House of Commons
Scottish Affairs Committee

The Future of the Oil and Gas Industry: Government Response to the Committee’s Sixth Report

Fifth Special Report of Session 2017–19

Report, together with formal minutes relating to the report

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The Scottish Affairs Committee

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Committee staff

The current staff of the Committee are Ben Williams (Clerk), Bradley Albrow (Second Clerk), Ben Rayner (Committee Specialist), Chloe Freeman (Senior Committee Assistant), Robert McQuade (Committee Assistant), and Nina Foster (Media Officer).

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Fifth Special Report

The Scottish Affairs Committee published its Sixth Report of Session 2017–19, *The future of the oil and gas industry*, HC 996, on 4 February 2019. The Government response to the Report was received on 2 April 2019, and is published as an appendix to this Report.

Appendix: Government Response

Recommendation: Securing the future—Sector Deal proposal

Paragraph 20: We support the proposals for an oil and gas sector deal which we believe is an ambitious and timely plan of action to strengthen an industry which is so vital to Scotland and the UK’s economy and energy supply. A sector deal would support Scotland’s oil and gas industry through a time of change; cementing its place as a global leader while it responds to new challenges.

Paragraph 21: We recommend that the UK and Scottish Governments work with the sector to convert the ambition and vision of the sector deal into a plan that will deliver the significant benefits it envisions and prepares the sector for future challenges. There are some areas where we believe the industry could be more specific or ambitious in the commitment it is making in return for this investment, which we will address later in this Report.

Government response to paragraphs 20 and 21:

We acknowledge your support for an oil and gas Sector Deal and we share the committee’s desire to support the sector. It is widely understood that a close relationship with government has been enjoyed by the sector over many years through which it benefits from significant support through a favourable fiscal regime and long-term strategic oversight.

We have been clear that any Sector Deal must meet the expectations set out in the Industrial Strategy White Paper and be a catalyst for transformation.

The sector has already benefited from a significant early ‘Sector Deal’ in the form of the Wood Review, which led to the creation of the Oil and Gas Authority (OGA) and the Maximising Economic Recovery (MER) UK Strategy. On top of this, the industry has already received unprecedented support from this government, including: fiscal changes to the tax regime worth £2.3bn; the Aberdeen City Region Deal (with £180m for a new Oil and Gas Technology Centre, co-funded with the Scottish Government); support for exploration worth £45m; and new arrangements to support the transfer of tax history, with the objective of boosting investment into the UKCS.
We have welcomed the work that has been led by Trevor Garlick on the industry’s proposal for a new Sector Deal, which is closely aligned to Vision 2035; a vision that this government supports. Mr Garlick’s clear leadership has brought a diverse sector together and led to a coherent proposal with some good ideas focused around the supply chain. It is unlikely that this would have happened without the Sector Deal process and we are keen to keep this engagement going as certain elements of the proposal are delivered whilst others continue to take shape.

For example, a number of the workstreams in the proposal, including some of the five areas of focus in your report, are already being taken forward without a formal Sector Deal. Others are still in the development phase and we are committed to engaging with the sector as these proposals take shape, particularly on underwater engineering and exporting the sector’s expertise. Industry has pragmatically suggested that this will be in a phased approach rather than necessarily as a formal deal.

Government ministers and officials at all levels engage closely on a range of issues related to our modern Industrial Strategy and on the oil and gas sector, including through the MER UK Forum chaired by the OGA and we look forward to continuing this engagement.

**Recommendation: Maximising economic recovery**

**Paragraph 31:** We believe that maximising economic recovery is the right approach for the sector and welcome the steps the OGA has taken to improve collaboration. Whilst we acknowledge environmental concerns about the MER strategy, oil and gas looks likely to form a substantial part of the UK’s energy mix for at least the next 15 years. As such, we believe it makes sense to meet as much of this need as possible from domestic sources.

**Government Response to paragraph 31:**

The government welcomes the committee’s conclusion that maximising economic recovery is the right approach for the sector. MER UK will ensure that the UK derives the maximum benefit from our domestic oil and gas resources supporting energy security, jobs and the economy. Whilst the move to a low carbon future is clear, domestic oil and gas production will remain an important part of the UK’s energy mix over the medium term.

**Paragraph 44:** Continued investment in technology will be crucial to the future of the oil and gas industry. We welcome that investment that industry and both Governments have already made in technology that will make it easier and more efficient to access smaller pockets of oil and gas, which will contribute to maximising economy recovery from the UK basin. If sector deal funding for the underwater innovation centre is to be used to support further work in this area, the Government must ensure that it will deliver additional benefits beyond what has already been funded through the Oil and Gas Technology Centre.

**Government Response to paragraph 44:**

Government agrees with this recommendation. The proposal concerning the Underwater Engineering Centre is still being developed by the sector and we look forward to
discussing the proposal further. However, we are aware that the focus is moving away from innovation, with new work on subsea technology instead being driven by the Oil and Gas Technology Centre in tandem with Robert Gordon University and business.

**Paragraph 48:** We welcome the introduction of Transferable Tax History which should help deliver the MER strategy by enabling assets to be transferred to companies who can make the best use of them. We invite the Government to set out in response to this Report how it will monitor the impact of this policy to ensure that it is delivering these benefits.

**Government response to paragraph 48:**

Transferable tax history (TTH) will attract new entrants and new investment into the UK oil and gas sector and is forecast to raise £65m for the Exchequer between 2018–19 and 2022–23. We welcome that the Committee’s recognition of the significant benefits that this policy will deliver.

Oil and gas investment decisions are complex and involve long lead-in times. A transaction to purchase an oil field can take many months to agree, and the economic impact of new investment will take years to fully materialise. It will therefore be several years before we see the full benefits of the additional investment and increased production that TTH will stimulate. The government will therefore take a long-term view and work closely with industry, the OGA, and other stakeholders to understand the level and impact of new investment brought about by TTH.

The government regularly monitors and evaluates the wider impacts of all aspects of our oil and gas fiscal regime to ensure we achieve the aim of maximising economic recovery of our natural hydrocarbon resources while delivering a fair return for the nation. This fiscal regime continues to encourage new investment in the industry, helping to protect jobs and energy security in Scotland and across the UK.

**Recommendation: Decommissioning**

**Paragraph 61:** Decommissioning represents a significant export opportunity for Scottish businesses. Scotland has the opportunity to become a global base for the decommissioning industry. We therefore endorse the call in the sector deal for the Government to work with the sector to develop a decommissioning export strategy.

**Government response to paragraph 61:**

Decommissioning of the UK’s offshore oil and gas production facilities is a major industrial opportunity which could create global competitive advantage for the UK. The UKCS is the largest decommissioning market in the North Sea with an annual expenditure profile forecast to stabilise at around £1.5 billion per year. Decommissioning represented around 8 per cent of overall total expenditure in the basin in 2018. Looking ahead, in the next decade £15.3 billion is forecast to be spent on UKCS decommissioning.
With over 300 UK based companies already offering decommissioning expertise, the UK supply chain is in a good position to develop the requisite skillset and experience to form an international centre of excellence in decommissioning, with the opportunity to export its expertise. Likewise, this is a significant opportunity for investors looking to enter the UKCS decommissioning sector.

Government welcomes your report’s recommendation. At the Spring Statement 2019, the Chancellor announced the launch of a call for evidence led by BEIS on what could be done to ensure that we make the most of the opportunities that will arise from this phase of the industry’s life-cycle, as well as prepare for the global decommissioning market, forecast to be worth around £80bn over the next 10 years.

We welcome the participation of all stakeholders in this call for evidence. Responses to this call will enable government to assess the relative strengths of the UK decommissioning industry and help to provide an evidence base for any further strategic approach to take advantage of global decommissioning opportunities. A formal government response will be published after the call for evidence has concluded, summarising the responses from industry and outlining the potential next steps.

**Paragraph 64: There is a clear difference in perspective between industry and the regulator on what re-use of information about previous decommissioning projects is possible under the current rules. We recommend that OPRED review how it communicates its requirement to businesses and consider how it can promote the re-use and sharing of information between companies, without compromising the need for the decommissioning company to be accountable for the evidence their plans are based on. The Government must support the industry in sharing best practice and learning important lessons from previous exercises and should consider supporting the creation of an industry standards.**

**Government response to paragraph 64:**

Government will work with industry, stakeholders and other regulators to support industry to share best practice and explore the creation of industry standards. We will also review the way we currently promote the re-use and sharing of information between companies to clarify any ambiguities that exist.

**Paragraph 73: While all parties want the same outcome, to decommission in a way that minimises the harm to the environment, there is clearly genuine disagreement about what policy on the removal of disused rigs will best deliver this. We recommend that OPRED lead discussions with industry, environmental groups, academics and other stakeholders to establish a common evidence base to allow an agreed solution to be found. OPRED should also work with the sector to better explain what is already possible under the current system.**

**Government response to paragraph 73:**

Government accepts the recommendation and will work with industry, environmental groups, academics and other stakeholders to clarify the current domestic and international
regulatory positions, and to explore the options for developing an evidence base to inform decisions relating to the best environmental options for the decommissioning of offshore installations.

**Recommendation: Preparing for transition**

**Paragraph 79:** We welcome the sector deal’s proposal for a centre of excellence in underwater innovation and its focus on expanding the sector’s export performance. This is one of many areas in which the offshore oil and gas sector has the potential to improve its export performance, with decommissioning and late-life extraction being other areas of expertise. We ask that the Government outline how it will integrate these different areas of focus to provide a cohesive and unified strategy to promote the sectors’ export.

**Government response to paragraph 79:**

With over 45,000 employees and around 650 companies, the £7.5 billion UK subsea sector leads the way around the world in terms of experience, innovation and technology. While oil and gas accounts for the major share of subsea revenues, the sector also operates in defence, oceanology and marine renewables, primarily offshore wind including emerging sectors of wave and tidal. The UK has world leading positions in underwater operations, renowned for its innovation and technology, engineering ingenuity and manufacturing expertise. This is vital for the continued success of the UKCS.

Additionally, with almost a half of the global market share, the UK sector continues to enjoy healthy overseas sales. Exports extend further than simply goods. Where there are gaps in local knowledge, UK subsea expertise and know-how have been called upon across the globe using one of its key strengths—an inter-connected supply chain. As overseas markets look to replicate this model, the UK subsea industry continues to lead the way but as our competitors build their skillset, we cannot remain complacent.

On exports, the Department for International Trade (DIT) is leading work to review what further measures could improve the UK’s export performance to meet government’s ambition to increase exports to 35% of GDP, including helping UK oil & gas supply chain companies win international business. The DIT Export Strategy is closely aligned to industry’s Vision 2035 which aims is to double the UK market share by 2035 from 3.7% to 7.4%.

DIT is a member of the OGA’s Supply Chain and Exports Task Force within the MER UK structure whose aims include driving improved export performance. It is also closely involved with the Export Conference which is being held in Aberdeen in June. It aims to help as many UK supply chain companies to begin exporting or increase their exports as possible. Successfully increasing the UK supply chain global market share will enable the UK North Sea to become an established test base for the development and trialling of technologically advanced solutions which will be required globally.

The full range of DIT export support services are available to companies in the industry and there are specific, bespoke programmes of activity (known as ‘High Value Campaigns’) which prioritise opportunities across the globe where government support can add most value: India, Azerbaijan, Kazakhstan, Brazil, Mexico, Saudi Arabia, Oman, Senegal/
Mauritania, Nigeria, East Africa and Iraq. Supporting UK-based companies to invest and operate overseas and become global businesses will be ever more important as we forge new trading relationships around the world.

**Paragraph 88: We recommend that in agreeing the sector deal proposal the Government ensure that it contains specific and measurable outcomes on increasing skills transfer to new sectors, with clear commitments for action from both industry and Government.**

**Government response to paragraph 88:**

Government accepts this recommendation although we do not think that this is contingent on the agreement of a formal Sector Deal. Diversification has been happening across the oil and gas sector whether as a result of producers moving into renewables or by the oil and gas supply chain offering new services to break free from the damaging cyclical nature of commodity pricing. Enabling skills transfers between energy sectors will make it easier for companies to diversify and will facilitate the transfer of expert skillsets prevalent in the oil and gas sector to boost growing sectors such as offshore wind. Work has already started on skills mapping across energy sectors led by OPITO, the oil and gas skills body and with the involvement of officials from BEIS.

**Recommendations: Climate change challenge**

**Paragraph 95: We recommend that before the Government finalises the sector deal it should ensure that the sector brings forward a more detailed proposal on how this will be achieved and how the success of the centre on transformational technology in developing low carbon technologies will be measured.**

**Paragraph 98: We believe that the sector deal could be more ambitious in [enabling continued use of gas as a power source in a way that is consistent with the UK’s climate change goals] and recommend that before the sector deal is finalised the sector should bring forward a more detailed proposal on how the three centres of excellence could support the development of CCUS technology and how their success will be measured**

**Government response to paragraphs 95 and 98:**

Government welcomes the committee’s recommendations. We remain keen to continue to explore what more we can do with the sector on the subject of decarbonisation and have asked the sector to consider what more can be done in partnership on CCUS in particular.

**Paragraph 105: We welcome the Government’s ambition to support the development of CCUS clusters, which should drive up value for local economies and encourage ongoing technological innovation. We ask the Government to set out in response to this Report; what support from the announced Industrial Strategy funds will be made available for the development of CCUS cluster, how the bid for this funding will be evaluated and how it has incorporated lessons from previous failed CCUS competitions into this process.**

**Government response to paragraph 105:**

The Clean Growth Grand Challenge seeks to maximise the advantages for UK industry from the global shift to clean growth. CCUS has the potential to play an important role in
achieving this objective. Focusing deployment in clusters, as suggested by the committee, may have advantages such as delivering economies of scale through shared infrastructure or driving regional economic growth which we recognised in our CCUS Action Plan, published in November 2018.

Building on this at COP24 we announced the second Clean Growth Grand Challenge mission, to establish the world’s first net-zero carbon industrial cluster by 2040 and at least one low-carbon cluster by 2030. To support this mission, through the Industrial Strategy Challenge Fund we will be investing up to £170 million in innovation support to the deployment of low carbon technologies, such as CCUS and fuel switching (e.g. from hydrogen). Further details on this funding and the application process, which is delivered by UK Research and Innovation, will be provided in due course. In addition, on 25 March, we launched a consultation on the design of the £315 million Industrial Energy Transformation Fund will support businesses with high energy use to cut their bills and emissions through increased energy efficiency, and transition to a low carbon future through the use of lower carbon energy and processes.

As we progress our approach to CCUS in the UK, we are ensuring that we apply the lessons learnt from previous CCS Competitions and advice from the National Audit Office. That is why we committed in our CCUS Action Plan to work closely with industry to address the critical challenges to progressing CCUS in the UK and on 21 March 2019 announced the formation of a new CCUS Advisory Group, backed by up to £1 million of government and industry support.

Paragraph 110: Creating a market for using stored CO₂ can make a contribution to the commercial deployment of CCUS by creating an income stream from some of the captured gas and we welcome the support that the Government has announced for businesses innovating in this area. As there is likely to be limited demand to use captured CO₂ the Government must ensure that the lessons learned from projects supported by the CCU Demonstration Fund are shared with facilities focused on the long-term storage of captured CO₂.

Government response to paragraph 110:

We agree that the results from projects participating in our £20 million CCU Demonstration Programme will be made available to maximise the learnings from all projects supported under the Programme. Results from each individual project will be evaluated and published on the Department’s website to share the benefits and learnings.

In addition, we are supporting wider innovation in CCUS. In February 2019, following a large number of high-quality applications, BEIS announced that the £15m Call for CCUS Innovation will be increased to up to £24m. The Call has offered funding of up to £5m for feasibility studies, industrial research and experimental development; and up to £7m for research infrastructure to enable the UK to conduct world-leading research and innovation into CCUS. Projects funded by this Call span the full spectrum of CCUS, including investigating CO₂ storage processes and ways to drive cost reduction. Again, all information will be made publicly available allowing academia and industry to maximise their impact, support cost reductions and accelerate the development of CCUS in the UK and globally.

2 http://www.ccsassociation.org/index.php/download_file/view/1143/97/
Paragraph 115: Oil and gas infrastructure has the potential to be re-used for CCUS and it would be regrettable if this potential was lost due to a relatively short gap between infrastructure being decommissioned and CCUS becoming commercially viable. We welcome the Minister’s openness to finding solutions to this problem and invite the Government to set out what options are being considered in its response to this report.

Paragraph 116: One solution that we recommend the Government considers is that it underwrites the liability for this infrastructure for a fixed time while options for re-use are explored. This would ensure that the original owners are not at risk from additional liability for keeping this infrastructure in place for an extended length of time. Ownership and liability could then be transferred to the new CCUS operator if re-use went ahead, or back to the original owner for decommissioning if the option of re-use does not materialise.

**Government response to paragraphs 115 and 116:**

The opportunity for the strategic re-use of oil and gas assets was highlighted by the CCUS Cost Challenge Taskforce.

Our CCUS Deployment Pathway: An Action Plan, sets out two actions to both identify oil and gas assets with potential for re-use for CCUS projects and to develop a policy on re-use of this infrastructure for the purposes of transport and/or storing carbon dioxide. We are currently working in close collaboration with industry and relevant regulators, such as the Oil and Gas Authority, to progress these two actions in the first half of 2019 and consideration of liabilities, ownership and asset transfer will form part of this work.