Visit to Oil and Gas UK

28 November 2016

Meeting hosted by: Deirdre Michie, Chief Executive and Ailsa Nicol, External Affairs Manager

Members in attendance: Liam Kerr

Background

Oil & Gas UK is the body that represents the interests of the offshore oil & gas industry, from SMEs up to global players like BP.

Discussion

The meeting covered—

- Different companies and different sectors within the industry have varying degrees of “exposure” to Brexit in terms of threats and opportunities;
- Oil & Gas UK would produce an analysis in the New Year setting out existing data to build on issues most pertinent to the industry (see attached);
- Access to the single market was key for some member companies – and, given what the industry had already gone through in recent years, any added costs (from tariffs or non-tariff barriers for example) were to be avoided if the UK is to remain globally competitive;
- Access to labour was another issue, one company told us in 2014 84% of subsea roles were filled by non-UK applicants, the vast majority of which came from the EU.
- Energy trading was also mentioned, particularly given that all gas and 75% of oil exports went to the EU in 2015 (oil was global, gas more regional), with the need to keep commercial codes and tariffs consistent;
- Investment was an area of concern – a global issue as well as Brexit uncertainty adding to the risk;
- Asked about decommissioning, it was described as part of the life cycle but essentially a demolition industry that will offer opportunities but will not replace the benefits that the current industry does.;
- The aim was to optimise the industry;
- The need for better workforce planning was mentioned, with better linking in between Scottish and UK Government;
- There was no need or desire to unpick safety and environmental legislation and – business continuity will be important as the UK leaves the EU;
- The latest iteration of the Emissions Trading Scheme (ETS) was highlighted as something currently going through the European Parliament that could be damaging to the industry. It is vital that the UK still has a strong voice at the table as decisions that affect the industry are made – both as negotiations proceed and also post-Brexit. For some companies this is a bigger issue than market access.
- Discussion moved onto the continental shelf and licensing, commercial rules we will be bound by, guidelines rather than directives on hydro-carbons, and what could be learnt from Norway with its approach to influencing European decision-making;
In terms of “wants”, top of the list were predictability/consistency and being allowed to get on with business;

Oil & Gas UK would look into export figures and the notion that Scottish exports may be being wrongly measured. [We consulted our market intelligence team on this. The statistics we use for oil and gas exports (as in the commodities rather than other goods and services) are UK statistics. The Scottish Government’s stats all say that they exclude oil and gas. Because of the way oil and gas is traded it’s impossible to definitively measure what comes from Scotland and what is produced from the rest of the UK (or even how ‘Scotland and UK’ would be defined in terms of the UK Continental Shelf.)
• **Brexit: priorities for the offshore oil and gas industry**
  • Oil & Gas UK represents the UK offshore oil and gas industry with over 400 member companies right across the UK spanning exploration and production companies and large, medium and small companies in the UK’s supply chain.
  • Leaving the European Union brings both risks and opportunities for the UK’s offshore oil and gas industry. This paper sets out what Oil & Gas UK believes the UK Government’s priorities should be as it prepares to negotiate the UK’s exit from the EU.

• **Continued support for a vital UK industry**
  • The greatest challenge currently facing the oil and gas industry is a worrying drop in fresh investment. Throughout the negotiations we ask that the Government does all it can to ensure that the UK remains competitive and attractive to investors. Brexit should support the Government’s policy of maximising economic recovery from the North Sea (MER UK).
  • Predictable and clear fiscal and energy policy are important, as is grasping the opportunity to put energy at the heart of the new industrial strategy. Through the strategy, government can become a champion for UK industries overseas, facilitate cross-sector learning and diversification, boost exports, support the development of new technology and grow the right workforce for the future.

• **Movement of goods, services, capital and skills**
  • The oil and gas industry is global and our trading relationships with the EU and the rest of the world are highly complex. We import and export oil and gas, with much of that trade taking place between the UK, EU and Norway, and like other industrial sectors we import and export goods and services to and from the EU and the rest of the world.
  • The ability to access the EU market for goods and services is important to some of our members, particularly in the supply chain. Any increase in tariffs or non-tariff barriers such as customs delays, could be costly and go against the government’s policy of MER UK.
  • The health of London as a financial centre is important to our industry. European banks have been helpful in the past in giving us access to the debt market. The passporting rights of UK financial firms, which are necessary for trading gas and for larger transactions between parties, should be preserved under the UK’s future relationship with the EU.
  • The ability to access skills is absolutely vital for our sector. The UK economy already has a shortage of engineers and other technical professionals and any future arrangements for the movement of labour need to ensure our industry can access the skills of a globally mobile workforce.
  • Our member companies have a duty of care to their employees and we ask government to clarify the position of existing EU staff working in the UK and UK staff working elsewhere in the EU as soon as possible.

• **Maintaining a strong voice in Brussels**
  • The European Commission is increasingly focussed on introducing policy which fails to recognise the importance of gas in ensuring security of energy supply while we decarbonise the economy.
  • EU policy which is potentially damaging to our industry is being developed in Brussels now. This includes reform of the EU Emissions Trading Scheme, the hydrocarbons guidance document and offshore financial liability measures.
The UK Government needs to ensure our industry's voice is not muted by the recent Brexit vote and that the UK continues to have a seat at the table while we negotiate our exit, as well as after we leave the EU if regulations are to continue to apply to our industry.

**Energy trading and the internal energy market**

The ability to trade energy across borders, particularly gas, is vital for the UK’s security of energy supply. 100% of the UK’s natural gas exports go to the EU, and we import 45% of the gas needed to meet UK domestic supply. In order to function properly, markets must remain connected with appropriate commercial interfaces and transmission codes. There is a risk that after leaving the EU, the UK will have no say over how commercial rules are made, but will have to align with them in order to trade energy. Government must be mindful of this.

**Safety**

Our sector is underpinned by an array of important EU safety legislation. These rules should remain in place and our industry’s world-leading standards must be maintained. The UK industry has been at the forefront of developing this legislation in Brussels to push up standards right across the EU.

There is an opportunity to look more closely at how regulation could be made to work more effectively and avoid duplication. For instance, if there is an opportunity to amend how the Offshore Safety Directive applies to the UK Continental Shelf, we would ask that the obligation on companies to report major accidents from non-European subsidiaries to the European Commission is removed as it is duplicative and represents an unnecessary burden on companies.

**Climate change and the environment**

Our industry has an important role in helping to meet energy demand while supporting the decarbonisation of the economy, particularly through the use of gas as a transition fuel.

Oil & Gas UK welcomes the UK Government’s ratification the Paris Agreement as a non-EU signatory and wants to see the government play an active role in the agreement’s 2018 review. We also support the EU marine protected areas legislation, and ask that UK Government enshrine it in UK domestic law.

The EU Emissions Trading Scheme (ETS) is the most effective way of reducing carbon emissions across Europe and is important in helping the UK meet its obligations under the Climate Change Act. Oil & Gas UK believes the UK should remain part of the ETS provided it is reformed to allow the offshore industry free allowances for power generation and carbon leakage protection. These reforms will ensure the offshore sector is not competitively disadvantaged compared to the onshore sector.

We would like to see the EU-funded UK marine monitoring programme under the Marine Strategy Framework Directive continue. It provides useful data to the industry which helps us understand and minimise the environmental impact of our operations.

Our industry is underpinned by a large body of EU environmental regulation, such as the REACH regulation, which we would like to remain in place. Not only is this body of legislation important in ensuring the highest standards
are maintained right across our sector, but our members have also invested time and resource in complying and amending it would be unnecessary and costly.