# UK oil and gas firms risk financial losses from net zero transition due to poor risk disclosure



A new study sheds light on the financial peril facing UK oil and gas companies as they confront the transition to net zero. Findings indicate that a significant number of firms, particularly smaller operators with ageing infrastructure in the North Sea, may not fully grasp the economic ramifications of this shift. This misalignment could lead to inflated valuations and expose investors to considerable financial losses.

Conducted by researchers from the UK and France, the study involved an analysis of company reports and 22 in-depth interviews with industry insiders. It aimed to assess how effectively transition risks are being accounted for in energy sector financial landscapes. The results suggest that the impending net zero transition is poised to limit capital access, elevate borrowing costs, and precipitate substantial write-downs, with some assets at risk of becoming stranded. Dr Freeman Owusu from Loughborough University Business School noted, "Our findings show that the transition to net zero presents significant risks for oil and gas companies in the UK," emphasising the profound financial strains these firms are likely to face.

Particularly alarming is the vulnerability of smaller firms with high emissions and limited diversification in their business models. These entities may find themselves especially at risk as operational costs rise and access to finance diminishes. The study identified two pressing concerns: the financial vulnerabilities linked to the transition and the urgent need for tailored disclosures from companies regarding their exposure to these risks.

Current reporting frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Climate Disclosure Project (CDP), provide guidelines on climate risks, but they often fail to capture the unique financial challenges faced by the oil and gas sector's shift toward net zero. Participants in the research called for greater transparency around essential factors, including Environmental, Social, and Governance (ESG) performance, remaining reserves, and strategies for asset devaluation. Without improved transparency, there is a significant risk that companies could lose stakeholder trust and jeopardise their long-term sustainability.

Dr Owusu pointed out the disconnect between the actual risks involved and the disclosures currently made by oil and gas companies. He argued that more detailed and proactive disclosures are crucial not only for meeting stakeholder expectations but also for enabling informed investment and policy decisions. The implication is clear: by explicitly delineating the financial implications of the net zero transition, oil and gas companies can fulfil their responsibilities and maintain stakeholder confidence in an evolving market.

The study contributes vital insights to the growing sector of climate accounting, offering practical recommendations to enhance disclosures that inform investors, regulators, and the public. Dr Owusu remarked, "Reaching net zero is vital for a sustainable future, but it comes with real economic risks for carbon-heavy sectors." He underscored that transparent financial reporting is paramount for navigating these transitions successfully.

The broader context reinforces the study's warnings. The UK government’s recent decision to raise the windfall tax to 38% for oil and gas companies, creating an effective tax rate of 78%, has been met with stern criticism from industry leaders, who argue that such measures threaten to diminish local production and increase reliance on more carbon-intensive imports. This move is part of a larger strategy to fund the transition to renewable energy but has raised fears about its potential consequences on energy security and job stability.

Moreover, reports indicate a notable decline in available credit for oil and gas producers following the imposition of the Energy Profits Levy. Major banks have begun to retreat from financing UK projects, motivated by uncertainties surrounding taxation and the energy transition, underscoring the precarious position of the industry as it strives to align itself with government decarbonisation goals.

With significant investments required for a successful transition, experts have projected decarbonisation costs for the UK economy into the hundreds of billions, further complicating the financial landscape for oil and gas firms. As the country aims for net zero by 2050, the UK Sustainable Investment and Finance Association has highlighted the pressing need for investors to acknowledge the risks of stranded fossil fuel assets.

The study underscores that the financial realities of transitioning to a sustainable energy future must be recognised and acted upon by stakeholders across the board. By addressing the gaps in transparency and developing more refined financial reporting practices, the oil and gas sector has the potential to mitigate its vulnerabilities whilst playing a pivotal role in the UK's environmental ambition.

### Reference Map

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Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.lboro.ac.uk/news-events/news/2025/may/oil-gas-firms-face-net-zero-risk/> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/energy/north-sea-oil-gas-producers-say-uk-windfall-tax-is-wrecking-ball-2024-08-01/> - In August 2024, Reuters reported that UK oil and gas producers criticized the government's decision to increase the windfall tax by 3% to 38%, effectively raising the total tax rate to 78%. This move, intended to fund the transition to renewable energy, was expected to generate £1.2 billion annually but faced opposition from industry executives who argued it could reduce local production and increase reliance on more emission-intensive imports. Critics also noted a lack of consultation with the industry, warning it could threaten energy security and jobs.
3. <https://www.ft.com/content/9273672b-6132-437b-9ab5-d20767bad59d> - In December 2024, the Financial Times reported that the UK government agreed to compensate developers of the £8 billion Net Zero Teesside Power project if part of the scheme was halted due to an ongoing legal challenge. The project, involving BP, Equinor, and TotalEnergies, is the UK's first large-scale carbon capture initiative. The government's Department for Energy Security and Net Zero committed to compensating the companies if planning permission for the onshore component was revoked, potentially costing billions. The project is key to the government's efforts to decarbonize the electricity system by 2030.
4. <https://www.ft.com/content/27c75932-80cd-43af-88fe-b9a77587f3e8> - In July 2024, the Financial Times reported that Darren Jones, Labour's shadow chief secretary to the Treasury, admitted that decarbonizing the British economy would cost 'hundreds of billions' of pounds, primarily from private sector investments with some state subsidies. This admission came amidst criticism from the Conservative Party, which highlighted the discrepancy between Labour's stated £5 billion-a-year 'green prosperity plan' and Jones' admission of the much higher long-term costs. The Office for Budget Responsibility estimated the cost of reaching net zero by 2050 at £1.4 trillion, offset by £1.1 trillion in savings.
5. <https://www.ft.com/content/8d95e2df-3b2f-47f2-9805-02f02bd663ac> - In October 2024, the Financial Times reported that banks had significantly reduced loans to UK oil and gas producers following the imposition of the windfall tax in 2022. This raised concerns about the feasibility of investing in the North Sea oil and gas industry, potentially leading to its premature shutdown before viable renewable energy alternatives were fully developed. The introduction of the Energy Profits Levy, a tax on fossil fuel companies, resulted in a 40-50% drop in available credit. Additionally, ongoing tax uncertainties and the transition toward renewable energy caused major banks and other potential financiers to step back from funding UK projects.
6. <https://www.ft.com/content/8b3218e1-1801-42b6-9035-c3ba5aded876> - In April 2025, the Financial Times reported that a business group urged the UK government to replace the windfall tax on oil and gas before 2030 to ensure the future of the North Sea. The North Sea Transition Taskforce emphasized that the effective tax rate of 78% on oil and gas profits was 'strangling investment' and could reduce Treasury revenues. They proposed a more proportionate tax regime that adjusts predictably to hydrocarbon prices, thereby incentivizing long-term investment in domestic gas. The report highlighted widespread concerns about the future of the North Sea and called for restoring investor confidence to protect tens of thousands of jobs in the fossil fuel industry.
7. <https://uksif.org/policy/stranding-report/> - The UK Sustainable Investment and Finance Association (UKSIF) published a report highlighting the risk of fossil fuel assets becoming stranded due to global decarbonization efforts. The report emphasized that many countries, including the UK, have set decarbonization targets, aiming to curtail demand for fossil fuels through policies supporting renewables, energy efficiency, and electrification. This shift exerts pressure on fossil fuel companies from both policy and market forces, leading to potential value erosion for fossil fuel assets. The report underscores the need for investors to consider these risks in their portfolios.