operators to follow the proposed approach. However, inclusion in the guidelines would mean consideration of whether the recommended approach had been followed would be part of the decision-making process when approving a field development consent application. The obligation to follow the approach would then be imposed by making it a condition of any field development consent issued.

5.20 There are risks and potential benefits associated with this approach, namely that an Operator may propose an alternative method of offsetting impacts on the natural environment either in whole or in part, and this would need to be considered when consent was sought. The proposed alternative offsetting approach may not be delivered locally or could be deemed less effective than it is thought the proposed approach will be. However, it also gives Operators the flexibility to propose something that may be more effective.

5.21 The alternative is to make the proposed approach a legal requirement, which could be done by inserting the requirement for Operators to use the Environment Trust for

offsetting impacts on the natural environment via amendments to either the Falkland Islands Environmental Trust Ordinance or the Offshore Minerals Ordinance.

5.22 A further consideration on this point is the carbon price. Operators may consider the price too high. If the first approach (use of the guidelines) were to be adopted and Operators regularly chose not to use the Trust, instead opting to take approaches FIG did not consider appropriate, the approach to making contributions to the Trust a requirement may need to be reconsidered in the future.

5.23 Application to the current Sea Lion Project

5.24 A revised Sea Lion Northern Development Area Phase 1&2 Project (the Sea Lion Project) has been consulted on via an Environmental Impact Statement submitted in July 2024 by Navitas Petroleum Development and Production Limited (Navitas) (ExCo Paper 188/24 refers). This EIS discusses offsetting, including e.g. "Navitas will undertake operator-led direct and indirect offsetting in the Falkland Islands including carbon and biodiversity offsetting that includes Falklands-specific habitat restoration projects." Further details of proposals to deliver offsetting were submitted by Navitas to DMR in August 2024 and discussions were held between DMR and Navitas on this topic prior to Navitas producing a final Offsetting Strategy, which will accompany the anticipated future application for field development and production consent.

5.25 Consideration will need to be given in due course as to whether/how the policy proposed in this report will be applied to that project, if consent is to be given to allow it to proceed, as a decision on that is highly likely to be required prior to any legislation being passed.

6 Options and recommendations

6.1 The first consideration is how offsetting obligations for the offshore hydrocarbons industry should be managed:

6.2 Option 1: Do not have a formal offsetting policy

Even if there is no policy in place, the operator will still be required to include in any EIS "a description of the measures that are envisaged in order to" eliminate, reduce, remedy and offset effects. Decision-makers will then need to determine whether any conditions might be required to be imposed on any proposed relevant consent.

This option is not recommended as it would be preferable to have a formal policy so that there is certainty for both FIG and Operators as to what is expected from hydrocarbons projects regarding offsetting.

6.3 Option 2: Require Operators to satisfy their offsetting obligations carbon via a carbon credits market or trading scheme

Under this option, Operators would be required to offset their emissions and other impacts via recognised schemes (for example by purchasing carbon credits) to balance their obligation over a timescale.

This option is not recommended as it is highly unlikely that it would result in any offsetting being delivered in the Falkland Islands due to an absence of any formal market or schemes. Although such markets already operate in the UK and elsewhere,

there is a significant barrier to entry in establishing the market system, the standards for qualifying projects and the auditing protocol that would likely take any local scheme many years to achieve.

6.4 Option 3: Require the Operator to establish an offsetting fund
Under this option, Operators would establish and maintain their own offsetting fund for each consented project.

This option is not recommended primarily due to risks around the security of the monies, particularly if the Operator enters into financial stress or bankruptcy. There is also risk that Operators could fund schemes that are not appropriate.

6.5 Option 4: Require the Operator to use the existing Environment Trust
Under this option, the Environment Trust would be formally established and Operators would contribute funds to it as set out in this report.

This option is recommended. The Environment Trust was developed for exactly the purposes of including offsetting impacts on the environment from hydrocarbon developments and underwent policy development and legal review in 2019-2021 before entering into the statute (ExCo papers 73/19P and 135-19P refer).

6.6 Option 5: Require the Operator to use a charitable trust established for the purpose of offsetting
Under this option, a charitable trust would be established to receive offsetting payments from operators.

This option is not recommended. The case for using a charitable trust was examined in 2019 (e.g. 73/19P) and a statutory trust found to have advantages over a charitable trust, though both were viable.

6.7 The second consideration, should Executive Council agree to one of options 3 to 5, is how contributions to the fund should be calculated:

6.8 Option 1: The Operator pays an agreed annual sum
In the earlier iteration of the Sea Lion project, a fixed annual sum was negotiated. **REDACTED.** However, carbon pricing has since increased worldwide.

This option is not recommended as it is not proportionate, lacks incentive and does not reflect the 'Polluter Pays' obligation.

6.9 Option 2: The Operator pays a sum based on the tonnes of carbon emitted
Under this option, the Operator would pay an amount into the fund that was based on the level of relevant emissions emitted by the project (as defined in Annex 1) at a set price per tonne of CO_2-equivalent (as discussed in section 5.6)

This option is recommended as it would result in a proportionate offsetting contribution, incentives the Operator to minimise emissions, and reflects the polluter pays principle.

6.10 Option 3: Develop a Falkland Islands system of carbon and biodiversity pricing using 'ecosystem valuation' or a similar approach

Under this option, a formal system of carbon and biodiversity pricing specific to the Falkland Islands would be created to establish a cost for carbon and biodiversity offsetting for the impacts of a hydrocarbons project.

This option is not recommended. This is a complex area and even with a high degree of scientific input - difficult enough for highly developed economies - this is unlikely to be resolvable in a realistic timescale.

6.11 The final consideration is how the proposed approach to offsetting policy is imposed on hydrocarbons licensees.

6.12 Option 1: Include the proposed approach in the Field Development guidelines
This option would not make it a legal requirement for Operators to follow the proposed approach but would make it the preferred approach for the development of an Environmental Impact Statement. Inclusion in the Field Development guidelines would mean consideration of whether the recommended approach had been followed would be part of the decision-making process when approving a field development consent application. The obligation to follow this approach would then be made a condition of any field development consent issued. It is also proposed that when the planned Offshore Petroleum (Safety and Environment) Ordinance comes into effect, details of the approach may be transferred to the relevant code of practice.

This is the recommended option due to the flexibility it offers.

6.13 Option 2: Make the proposed approach a legal requirement
This option would involve inserting the requirement for Operators to use the Environment Trust for offsetting impacts on the natural environment into legislation.

This option is not recommended due to its inflexibility.

7 Consultation

7.1 The concept of contributions to an environment fund using the preferred option of a set amount per tonne of emissions was presented to licensees during December 2024. Comments received were taken into account when developing the final policy proposal.

7.2 REDACTED

7.3 Dialogue was undertaken between DMR and the Department of Environment (DoE). Many good points were made by the DoE that have been assimilated into the proposal. ExCo should be aware of some questions and differences raised, and DMR's response, as follows.

- **REDACTED**
- DoE felt that there was too much emphasis on land-restoration types of offsetting, and was concerned that the quantification of the benefits of such projects was still at an early stage; meanwhile other projects such as replacing fossil fuel technologies with renewable sources were not sufficiently mentioned, when these were more easily quantified. *DMR response: The land-based opportunities are emphasised because they are scalable and the Falkland Islands has a large land (peat) area that is in poor condition with some obvious opportunities. It is*

acknowledged that quantification science is improving all the time and uncertainties are high; nevertheless there are projects within easy reach that are obviously beneficial, and by pursuing them the evidence base will increase more quickly. The narrative has been amended to indicate that other project types are equally admissible. Looking towards international offsetting should be avoided when there are local options, even if still developing.

- DoE believed that more research is needed on the carbon balance of land-based options before making policy decisions. *DMR response: The OMO and existing policy requires actual offsetting rather than research. Trial projects with actual offsetting that includes quantification elements would be welcome. Existing restoration projects are numerous, often government-assisted and are gaining in success. Overall, lack of scientific certainty must not prevent action where there are threats of serious damage [from climate change] (UNFCCC).*

8 Resource implications

8.1 Financial implications

8.1.1 There are no immediate financial implications, and the future implementation of what is proposed will be considered separately. It is expected that the Trust will need some initial funding to ensure that basic functions can be exercised and FIG may be required contribute modest resources to allow the Trust to function within the budget for DMR.

8.1.2 The operation of a Trust in terms of tax status was previously discussed in ExCo paper 181/19P and the FI Environment Trust Ordinance explicitly states that it qualifies for exemption under section 57(1)(c) of the Taxes Ordinance 1997. Income to the Trust is therefore not taxed.

8.1.3 The FIG Tax Office (FIGTO) have been consulted on the tax treatment of contributors and advised that there are parallels with schemes such as landfill taxes in the UK where tax on the landfilling of waste are typically allowed for deduction before tax.[2] FIGTO propose amending section 97A of the Taxes Ordinance 1997 as set out in section 9.9 to ensure statutory payments to the Environment Trust are tax deductible for the licensees. This would remove any uncertainty over the tax treatment of the contributions to the Environment Trust.

8.2 Human resource implications

8.2.1 There are no immediate human resource implications arising from this report. In due course, consideration will need to be given as to what resources are required by FIG and the proposed Trust, to implement in practice the establishment and governance of the proposed Trust.

8.3 Other resource implications

8.3.1 No other resource implications have been identified.

9 Legal and legislative implications

[2] HMRC Business Income Manual updated 27 January 2025, #67525.

9.1 Amendments will be needed to the Falkland Islands Environment Trust Ordinance 2021 and the Offshore Minerals Ordinance, to accommodate the following changes that result from the recommendations or have otherwise emerged in recent discussions. This is considered a workable drafting task that will be discussed with the Attorney General's office. It will also be necessary to incorporate appropriate provision in the planned OPSE Bill.

9.2 The following amendments are proposed to the Environmental Trust Ordinance 2021 to implement the recommendations in this report:

- Amend section 4(3) as follows: "The Trust may accept special funds that are used for the purpose requested by the contributor."
- Amend section 4(4) as follows: "The Trust must consider Government policies in carrying out the purposes of the Trust."
- Amend section 5(1)(d) as follows: "keep records of all applications and money that is received and paid out as grants;"
- Add a new section 5(1)(n): "monitor offsetting projects according to its policy, and make regular reports on those projects and other matters important to the nature of the Trust;"
- Amend section 7(1)(b) as follows: "Three or four persons representing the Falkland Islands Government;"
- Amend section 7(1)(c) as follows: "Three or four persons representing offshore hydrocarbons Licensees in the exploitation term of their licence."
- Delete section 7(1)(d).
- Amend section 7(2) as follows: "The Governor may not appoint a person under subsection (1)(a), (b) or (c), who has –"
- Amend section 9(1) as follows: "Hydrocarbon Licensees will make payments to the Trust to comply with the offsetting policy for the offshore hydrocarbons industry. Any other person may make a voluntary payment to the Trust for any of its purposes set out in section 4." This amendment assumes that the recommended approach to requiring offsetting via this method is adopted. An amendment to the wording will be required if an alternative approach is taken.
- Amend section 9(2) as follows: "Hydrocarbon Licensees will make payments on a quarterly basis. Any other person may make pay as a lump sum or periodically in installments."
- Amend section 9(3) as follows: "A contributor of funds under section 4(3) may specify how a payment should be used."
- Amend section 9(4) as follows: "A contributor of funds under section 4(3) may claim a refund of funds that are not used in accordance with the specification of the contributor."
- Insert section 9(5) as follows: "Hydrocarbon Licensees may claim a refund of contributed funds if errors in the calculation of the contributions are identified within two years of payment."
- Amend section 10(3) as follows: "Financial support under this section may be given subject to conditions and the conditions may include entering into a contract with the Trust or repayment of a grant to the Trust in the event of failure by a person to deliver on an activity in a manner that satisfies the Trust."

- Amend section 10(4) as follows "The Board must develop a policy for the grant application, award and monitoring process. The policy must include the matters set out in Schedule 2."
- Insert a new section 14(1) as follows: "Any person in receipt of funding from the Trust must submit an annual report to the Board in accordance with guidance issued by the Board."
- Insert a new section 14(2)(c) as follows: "A summary of the reports from persons in receipt of funding from the Trust."
- Insert a new section 14(3) as follows: "The Board must hold a meeting to discuss the annual report and consider the progress of the activities for which the trust has awarded a grant."
- Amend section 14(2) (now 14(4)) as follows: "The Secretary must submit copies of the annual report and financial statements to the Governor and publish them publicly."
- Amend schedule 1, section 3(1) as follows: "A Trustee referred to in section 7(1)(a), (b) and (c) holds office for a period not exceeding four years as specified in the Trustee's instrument of appointment."
- Amend schedule 1, section 4(1)(a) as follows: "A Trustee referred to in section 7(1)(a), (b) and (c) holds office for a period not exceeding four years as specified in the Trustee's instrument of appointment."
- Amend schedule 1, section 4(b) as follows: "referred to in section or 7(1)(b) or 7(1)(c) vacates the office by virtue of which they are a Trustee."
- Amend schedule 1, section 6(2) as follows: "The Board must meet at least two times annually. Trustees may attend meetings of the Board via video-conferencing."
- Amend schedule 1, section 6(3) as follows: "Five Trustees form a quorum at any meeting of the Board."
- Insert a new schedule 1, section 6(5) as follows: "No business may be transacted at any meeting of the Board at which Trustees representing hydrocarbons Licensees outnumber Trustees representing the Falkland Islands Government."
- Amend the first line of schedule 2 as follows "The following matters must be included in the grant applications, awards and monitoring policy of the Trust"
- Amend schedule 2, subsection 9(a) as follows: "when the Trust will consider applications for funding, including publishing at least three months in advance the date(s) by which applications must be made, the timetable for processing applications and when the Trust expect to notify Applicants of the outcome of their application;"
- Amend schedule 2, subsection 9(b) as follows: "how applications for funding are assessed, including;
  - (i) Value for money;
  - (ii) Capacity of the Applicant to successfully deliver the activity;
  - (iii) Measurable outcomes, including clearly described metrics that are measurable from a baseline;
  - (iv) Reduction in greenhouse gas emissions or removal of greenhouse gases from the atmosphere;
  - (v) An increase in biodiversity, ecological value or ecological resilience relative to baseline;
  - (vi) The level of permanence or irreversibility;
  - (vii) Positive associated socio-economic factors;

(viii) Positive environmental legacy for the Falkland Islands; and
(ix) Compatibility with the principle of additionality.

9.3 Operation of the Fund would require the Falkland Islands Environment Trust Ordinance 2021 to be commenced once amended, since it is not yet in force, and commencement would then require a commitment of ongoing resources. Commencement should be made when there is clear physical progress towards an approved offshore hydrocarbons project.

9.4 The outworking of the mitigation requirements in the Offshore Minerals Ordinance 1994 (as amended) requires judgement, and the interpretation is not the same as in the UK, despite similarities in language. Offsetting has not historically been an outcome of UK offshore EIA processes, although in the UK there is a history of emissions pricing and incentivisation via the Emissions Trading Scheme and a high spend on government climate initiatives. The conclusion is reached that offsetting is an appropriate outcome of the EIA process in the Falkland Islands in light of the adoption of guidelines on EIA developed by the GAP Project in dialogue with the Offshore Hydrocarbons Environmental Forum over several years and adopted by ExCo (34/23P) and other professional standards.

9.5 A new 'Offshore Petroleum Safety and Environment (OPSE) Bill' is in an advanced stage of drafting to replace the environmental provisions of the Offshore Minerals Ordinance 1994 (as amended) including the EIA process. The new provisions for EIA are expected to be similar in their effect to the current provisions, but it should be noted that there will be a new test - that impacts must be reduced to a level that is As Low As Reasonably Practicable (ALARP) and an Acceptable Level, drawing largely on Australian practices, before mitigation (including offsetting) is applied rather than relying on a 'significance' test. In practice we see the interpretation of this having the same effect in this situation, that there would remain the obligation to mitigate the effects of GHG emissions via methods that are currently called 'offsetting' and it is DMR's aim that the new provisions will allow a smooth transition of the offsetting position from the existing to the new regime.

9.6 In the UK, OPRED is preparing Guidance on Scope 3 emissions in offshore EIA in response to the 'Finch' judgement, expected to be published in the UK Spring. The UK Department for Levelling Up, Housing, and Communities (DLUHC) is considering overhauling the whole system of EIA towards an 'Environmental Outcomes Report' system using new powers in Part 6 of the Levelling-up and Regeneration Act 2023. The UK Government aims to simplify the process of deciding when an environmental assessment is required, strengthen the role of mitigation and introduce a more robust approach to how the delivery of outcomes is monitored.[3] It is noted that the proposed OPSE Bill incorporates a goal-seeking approach which, on the basis of limited interpretation from the UK, would share ground with an environmental outcomes approach when coupled with the preparation of Codes of Practice under the OPSE Bill.

9.7 The Falkland Islands interpretation of EIA has conscious differences to the UK and the outputs of our EIA process have been well received via independent reviews on a number of occasions. The decision to align more closely with the Australian regime

[3] Environmental Outcomes Report: a new approach to environmental assessment United Kingdom Government

remains prudent and efficient and we believe that, once complete, this transition will increase the resilience to changes in interpretation and provide a solid basis for future offsetting projects.

9.8 Application to the Sea Lion Project: Navitas has adopted Falkland Islands recommendations on EIA practice in its Sea Lion project EIS. Navitas has further incorporated the principle of ALARP into its 2024 EIS which gives weight to the idea that what is considered offsetting now will also be considered offsetting under future rules. The way in which emissions have been evaluated corresponds closely to those which DMR considers to be more or less 'direct' and the EIS also includes end-use emissions, although it does not describe some other downstream emissions or manufacturing supply chain emissions.

9.9 In addition, FIGTO propose amending section 97A of the Taxes Ordinance 1997 to ensure statutory payments to the Environment Trust are tax deductible for the licensees. This would involve specifying the specific deduction that is allowed – i.e. statutory payments made to the Environment Trust as part of the Carbon Offsetting are to be allowed. S97A is used to clarify expenses that can be deducted; if they would not be allowed under s97, may be open to interpretation regarding deductibility or have other sections of the Ordinance that would otherwise specifically disallow them.

10 Equalities and human rights implications

10.1 It is not envisaged that the matters discussed have significant equalities or human rights implications. Projects aimed at land recovery could possibly assist farms that currently have above-average financial challenges and may improve opportunities for their families, so any effects are likely to be favourable. The publication of details regarding projects being funded will require a level of disclosure that is similar to the Environmental Studies Budget and matters of privacy are therefore considered manageable.

11 Environmental & sustainability implications

11.1 Offsetting is the mitigation of environmental impacts, and offsetting solutions have considerable sustainability opportunities. Amongst other opportunities, it is clear that opportunities around land recovery are present in the Falkland Islands at reasonable scale, and these would bring social and economic benefits.

11.2 The productivity of sheep farming in the Falkland Islands has been affected by drying land,[4] and the effects of drying ground and overgrazing can accelerate and go beyond a 'tipping point' in some cases leading to highly degraded soil and loss of soil mass. There is scope for such issues to be addressed by offsetting projects, and if tipping points are avoided, the relative benefit could be high.

11.3 Offsetting funds could clearly have considerable social and environmental good. There are substantial benefits for the Falklands economy through improved environmental stewardship which would in turn enhance fisheries, agriculture and tourism alongside any new industries. A positive environmental legacy would contribute to maintaining

[4] Peatland GHG Project Falklands Conservation

and improving ecosystem services and biodiversity. All of this would create a healthier environment, with a cascading chain of effects on value of products, cultural wellbeing, resilience to climate change, and improved public and media image for the future sustainability of the Falklands.

12 Camp implications

12.1 Land restoration projects have, at present, the most apparent potential to deliver offsetting at scale. The historic and ongoing investigations into peat and carbon emissions that have won significant funding are evidence that there is confidence in the possibilities of peat restoration. Land restoration projects will require a workforce that likely spends much time in camp, potentially reversing a decline in population. It is understood that optimum times for replanting tussac are in the winter 'half' of the year, which might balance summertime labour demands; and other projects such as fencing could also balance labour demands.

12.2 The way in which peatland carbon units work in the UK is that they form a part of the income stream for a landowner, typically over a period of 30 years. Thus they add resilience to a farm's income stream, when (for example) the wool price fluctuates widely. The UK Peatland Code, developed with experts who are advising the Falkland Islands, is now home to hundreds of projects trading carbon units within larger agricultural estates. Current evidence is that land in the Falkland Islands could yield appreciable values of CO_2e per hectare per year, both via published and unpublished data.

12.3 Aside from land restoration, funds would also be open to other opportunities in camp such as for renewable energy, for examining lower-emissions forms of grazing or for biodiversity projects.

13 Significant risks

13.1 REDACTED

13.2 REDACTED

13.3 REDACTED

13.4 REDACTED

13.5 REDACTED

13.6 REDACTED

13.7 REDACTED

13.8 REDACTED

13.9 Risk that decisions will inhibit offshore development.

13.10 The first point to make is that the offsetting policy has been well known to the licensees from its conception and licensees were consulted on it over a period of time. The pattern of carbon pricing around the world is also apparent to any experienced operator and carbon pricing has become a normal part of oil and gas development.

13.11 Our analysis is that offsetting contributions will affect the Internal Rate of Return of a particular project by a negligible amount and is well within budgeting uncertainties for other expenditure during operations. It is not plausible that the proposed offsetting contributions would have a significant impact on project economics.

13.12 It can equally be argued that longer term, investors will look for projects with strong carbon credentials.

13.13 Risk of future national measure for carbon pricing.

13.14 If the Falkland Islands were to introduce some other form of carbon pricing that applied to the project, such as fuel duty or a blanket carbon tax, and if the revenue were clearly used to reduce the impacts of climate change, then this would constitute offsetting, i.e. a legitimate mitigation, and the resulting offsetting obligation would be lowered. Under the proposed legislation, this could be described in the Environment Plan as offsetting, amongst other control measures to reduce impacts to ALARP and Acceptable Level.

13.15 Failure to agree offsetting solutions or manage funds effectively.

13.16 The factors leading to successful Trust operations, with Trustees who have potentially competing aims, are not unique to this case. The Board will be constructed with equal membership of FIG officers and hydrocarbon licensees (though only hydrocarbon licensees in the exploitation term) plus an independent chairperson with a casting vote. Personnel of recognised good standing and expertise may be allowed as observers, to give their views. At a slightly smaller scale, the Environmental Studies Budget operates a system of project appraisal and approval via a committee with different interests, and rarely has difficulty in approving the majority of applications.

13.17 Solutions for the current Sea Lion project would exhaust options for future projects.

13.18 There is considerable scope to develop local opportunities to improve biodiversity or remove carbon from the atmosphere. Independent experts have noted that the Falkland Islands has substantial potential for carbon offsetting, including land restoration projects that could generate offsets in the same order of magnitude as emissions from the proposed project.[5] Experts in the local environment consider Falkland Islands agricultural land quality overall to be in a poor state and worsening due to climate change with impacts on carbon emissions, ecology and socio-economics.[6] This is a large-scale opportunity.

13.19 Incidences of lightning are predicted to increase with climate change, so measures to prevent peat soil fires, limit their spread and to respond to them rapidly when they occur would all be potential offsetting measures.

[5] Evans et al. (2020) *A Scoping Study For Potential Community-Based Carbon Offsetting Schemes In The Falkland Islands*

[6] e.g. presentations by Jim McAdam December 2024 and February 2025, Land Recovery Workshop.

13.20 There may be other offset opportunities such as kelp, which sequesters carbon at a similar scale to the emissions of the Sea Lion project.[7] Currently, the kelp communities of the Falkland Islands appear healthy and occupy the available habitat and so the scope for increasing them significantly is uncertain, but it is another possibility that might have scalable opportunities.

13.21 There are considered to be many other opportunities within the emission sources and carbon removal opportunities of the Falkland Islands infrastructure, which were touched on in the previous approved policy paper 124/16. Opportunities to improve insulation, install heat pumps, encourage electric vehicles that draw on increasing amounts of wind energy, and install electrical generation and storage in Camp all have clear potential for improvement. New technologies for shipping are emerging using more renewable energy and alternative fuels.

13.22 The existing policy prefers local offsetting but does not limit it to local offsetting. International offsetting via reliable schemes is available. In 2023, it was reported that fossil-fuel companies and car manufacturers were responsible for more than three-quarters of the offsets used by the top 50 companies worldwide, and projects in Indonesia, China and Colombia provided the most offsets. Despite historical examples of poor schemes, there are now many highly robust and certified schemes with recognised surveillance programmes. At COP29 (the 2024 Conference of the UNFCCC) a global carbon market mechanism was also agreed.

13.23 Projects do not deliver meaningful offsetting.

13.24 Mitigations for environmental impacts carry a level of uncertainty, and some may not perform as well as intended. In that case, it is unlikely that there would be a legal issue in terms of delivering mitigation if reasonable skill and care had been taken to design and implement the offsetting, but it had then performed at the low end of possibilities. It would be reasonable for the Trust to manage a suite of projects that spreads such risks, and for this to be looked at in its entirety over a suitably long period of time and decide whether any change of course were needed to demonstrate meaningful offsetting. The selection of projects in the first place would mean that projects selected were reasonably robust. For projects that perhaps were attractive but for which the uncertainties were higher, this could be mitigated by designing them to deliver multiple benefits such as ecological gain, carbon removal and socio-economic improvement. In that way, a failure to meet all the goals would be far less likely, and, as far as can be seen at this stage, this would not particularly limit the number of good projects.

13.25 As it stands, recent work on conservation measures and carbon fluxes in local peat soils show encouraging results - such as in terms of ecological gain from tussac planting, or carbon removal from whitegrass, diddle-dee and managed tussac regrowth. Examples of land improvements presented at the Land Recovery Workshop in February 2025 showed multiple benefits are possible e.g. the increase in soil moisture, retention of wind-blown soil etc. in addition to GHG removals and ecological improvement.

[7] Bayley et al. (2021) *Valuation of kelp forest ecosystem services in the Falkland Islands: A case study integrating blue carbon sequestration potential*.

13.26 Hydrocarbons offsetting would interfere with existing environmental programmes.

13.27 It is conceivable that offsetting projects could have a bearing on all six themes of the Environmental Studies Budget (ESB), especially 'biodiversity protection' and 'climate change adaption and mitigation', though the latter category has attracted few applicants to date. The scale of hydrocarbons offsetting would be somewhat larger than the ESB which may well mean that the two programmes would appeal to different types of project.

13.28 Another situation is the Land Recovery Programme. Though this is at an early stage there are clearly initiatives there that could overlap with potential offsetting projects. Land that is set aside could remove it from being considered for offsetting; alternatively, land that is set aside could be enhanced so that carbon/biodiversity gains are higher than merely 'resting' the land, or simply more land could be put into recovery. There appears to be more to gain from synergy with the Land Recovery Programme that might be lost in overlapping activities.

13.29 For a project to be offsetting there must be 'additionality' i.e. the project wouldn't otherwise happen. Since the scale of offsetting proposals would significantly exceed typical ESB projects, on the face of it there would be an overall 'additionality'. This risk can be mitigated by ensuring offsetting applications explain why they haven't utilised other forms of support, and the Trust Board can assess whether there is sufficient 'additionality'.

13.30 There is insufficient local resource to implement offsetting at the required scale.

13.31 Current initiatives are mainly of a biodiversity nature such as tussac planting and use teams of volunteers with hand tools. Options for superior tools, nurseries, automation and salaried staff are relatively unexplored and could raise productivity substantially, and experience of success is accumulating.

13.32 The second point is that initial carbon flux measurements show positive initial results merely with regrowth of vegetation and little labour. The Islands have 70 farms, many of which likely have opportunities for land-based offsetting. Of course this will need to be considered alongside stocking patterns and potential setaside schemes, but even simple solutions such as fencing would allow greater control of grazing patterns and more targeted land management that can be designed to have biodiversity and carbon benefits.

13.33 Overall, having a hydrocarbons industry in the Falkland Islands would be a huge step change in economic growth and many resourcing needs will have to be satisfied. A workforce of several hundred skilled staff, mainly offshore, will be brought in to extract the hydrocarbons. Adding an activity valued initially at around £1-2 million each year to GDP would not normally be seen as problematic to resources and would be part of the economic expansion for oil.

13.34 Carbon pricing could have unintended consequences for other emitters

13.35 The approach proposed is an outworking of the OMO and those requirements apply only to offshore hydrocarbons. There are provisions for EIA in the planning processes

but they contain very different language and this recommendation is not seen as having any bearing on the interpretation of planning rules. REDACTED

13.36 DMR is not aware of any other current plan for carbon pricing that could be influenced by this recommendation.

14 Publicity and outreach

14.1 The EIA process is an important means of informing the public about environmental issues in development and involving them in decision-making, which stems from various commitments including those within the Environment Charter as well as good governance. It would be appropriate to make a public statement that an offsetting policy has been agreed with respect to this topic, which DMR will prepare for approval subsequent to an ExCo decision.

14.2 The adopted recommendations would also be communicated through the Offshore Hydrocarbons Environmental Forum, which has facilitated much of the policy development, and via Falkland Islands Petroleum Licensees Association, the Chamber of Commerce and the Rural Business Association.

14.3 Specific communication will also take place with the licensees of the Sea Lion Project on its application to current proposals. The resolution of this issue with respect to the treatment of the Sea Lion Project will be determined as part of consideration in due course of an application for a development and production consent.

15 Reasons for recommending preferred options

15.1 The preferred options represent the conclusion of a process of policy development and also reanalysis for the current economic and policy situation. It provides a defensible position that is considered proportionate. The developer remains accountable for mitigating the direct and indirect significant effects of the project via the EIA process, while the recommended method provides a workable means of arriving at a conclusion that proportional and meaningful offsetting has been achieved.

15.2 The quantification of emissions for valuation is one used by the developer as an outworking of the EIA process and reflects what are clearly oil and gas operations.

15.3 The use of the Falkland Islands Environment Trust Ordinance 2021 is efficient and it was designed for such a purpose.

15.4 REDACTED

15.5 The issue of climate change has a high profile in relation to hydrocarbons projects and there is active legal objection to projects both UK and worldwide via the Environmental Impact Assessment (EIA) process. The *Finch vs Surrey County Council* case in 2024 and the recent quashing of approvals for offshore development for the Jackdaw and Rosebank fields in the UK are the latest examples illustrating the risks of legal objection to approval processes, with field development applications in the UK on hold until new guidance is issued by OPRED. It is essential to have a robust position on climate

mitigation to sustain both the social licence to operate of an oil and gas industry and investor confidence. **REDACTED**

15.6 The above conclusions should be applied to the current Sea Lion Project proposals for clarity on the way forward; to conclude the outworking of the legal EIA process in respect of the impacts of GHG emissions; and to document that the government is discharging the legal and policy obligations.

ANNEX 1 - Emissions sources to which offsetting requirement will apply

The rationale on whether emissions should be used to calculate an offsetting obligation contains several factors including the degree of control exercised. This does not imply that one set of emissions is significant and one is not, nor that any other requirement of the OMO is to be interpreted differently for different types of emissions from the project. The purpose is to arrive at a practical means of taking forward the legal obligations for the offsetting of climate change and other natural environment impacts caused by a project.

Emissions are to include the seven direct GHGs used by the Intergovernmental Panel on Climate Change (IPCC) (CO_2, CH_4, N_2O, HFC, PFC, SF_6, NF_3). A CO_2-equivalent figure is to be calculated using their global warming potential used by the UK National Atmospheric Emissions Inventory for national reporting at the time of calculation.

Aspects included in offsetting calculation

Aspect (if applicable)	Main rationale for inclusion
Vessels involved in construction and installation of facilities.	Moderate or large scale. Direct causation. Certainty. High degree of control. Retention of incentive. Are accounted to the Falkland Islands in national emissions reporting[8].
Production installations.	
Drilling installations.	
Flaring and venting of hydrocarbons.	
Supply vessels.	
Standby/guard vessels.	
Helicopters and other dedicated crew transportation.	
Planned / foreseeable well interventions, pipeline interventions, maintenance, inspections and surveys.	
Carrying out seismic surveys that are essential for the project.	
Landward facilities dedicated to the project.	
Imported power emissions such as electricity.	
Workforce emissions such as accommodation or transportation where the emission sources are mainly for the purpose of delivering the project.	
Waste treatment, transportation and disposal undertaken in the Falkland Islands or its conveyance to another country.	
Decommissioning, as an inevitable effect of the project.	

[8] In considering what is an impact within the terms of the OMO, and in considering what is reasonable mitigation, national obligations are relevant considerations, though mitigation through the OMO may not necessarily deliver the full extent of any such obligations.

Aspects not included in offsetting calculation

Aspect (if applicable)	Main rationale for exclusion
Emissions resulting from combustion or venting of products, or fractions of products, where a carbon-neutral balance can be demonstrated e.g. biodiesel.	No net contribution to emissions.
Export tankers.	Managed by more relevant sectoral initiatives e.g. via MARPOL. Low degree of control. Partly accounted to other nations.
Terminal, refinery and distribution activities.	Managed by host nation emissions controls and initiatives.
Manufacturing supply chain, including manufacture of materials, transportation, consumables and supply chain infrastructure.	
Seismic surveys incidental to the project.	Weak causation.
Operations that are incidental to the project i.e. have other primary causes, though the project may benefit.	
Workforce impacts where emission sources are largely dependent on other business or general economic activity.	Low degree of control. Managed by more relevant initiatives. Uncertainty.
Other operations or support services that are not mainly attributable to the project such as incremental use of supply lines, emergency services, water supply, regulatory functions.	
Market responses.	
Waste treatment or disposal undertaken by parties outside the Falkland Islands.	Managed by more relevant initiatives. Low degree of control. Accounted to other nations.

ANNEX 2 - Carbon pricing in different countries

A2.1 United Kingdom, Ireland and other EU countries

In the UK, large industrial emitters such as oil and gas installations must participate in the UK Emissions Trading Scheme which was created to mirror the EU Emissions Trading Scheme in which the UK participated prior to Brexit, and both schemes retain many similarities. Emissions of carbon dioxide, methane and nitrous oxide are measured to a required level of uncertainty and, on an annual basis, participants have to surrender allowances equal to their emissions. Aside from a small fraction of free allowances, the necessary allowances are traded and the total number of allowances is reduced over time to drive reductions in emissions. In the UK the minimum CO2e price is £22 per tonne and in 2024, the average price was £41.84 per tonne,[9] with government modelling forecasting it to be over £80 per tonne by 2026.[10] In the EU ETS, prices were £50-70 per tonne over the last 12 months.

The UK and most EU countries also have fuel duties which would apply to MGO, diesel and kerosene which could form 20% of the emissions from a typical hydrocarbon production project. UK fuel duty is 58p per litre on diesel and 37.7p per litre on kerosene, equivalent to £216 and £144 per tonne of CO_2-equivalent respectively.

The UK has put a net zero by 2050 target into law and therefore adopts incentivising carbon prices consistent with this requirement.

Ireland is a relatively small and more rural European economy and operates with the EU ETS, but it also taxes emissions not covered by the EU ETS. It has a carbon tax on natural gas, liquid fuels and solid fuels that is designed to reduce GHG emissions while using part of the revenue to boost energy efficiency, alleviate fuel poverty and encourage more sustainable farming practices.[11] The rate is currently £51 per tonne increasing to £86 per tonne by 2030.

A2.2 'Carbon Pricing in the Americas' (CPA)

At the UNFCCC Conference of Parties in the UK in 2021, a group of governments in the Americas agreed to pursue carbon pricing collectively under a new body, the CPA.[12] This does not itself result in a specific mechanism or carbon price, but reflects a collective direction of travel. The governments are British Columbia, California, Canada, Chile, Dominican Republic, Federal District (Brazil), Jalisco, Mexico, Nova Scotia, Panamá, Paraguay, Pernambuco, Québec, Querétaro, Rio, Sonora and Yucatán. The CPA is partnered with various international bodies including the UNFCCC and the World Bank's Carbon Pricing Leadership Coalition.

A2.3 Chile

The Chile carbon tax (reference Art. 8° ley N° 20.780) was established in 2014 and went into effect in 2017. Initially it applied to installations with 50MWth generating capacity,[13] but now applies to installations emitting 25,000 tCO_2 or more.[14]

[9] UK ETS: Carbon prices for use in civil penalties, 2025 United Kingdom Government
[10] Traded carbon values used for modelling purposes, 2024 United Kingdom Government
[11] State and Trends of Carbon Pricing Dashboard: Ireland carbon tax World Bank
[12] Carbon Pricing Americas Carbon Pricing Americas
[13] Implementación del Impuesto Verde en Chile Art. 8° ley N° 20.780 Government of Chile
[14] Law 20780 on incorporating tax measures - Chile carbon tax International Energy Agency

The carbon tax rate was set in USD, initially at £3.90 ($5) per tonne of CO_2. Chile's 2050 Energy Policy states that by 2030 the carbon price should be at least £26.40 ($35)/tonne of CO_2, and more recently the Ministry of Energy proposed gradually increasing the tax value to £9/tonne by 2030, and then reaching a target value of £30/tonne by 2034.[15,16] As of 2025 the price remains unchanged at £3.90 per tonne for most emitters.

Chile's National Green Tax Emissions Compensation System also allows for offsetting projects to take place which can remove the tax obligation, in other words allowing the site operator to fund their own initiatives to abate GHGs by diverting the tax monies. In March 2024, the first eight projects were granted permission under this scheme including hydroelectric, solar and wind projects.

A2.4 United States of America

Given the state legislature system in the USA, there has emerged a variety of different carbon pricing mechanisms, including cap-and-trade, emissions tax and fuel duties, along with many states having no pricing at all. Taken as a country-wide average, net effective carbon rates are £11 per tonne, most of this being fuel duty.[17]

A2.5 Argentina

In 2017 the Tax Reform Act nr. 27.430 allowed for a carbon tax to be imposed. Initially, the carbon tax was proposed at a rate of £19 ($25)/ton CO2e for all fossil fuels, including diesel, kerosene and natural gas, however the rate approved by congress on liquid fuels in 2018 was £7.50 ($10).[18] Since the rate was fixed in peso equivalent value,[19] due to rampant inflation and currency devaluation this rate has now fallen effectively below £1 per tonne, and this is not seen as a useful comparator due to the country's economic instability.

A2.6 Brazil

Brazil is included here as an example country which may appear to have no carbon pricing (e.g. on the World Bank Carbon Pricing Dashboard).[20] However, Brazil has passed a law 15.042/2024 that enables an emissions trading scheme to begin operating (the 'SCBE'),[21] due to be operational 2027-2030.[22] The law also enables a scheme for certifying carbon credits, and the Brazilian financial exchange is developing a system to market these credits internationally.

A2.7 Australia

[15] Aumento transitorio al impuesto a las emisiones para financiar el aumento de la cobertura del Subsidio Eléctrico Government of Chile
[16] Chile's insights/progress on Article 6 Carbon Pricing
[17] Carbon pricing in the United States OECD
[18] Tax Reform Act nr. 27.430 Climate Change Laws
[19] Impuesto a las ganancias: Ley 27430 Government of Argentina
[20] State and Trends of Carbon Pricing Dashboard World Bank
[21] Comment – Carbon Market in Brazil: International Standards are the Safest Option until the Creation of SBCE Managing Body Carbon Pulse
[22] President Lula signs law creating regulated carbon market in Brazil Government of Brazil

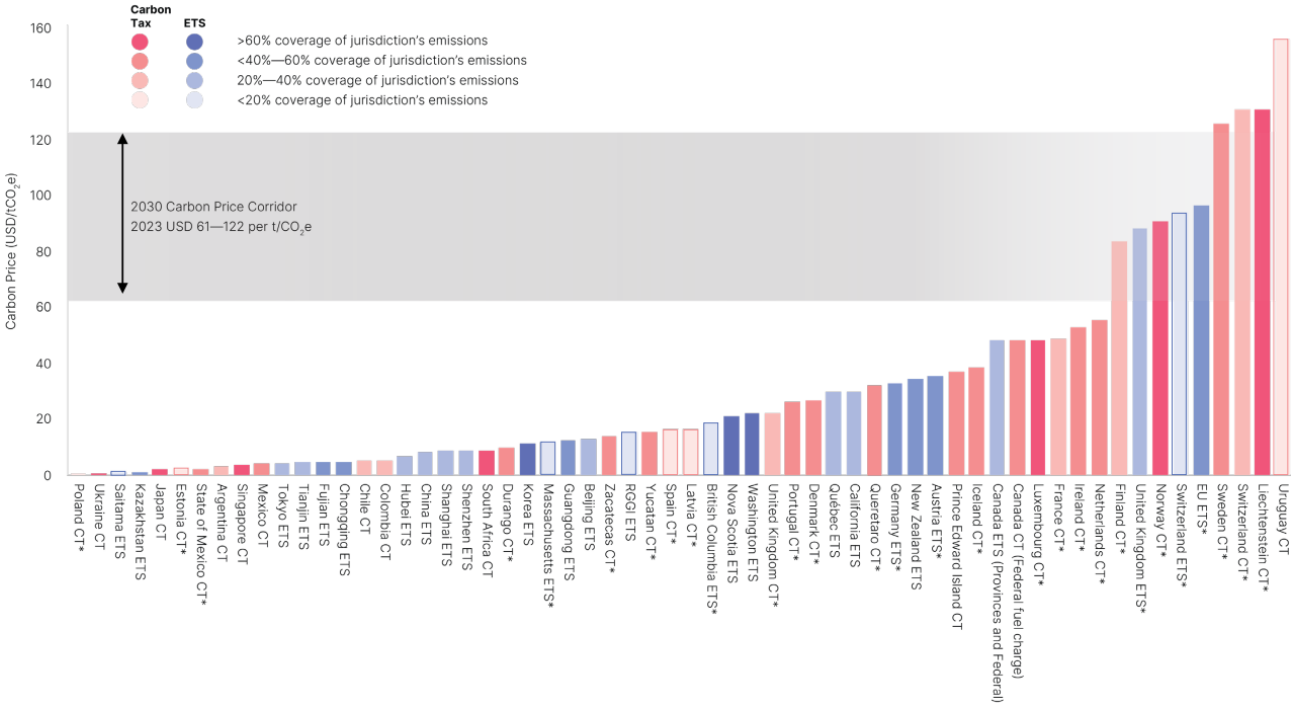
Australia had an early carbon tax which was revoked in 2014. It now has a system mainly of fuel duties that give a net effective carbon rate of around £17 per tonne.[23] It also introduced in 2023 a 'safeguarding mechanism' that assigns mandatory emissions baselines for over 200 large facilities in Australia, and facilities emitting above the intensity baseline must offset excess emissions by surrendering certified credits. Although the operational details of the scheme are not clear, the World Bank puts the carbon value at £16.50 per tonne.[24]

A2.8 New Zealand

NZ has an emissions trading scheme that applies to GHG emissions from the industry, power, waste, transport and forestry sectors and includes industrial process emissions. In 2023 the reserve floor price was increased to £29 per tonne of CO_2-equivalent across all six 'IPCC' GHGs, while the prices between 2020 and 2023 varied from USD £16-£32 per tonne.

A2.9 Worldwide comparison chart

Comparison of effective carbon rate worldwide[25]



Note: the above data is averaged across sectors and does not necessarily reflect the carbon price for the largest emitters in each country.

[23] Carbon pricing in Australia OECD
[24] State and Trends of Carbon Pricing Dashboard: Australia Safeguard mechanism World Bank
[25] Effective Carbon Rates 2023 OECD