The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 2 December 2015

Session 4

Wednesday 2 December 2015

CONTENTS

ECONOMY, ENERGY AND TOURISM COMMITTEE
31st Meeting 2015, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Chic Brodie (South Scotland) (SNP)
Patrick Harvie (Glasgow) (Green)
*Johann Lamont (Glasgow Pollok) (Lab)
*Richard Lyle (Central Scotland) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lewis Macdonald (North East Scotland) (Lab)
*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

James Bream (Aberdeen and Grampian Chamber of Commerce)
Sir Patrick Brown (Oil and Gas Authority)
Deirdre Michie (Oil & Gas UK)
Andy Samuel (Oil and Gas Authority)
Mike Tholen (Oil & Gas UK)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 2 December 2015

[The Convener opened the meeting in private at 09:34]

10:30

Meeting continued in public.

Witness Expenses

The Convener (Murdo Fraser): I welcome everyone to the 31st meeting in 2015 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses, who will give evidence shortly, and visitors in the public gallery. I remind everyone please to turn off or at least turn to silent all mobile phones or other electronic devices. We have received apologies from Patrick Harvie, who is unwell.

We come to item 2 on the agenda. Are members content to delegate to me as convener responsibility for arranging for the Scottish Parliamentary Corporate Body to pay, under rule 12.4.3, any expenses of witnesses for the evidence sessions on the future of oil and gas in Scotland and renewable energy in Scotland?

Members *indicated agreement.*

Oil and Gas Industry

10:31

The Convener: Under item 3 on the agenda, we will continue to take evidence as part of our inquiry into oil and gas in Scotland. I welcome our first panel of witnesses. We are joined by Deirdre Michie, chief executive of Oil & Gas UK; Mike Tholen, economics director of Oil & Gas UK; and James Bream, research and policy director at Aberdeen and Grampian Chamber of Commerce. Thank you for coming.

Before we get into questions, I think that Deirdre Michie hopes to say something by way of an introductory statement.

Deirdre Michie (Oil & Gas UK): Yes, convener. Good morning, ladies and gentlemen. We really appreciate being invited to give evidence today. I would like to set some context before we get into questions and answers. Mike Tholen and I work for Oil & Gas UK, which is the leading trade association for the offshore oil and gas industry. We are a not-for-profit organisation with more than 520 members across the United Kingdom, 85 per cent of which are from the supply chain. We cover the whole range, from the big operators through to smaller ones and right the way through the supply chain.

Members will be familiar with the oil and gas industry, but it is always good to reinforce what an amazing industry we have in the UK. We continue to support hundreds of thousands of skilled jobs and we have contributed to the security of energy supply in this country for many years. If you think about it, the lights have not gone off since the 1970s. We have paid billions of pounds to the Treasury and made huge investments in this country over the years. The economic value of our contribution is significant.

We have seen record investment over the past three to four years, with capital investment up by £14 billion in 2014 because of big projects coming through. The upside of that is that big projects are coming through, but the downside has been that we have also seen an acceleration in the escalation of costs, and efficiency has been dropping in our industry over the years. Of course, that has been compounded by the very sharp and now sustained drop in the oil price, which is challenging our industry.

The industry is very focused on turning things around. We are concentrating on the areas that we can influence—the cost piece and the efficiency piece—and looking to make improvements there. Costs are reducing and efficiency is improving. We are working co-operatively with the Treasury, the regulator and

Government generally to try to turn the industry around. The downside is that we are seeing job losses as a result. Obviously, we recognise that that is a very significant and personal issue for people who have been made redundant or who are at risk of that, at individual and family level. We recognise that and are looking to work constructively and positively in that area. As I said, there is an upside to the actions that we are taking. Production is increasing for the first time in 15 years, costs are coming down and production efficiency is improving.

We are going through extremely challenging times as an industry and we expect those challenging times to continue. The situation is not likely to change much in 2016. However, as an industry, we are focused on and committed to continuing to ensure that we have a sustainable industry that can come through these difficult times and continue to provide economic value to Scotland and the UK.

I appreciate your invitation to come to the committee and your interest in the issue. Obviously, we are asking for your support as we go through these difficult times.

Thank you, convener.

The Convener: Thank you very much for that introduction. You touched on a number of issues that we will want to pick up in questioning, such as taxation, the regulatory impact, the impact on the wider economy, the cost base and health and safety issues.

We have about an hour and 10 minutes for questions. I ask members to keep their questions short and to the point. Incidentally, it would be helpful if members would address their questions to a particular panel member. If the witnesses want to respond to a question that has been addressed to somebody else, they should just catch my eye and I will try to bring them in as best as I can and as time allows. Responses that are short and to the point would be helpful if we are to get through the range of topics that we want to cover in the time that is available to us.

I will start off by picking up on the point that Deirdre Michie made about the wider economic impact. I address this question initially to James Bream. You have provided us with the “Oil and Gas Survey” that was done by Aberdeen and Grampian Chamber of Commerce and the University of Strathclyde, which looks at the broader impact. We have already heard evidence about the broader impact of the decline of the economy in Aberdeen and the north-east. Briefly, will you give us your assessment of the knock-on effect of the decline in the oil price on the local economy in Aberdeen?

James Bream (Aberdeen and Grampian Chamber of Commerce): Obviously, the context and the place to start is the numbers on jobs. I commend Oil & Gas UK for having a go at assessing that, because it is extremely difficult to do. We have tracked redundancies company by company. That can be done to a certain extent but, below a certain level, it is not possible, because the figures do not have to be made publicly available.

We know from our survey that, in the past year, around 14 per cent of the workforce has been lost in the operating community. We need to remember that the issues started in 2014, so the figure is not the full picture and the situation will continue into next year. We also have the supply chain impact, and we can easily track the loss of about 8,000 jobs there. Therefore, quite quickly, without doing any clever maths but just by adding those together with some very small multiplied impact, we get to a figure for last year of in the region of 25,000 to 30,000 jobs. Therefore, the 65,000 figure that the committee has heard is entirely feasible, even if we take a banding.

I was interested to read in the Scottish Parliament information centre report that we have not yet seen a real impact on unemployment data, although the claimant count in the north-east has been nudging up. At this point, it is too early to use that as a real indicator. We are seeing people on gardening leave and others are being made redundant on packages and so are unlikely to claim benefits. People who are expatriates are perhaps relocating. Therefore, that figure is a pretty blunt tool.

We have started to look at data from around the north-east to get a bit more of a feel for activity levels. I will flag up a few things. In commercial property, there is certainly a significant softening of the office market, although the market for workshop and shed-type space is holding up. As the committee has probably heard, there has been a significant fall in occupancy in hotels from near 80 per cent to about 66 per cent, which is a significant year-on-year drop. Average room rates have also fallen, from about £100 to £75 a night.

In the house market, this time last year about 88 per cent of properties that went to market were selling, but we are now down to 73 per cent, which is a real fall. We have also had a look at jobs and we have spoken to some recruitment consultancies. The number of jobs being posted with them has halved since this time last year. People have talked anecdotally about cars, and we have approached some car dealerships. This time last year, their order book was healthy but falling. Some of the higher-end ones had about 30 orders a month, but now there is literally nothing in the order book for the year ahead.

In some respects, the lag in the Government data can be explained. We are now starting to see the impact ripple out and the question that we are asking ourselves is how long the softening will go on for. We do not know, but we know that it will certainly continue through 2016, and we forecast more redundancies in our report.

The Convener: I have a question on that very point. Are we through the worst in terms of redundancies, are there more to come, or is the position so dependent on the oil price that it is impossible to make any forward projections?

James Bream: Both of us could probably answer that question. The first question is whether the sector is through the worst in terms of production, cost efficiency and so on. Your are asking about redundancies. We have seen a hard and sharp reaction, which has been necessary. I think that in the next year we will see a slowing of the percentage rate fall in redundancies compared with the past year. However, that clearly comes on the back of an extremely difficult year, so what is left behind is a situation in which those still remaining in businesses will feel more impact, and it is difficult to maintain morale when going through those multiple processes. I therefore think that we are not at the bottom in terms of the reduction in employment—that is for sure.

The Convener: Thank you. Does Deirdre Michie have a view on that?

Deirdre Michie: I will pass the question to Mike Tholen.

Mike Tholen (Oil & Gas UK): I would probably concur with what James Bream and Deirdre Michie have said. What we are seeing is not just an oil price impact; what we are seeing is companies responding to having less money to invest in new opportunities. They are trying to curtail the expenditure on running their businesses because they are under such duress from the falling oil price. Inevitably, there will be further job losses, not least because the outlook for the oil price remains much poorer than anticipated, even in spring this year.

The Convener: Have you had any indication of where the industry is going with redundancies? Will we see more redundancies in the course of the next year?

Mike Tholen: We are going to calibrate the picture again in the spring. Companies are putting together their plans for the coming year and we are working with them to get an overall picture of that investment or spend outlook. Hopefully, by the early spring, we will have a good picture on investment and what the opportunities are, and from that we will get a much better thermometer of the outlook for the next year.

The Convener: I have two other issues that I want to raise, but three members have caught my eye because they want to come in with supplementaries specifically on the economic impact.

Lewis Macdonald (North East Scotland) (Lab): I am interested in the evidence that the witnesses have presented thus far. There is a question about how far the economic impact goes along the supply chain. Clearly, we have seen large-scale job losses from the operators and major contractors. What is a little bit more difficult to get a handle on, because I do not think that there are any Government figures, is the impact further down the supply chain and beyond the north-east, as well as in the north-east. I would be interested to hear the witnesses' comments on that.

James Bream: We get approached by people from around the United Kingdom who ask what is going on because, clearly, the supply chain is a UK one. Recently, we were approached by companies from Fife that have had to reduce the number of working days in the week. We have also had comments and questions from companies in Birmingham that sell fasteners for the oil and gas industry. The impact has been felt throughout the UK and activity levels are now being affected further down the supply chain. My observation from having visited companies is that sometimes the smaller companies can be a little more fleet of foot than some of the larger ones at diversifying into other markets. However, I think that we are now starting to see the ripple effect from the lack of investment activity or the fall in investments.

Deirdre Michie: Absolutely. I completely agree with that point. No one part of the industry is taking the brunt of the impact; it is being felt across the piece. It is important to remind ourselves of that. James Bream made an important point about diversification. We have a very strong supply chain that is rooted in the UK but has a strong export business. As we go forward, we need to think about how we support those companies and ensure that they anchor themselves here but are looking to diversify and improve their export opportunities. We need to ensure that we have a strong supply base that is anchored here but has a very strong export market.

Lewis Macdonald: Specifically, would it be fair to say that, as well as production of oil and services in the general sense, there is a particular impact on manufacturing in Scotland and other parts of the supply chain, in other words companies that are making things for the industry and do not necessarily have other customers ready to hand?

10:45

James Bream: What we have seen hitherto with some cycles is that international markets have been a bit of a safe haven, so we have not seen confidence falling there. This time, though, as well as our own challenges in the region, there is a global picture. There are challenges in the international market and manufacturers and exporters are finding life more difficult. However, there are always new markets and opportunities. We have an £11 billion supply chain in Scotland—it is larger in the UK. Over the next couple of years, we will probably see the proportion of export and international business grow from the record 50 per cent that we had in 2013 to an even greater figure. The trick is to secure that UK cluster and not lose it to overseas markets. As we see, the United Kingdom continental shelf continues to operate in a different way from the way it did in the past.

Joan McAlpine (South Scotland) (SNP): I hear what you are saying about some of the gloomier predictions. However, on page 7 of your report, when you asked employers what they expected employment numbers would be in the next 12 months, 44 per cent said that they expected that employment would remain the same and 19 per cent thought that it would increase. Does it give grounds for optimism that 63 per cent think that employment will either remain the same or increase?

James Bream: There is always room for optimism in the world. We should all be hopeful people. When we look at the numbers we tend to look at aggregates. The numbers that people are reporting, which I guess are based on the year-ahead budgets, show a decline in employment. I think that we are certain of that. However, what that does not tell us is the story of individual companies, some of which are succeeding and will continue to grow. Every company has a different story, but the aggregate one is that the year ahead will be extremely tough.

Deirdre Michie: I think that that is right. It depends on where you are in the life cycle. If you are at the front of it, in drilling and exploration, it is really tough. However, if you are working on production and operating expenditure-related activities, your order book is more likely to be a positive one, which gets reflected down the supply chain. It is a mixed picture but, going back to what James Bream said, it is also a mixed picture from the point of view of optimism. Some really good stuff is happening. For example, some companies are turning themselves around and improving their efficiency. We need to get the balance right and acknowledge that, although we are going through challenging times and there are tough decisions to be made, there is good stuff happening as well. We have to get that balance right so that we do not lose confidence in the industry.

Joan McAlpine: Sure. You mentioned the record levels of investment in 2014. When will we see a payback for that investment?

Mike Tholen: We are already beginning to see that. Over the past five years, there has been very strong investment. It started to pick up in 2009-10. In 2009, we saw the sanction of the Laggan Tormore field, which is a massive development west of Shetland that is coming on stream in the near future. There are already production events coming on stream that I think will push production this year up by about 8 to 10 per cent compared with a year ago. Despite the inevitable gloom about what is going on, production is improving and is responding to investment, and operating efficiencies are getting better. Even in down times, we are doing better where we can.

Joan McAlpine: Do you know when the west of Shetland field that you mentioned will come into production?

Mike Tholen: I think that that will be in the spring of next year, but I am not sure of the exact date.

Joan McAlpine: Will that make a significant difference?

Mike Tholen: It will. It is one of a number of fields. There is a lot of activity west of Shetland—the Clair field, the quad 204 project in the Schiehallion field—and there is some stuff in the central North Sea, too. Things are still going on. There is not a completely empty order book and a completely empty industry.

Joan McAlpine: So there are grounds for optimism.

Mike Tholen: Certainly.

Dennis Robertson (Aberdeenshire West) (SNP): I like the optimistic approach that we are taking this morning.

In your report, did you factor in the effect of the austerity programme that is impacting on the rest of the country? We are focusing on the energy sector—oil and gas—where there have been redundancies as a result of things that we describe with terms such as “cost-efficiency improvements”, but did you factor in the impact of austerity in other areas?

James Bream: There is a simple answer to that. The oil and gas survey looks at issues around the sector as reported by businesses in the sector. Obviously, a number of wider streams of work are going on in the north-east, which are potentially extremely exciting. We are considering some new economic development arrangements, some of which are being driven by the private sector.

You will all be aware of and supportive of the city region deal, negotiations around which are taking place at the moment. The city deal approach is based on what is being called the renaissance scenario that we have seen in other cities around the world that are dominated by a single sector—they either decline or go through a renaissance. Part of the renaissance in the north-east can be driven through technology, innovation, diversification and internationalisation, and a lot of that is the focus of the city region deal. It also concerns sectors such as food and drink and tourism, and a lot of the issues in that regard are also relevant to the oil and gas industry, such as making the north-east an attractive place in which to do business and to live, and ensuring that it is well connected.

You are right to highlight austerity but I would probably rather highlight the opportunity around some of those issues.

Dennis Robertson: You are really optimistic, which is fantastic. However, I was asking whether the north-east was, to some extent, protected from the impact of the austerity programme by some sort of bubble. Is it the case that the north-east was not really affected by austerity until the cost efficiencies were introduced after the oil price fell?

James Bream: We did some analysis of European data from 2002 to 2012, which showed that we were one of the highest-performing metropolitan regions in the whole of Europe. We were counter-cyclical in relation to not only the UK but Europe over that period of what people call the great recession. There were a lot of things that protected us. Mike Tholen talked about record levels of investment, which happened over a period during which the rest of the country was under significant strain. We have weathered that storm but because we are counter-cyclical, we will now go through some of our own challenges. However, I would say that we are well up for dealing with that challenge, with the right support.

The Convener: You mentioned diversification. Page 14 of the oil and gas survey says that 67 per cent, or two thirds, of all firms expect to become more involved in unconventional oil and gas activities and are looking at the opportunity to diversify in that regard in the medium term. Do you think that there are opportunities in that area? If so, do you think that the Scottish Government's moratorium on fracking is helpful or unhelpful?

James Bream: Thanks for that question. [*Laughter*.]

This is the first time that we have asked the question, and the responses will need some more analysis. We will probably ask the question in a slightly different way when we ask it again.

A high number of supply chain companies and operators are involved in the international market, so the responses might reflect that. The UK activity in that area seems to be a bit further away from the immediate opportunities that exist in the international market, so supply chain companies that are seeking such opportunities would probably not look at the UK market as a way to substantially change their business base.

The Convener: So at present, the opportunities are not in the UK—they are elsewhere.

James Bream: They appear to be limited in the medium term.

The Convener: Can we get a view on that from Oil & Gas UK?

Mike Tholen: As James Bream said, all companies will look for diversification. There is great expertise and capability in the UK, and companies will stand on the made-in-the-UK brand as best they can in a downturn.

The Convener: In the UK, are we being held back from progressing that agenda and creating jobs here?

Deirdre Michie: Can you clarify what you mean by that question?

The Convener: Mr Bream has just said that the opportunities are outwith the UK, and I am wondering why there are not more opportunities in that field in the UK, given that the skills are transferable from the offshore industry to the onshore industry.

James Bream: Other countries are already delivering unconventional activities, and we are not yet doing so in the UK. If I were a supply chain company, I would be looking at the immediate markets that are ripe for exploitation.

As you know, we are going through our own regulatory processes at present. I am sure that, as and when those processes conclude, companies will start to see opportunities in the UK.

The Convener: I will ask you another easy question. We have heard a lot in recent months about campaigns to divest from the oil and gas sector. As MSPs, we have had letters from constituents telling us that our pension fund is invested in fossil fuels, which they regard as very bad for the environment and for long-term planning. What is your view on that? Is it helpful to have such campaigns running? What message does the existence of those campaigns send out about the future of the industry, including to people who are looking to make careers in the sector?

Deirdre Michie: The campaigns exist, so we must respond to them. Part of that involves ensuring that we get the facts on the table. We need to make people understand that there are differences between the fossil fuels and that we should not—if you will pardon the pun—tar them all with the same brush. Gas is a bridge to the future and a lower-carbon economy. The fact that we have an indigenous resource on our doorstep and that gas can help us to move to a lower-carbon economy is really positive. It is important that the anti-fossil fuel campaigns take that on board and that we get those facts out into the room.

You asked whether such campaigns are undermining the future of the industry. The challenge to the industry has always been that it is a sunset industry. I have been in the industry for a very long time, and people said that to me when I came into it. I am still here, and I work with colleagues who have done the rounds.

We believe that there is a very strong and sustainable future for the industry, and we all need to encourage people to understand that. We will look for skilled people for skilled jobs for many years to come, so those campaigns should not detract from people's confidence about coming into the industry.

The Convener: If we were to take the advice of all those people who write to us and divest from the sector, what economic impact would that have on the sector, on the Aberdeen economy and on jobs?

Deirdre Michie: It is not helpful to the debate. The majority of reserves are actually held by the national companies rather than the independent oil companies. The independent oil companies are the ones that are prepared to have that debate, so people should want to work with them and be part of the debate. They should not just cut it off, which is a short-term approach that has unintended consequences.

Chic Brodie (South Scotland) (SNP): I hate to disappoint the convener, but I have spoken to some geological professors, and I am told that, because of the geological structure of the UK, fracking is not currently a commercial proposition. I will leave it at that.

It is suggested that the price of oil has been depressed because of the Saudi Arabians, for example, trying to offset the price of fracked fuel in the US. What research have you done into the future price of oil from fracking, particularly in the US?

11:00

Mike Tholen: All we can say is that unconventional oil and gas production in the States has become more efficient and cost-effective during the past three years. Where perhaps $70 and above was needed, we are seeing businesses being sustained at prices well below $70. We will have to see what emerges, but it is in many ways a strong feature of the business now.

The Convener: Richard Lyle has a question on the same point.

Richard Lyle (Central Scotland) (SNP): Yes, given that we are talking about the oil price trends. You might remember that 30 years ago or so—although I do not think that Deirdre Michie is that old—the Saudi Arabians caused a fall in the oil price. We have been here before and we have recovered. I know that the oil price goes up and down and that it is under $50 a barrel at the moment. What trends do you see? Do you agree with some experts who say that it might go up to $75 in the next year or two? I know that you cannot predict the future but we have been here before. How do we recover?

Mike Tholen: Alas, I was here 30 years ago. There is a technical answer, which relates to something called reversion to mean. Over time, prices seem to end up where they have been in the past. The long-term average has been in the range of $60 to $65.

Richard Lyle: Way back in the 1960s, it was predicted that North Sea oil would last only for 50-odd years, but you have just said that all these new fields are coming on, so we could see another 50 years. Do you agree that, as we get through the next 20, 30 and 40 years, prices could eventually reach even $200 or $300 a barrel?

Deirdre Michie: Who knows? We would not like to predict that. However, as Mike Tholen said, when we look ahead we see demand increasing. The questions will be about how we answer that demand, and how we resource that through oil and gas and, obviously, through renewables and other sources. I would not want to predict that.

Lewis Macdonald: I will follow up on that response and what Mike Tholen said about the reduced break-even price of shale oil and gas from the United States. The break-even price is clearly critical in the North Sea. What oil price will sustain production and what would the reduction need to be to lead to major loss of production? Do you have a view of what the average break-even price is? By how much do you need to reduce costs to meet that break-even price for enough of the basin to continue producing?

Mike Tholen: As the committee will understand, there is no one-size-fits-all answer. In the early years of production, the break-even price for a new field was much lower than we see in today's market. Most fields in the North Sea are in their middle age or are even more mature than that, so we are having to manage a much greater balance of cost and relatively low production by those facilities.

There are companies whose fields can cope with the current prices but which do not have excess cash to invest in new opportunities. Although I am confident that break-even prices are coming down because costs are going down, the real issue is about how much cash a company has to invest to do new things as well as sustain their existing business.

Lewis Macdonald: So there is no simple answer. I suspected that you would say that, but I am really trying to get from you a sense of what the scale of cost reduction needs to be to give the North Sea mature fields a future beyond the next couple of years.

Mike Tholen: On a positive note, over the next two years, around 20 per cent of the costs will come out of running the North Sea's facilities; new things are coming in as well, which can further help to balance that. Therefore, although these things are not always seen quickly, the industry is doing a massive amount to try to adjust its cost base, and, globally, costs are coming down, which helps. We are in a period of painful readjustment and some fields will inevitably be decommissioned because very low oil prices mean that they have reached the end of their productive life more quickly, but there is still a future out there for our business.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to continue the discussion about oil prices. Currently, the oil price is below \$50 a barrel, but oil production is increasing compared with production last year. North Sea oil has been in production for 40 years, and for 30 of those years, the oil price has been below \$40 a barrel. Last week, we heard that, back in 2000, the oil price was as low as \$9 a barrel. Why is the industry in the difficulty that it is in, bearing in mind that the oil price has been below \$40 a barrel for 75 per cent of the time that the oil has been in production for?

Mike Tholen: We probably have to take two things into account, one of which is inflation, alas. Fifteen years ago, in 2000, we produced nearly three times what we are producing now and the oil price was a lot lower. Just before 2000, the oil price dropped below \$10 a barrel, but that felt like a lot more money then than it does now. Therefore, there is the inflation effect, and we were producing a lot more. There are fields that now produce a lot less but which have pretty fixed running costs. Things are a lot tighter because of the fields' maturity.

Gordon MacDonald: I want to ask about the cost aspect. You have said that costs are pretty fixed but that 20 per cent of costs will be removed. The Energy and Climate Change Committee at Westminster recently heard that costs in the North Sea have doubled over five years. What is the reason for that? You mentioned an acceleration of costs in the North Sea. What is the reason for that acceleration?

Deirdre Michie: There is no one item that we can point to, otherwise we would address it. Rather, there is a mixture.

We have been operating in a hot market, and supply and demand have got out of kilter. We also operate in a mature environment, so there is more complexity in what we are doing. An older asset infrastructure requires more effort and is more complex, and we are now looking at much smaller accumulations than the big finds of Brent and Forties, and they are more difficult technologically to go after.

All those things together mean that we have a more costly basin to manage. Getting clever about how we do that is part of the issue. That is why we cannot point to one thing and say that that is it. We have to try to address the range of issues and see how to manage each area, if that makes sense.

Gordon MacDonald: Given that fixed cost base, we need to increase productivity in those fields. We have heard evidence that the extraction rate is 40 per cent in the UK and 60 per cent in Norway. Why is there such a big difference in extraction rates between those in the UK continental shelf and Norway?

Mike Tholen: When we look at that issue in more depth, we see that there is a range of answers in both Norway and the UK that depend on the field, the scale or whatever. When experts look at the matter, they see that the disparity is not as great as it appears to be at first, and that companies in the UK are continuing to try to recover the greatest amount that they can from the North Sea.

You will hear separately from the Oil and Gas Authority, but the approach that it is driving with the industry and our trade association to maximise economic recovery is around the whole philosophy of making the most of the opportunities that we have. No oilman wants to shun the opportunities that there are; they try to take them in a safe and economic way and to maximise recovery.

Gordon MacDonald: Looking back at the downturn in oil production prior to this year, I note that it was highlighted to the Energy and Climate

Change Committee at Westminster that Oil & Gas UK's industry safety report in July 2015 recorded another increase in the safety-critical maintenance backlog and that, prior to August 2014, 36 out of 42 months showed a backlog in all three categories of maintenance checks—planned, corrective and deferred. It was suggested that production was prioritised in those 36 months.

Is the reality that, when the oil price was high, the industry deferred any maintenance in order to squeeze as much as possible out of the oil fields? Is part of the reason for the downturn in production that the industry is now catching up on that maintenance?

Deirdre Michie: No. I would disagree with that. When we look at safety-critical maintenance, we see an increase in that trend, and as an industry we have been concerned about that and have been looking at it to try to understand what has been driving it. In addition, companies have been looking at their individual performance in order to challenge it.

As the trade association, we are undertaking some analysis of that, and we will be able to report back on that. We will then have a better understanding of why we have moved in that way. We do not like to see that trend, but I stress that, before safety-critical maintenance work moves into a backlog, a robust risk assessment has to be done to work out whether it can be deferred and for how long. People should be reassured that the maintenance that has been deferred, which is a trend that we do not like to see, has been appropriately risk assessed.

Gordon MacDonald: But we are still looking at a backlog of maintenance checks in 36 out of 42 months. Surely that is not acceptable.

Deirdre Michie: It is not, and that is why we are trying to understand it. There will be a variety of factors. We know some of the reasons, which include the fact that some companies include maintenance that is not actually safety critical.

There will be reasons why companies have done what they have done. However, I reinforce the point that, before something goes into the backlog, it will have been through a strong, robust risk assessment that is regulated by the Health and Safety Executive. I do not think that there is necessarily a correlation with safety performance in that regard.

Gordon MacDonald: Okay. Thank you.

Dennis Robertson: I will come back to health and safety in a moment.

I address my first question to Deirdre Michie. What discussions have you had with the UK Government about optimism in the oil and gas sector and ensuring that we will have an appropriately skilled workforce for the decommissioning up to 2040, by when we are looking at something like 470 installations and 5,000 wells being decommissioned? Are you now having discussions with Andy Samuel at the regulator or are you still engaging directly with the Department of Energy and Climate Change and the Treasury?

Deirdre Michie: We are working closely with the regulator. Andy Samuel is behind me as I speak. We welcomed the setting up of the regulator as part of the Wood review and we see it as a really important means by which the industry can improve its performance. We need a strong, robust regulator, and we appreciate the fact that the Government set one up. We are looking to ensure that we have a robust and constructive relationship with Andy Samuel and his team moving forward.

We will work closely with the OGA and we will continue to have discussions with DECC and the other relevant departments that impact on our industry. That is important for us. We support the tripartite approach that the Wood review articulated and pushed for—which involves the Treasury and the Government, the regulator and the industry working together—because it is crucial to ensuring that the industry is successful. Does that answer your question?

11:15

Dennis Robertson: It answers my question about your discussions with the United Kingdom Government. You seem to suggest that those discussions are robust. Are you able to influence the direction that DECC and the Treasury are taking with regard to securing the sector's future?

Deirdre Michie: Absolutely. A key part of the industry's role is to work with DECC and the Treasury on its future. We are going through a consultation with the Treasury on various areas to determine where there are opportunities to reduce fiscal barriers. We are fully involved with that consultation, so the answer is yes.

Dennis Robertson: Were you able to influence the chancellor's direction of travel in November?

Deirdre Michie: As I said, we are currently going through a consultation with the Treasury.

Dennis Robertson: So that would be no, then.

Deirdre Michie: It is a timing issue. We are working with the Treasury on the various issues at the minute.

Dennis Robertson: Decommissioning is an opportunity for the sector, is it not? It is worth about £41 billion by 2040.

Deirdre Michie: It is an opportunity. However, I reinforce the point that it is not the next industry. We do not want there to be an acceleration towards decommissioning. We need to maximise economic recovery, which is what the Wood review was focused on and what Andy Samuel and his team want to ensure that we drive for. We have to push out the economic recovery of the basin for as long as we can. We know that we have to move to decommissioning at some point, but we need to ensure that we do that when the time is right and that we do it safely and efficiently. It can never replace the industry that we have, because it will not support security of supply or the same number of jobs. However, the UK can be a centre of excellence for decommissioning.

Dennis Robertson: How do we become the global leader? How do we retain our skilled workforce to ensure that, when the time is right, decommissioning is done appropriately and safely?

Deirdre Michie: We are considering how to go about doing that. Again, we will work closely with the OGA, which has a decommissioning board that is developing a strategy for the next five years that will try to answer some of the questions about how we manage a smooth and effective move into decommissioning and establish the UK as a centre of excellence from which we can export our expertise around the world. We are a maturing basin but, if you think about it, so is every other basin around the world; we are just slightly ahead of them.

Dennis Robertson: So it is an opportunity that we cannot afford to miss.

Deirdre Michie: It is an opportunity that we have to manage well to ensure that we do it cost effectively and safely.

James Bream: We are on record as saying that the fact that we are a frontier basin gives us a perverse benefit in that we get to try some things before others do.

It is exciting to see the OGA being established and the work that it is starting to do. It will not do the decommissioning, but it has the opportunity to work with the industry to set out a strategy. One of the opportunities with such a strategic approach is that, when we see a baseline load of work, we can plan it slightly differently with decommissioning. That allows the supply chain to engage. I am sure that the supply chain will step up to the plate. I suspect that the OGA will not directly engage with it, but setting out the strategy provides a real opportunity. We can do something slightly different with decommissioning.

Dennis Robertson: It really sounds optimistic.

On a few occasions, it has been suggested that the fields are mature and the infrastructure is older, and I was starting to get a degree of empathy coming across the table. With regard to the ageing infrastructure, we heard from the unions that there might be a safety issue that is not being addressed. They told us that there is a culture of fear growing, and that it has reached the stage where people are reluctant to report incidents that relate to safety issues. That would be very extremely serious.

What are you doing to try to address their fears? I know that you have been working with the unions, but they seem to indicate that the culture is that if someone reports something, they could lose their job. Surely that is not the case.

Deirdre Michie: We are aware of the unions' concern, because, as you say, we have met the unions and have discussed those issues. We want to ensure that we encourage people to be confident that they can report issues where they see them. There are mechanisms within their own companies and they can also use the Health and Safety Executive whistleblowing line, which is an anonymous way to report concerns.

I reinforce the point that safe production is what the oil and gas industry has to be about. If you are hearing concerns from your constituents, we must urge them to pick up the phone, raise the issues and let me know about them so that we can work together to address those concerns. If there is an issue, we need to address it.

Dennis Robertson: You will have read the *Official Report* of last week's meeting, at which trade union representatives raised concerns—if you have not read it, I am sure that we can provide you with a copy.

You say that the HSE whistleblowing line is anonymised, but the trade unions suggest that even though that is the case, because of the nature of reporting, people still feel that it could come back to particular individuals. How do we address those fears and ensure that safety is paramount? We want people's jobs to be safe, but safety should come before everything else.

Deirdre Michie: That is something that we must reinforce. If there are concerns about the HSE whistleblowing line, which is the last defence, we need to address that. We should look at that so that people can feel confident that they can use the line and that their concerns will be listened to.

Dennis Robertson: Is that something that you can take on?

Deirdre Michie: Yes, I will take that on.

Dennis Robertson: Thank you very much.

The Convener: A number of members have supplementary questions on decommissioning. I ask members to be brief, because we are getting behind.

Joan McAlpine: I heard a hint of caution in what Deirdre Michie was saying about rushing too fast into decommissioning. I was struck by the comment from Mr Vass from Bond Dickinson in the Aberdeen and Grampian Chamber of Commerce survey, who suggests something similar when he says that

"In effect, the industry will be eating away at its own bones",

but that it will go down the decommissioning route if that is where the incentives are.

There is a tax incentive to decommission, but the Scottish Government has been calling for an exploration tax credit. If the industry is faced with an incentive to decommission but not to carry out further exploration, it is likely that it will go down the decommissioning route. Is that correct?

Deirdre Michie: In terms of fiscal barriers, we are looking at each of those areas: exploration, decommissioning and infrastructure. You are right to say that we need to get the balance right.

Mike Tholen: As Deirdre Michie mentioned, there is no specific incentive to decommission—decommissioning costs the companies an awful lot of money, some of which is relievable through the tax regime. Would they rather decommission? No, they would rather keep the business running if possible, because that would still be making money and allowing a taxable income. The balance is still around trying to run assets safely and well for as long as they can, rather than decommission.

Even if assets go through decommissioning, technology has moved on, so if there are new discoveries, it does not mean that a loss of infrastructure means a loss of all opportunities. We can reach further from a longer distance through subsea tiebacks and there is a range of technologies still to recover more from less infrastructure. However, we do not want to see that infrastructure go needlessly.

Joan McAlpine: I take it that, in order to see more exploration, you would be keen for there to be an exploration tax credit?

Mike Tholen: I am keen that the process that we are working through with the Government, the OGA and the Treasury ensures that the tax regime is not a barrier to exploration activity.

Joan McAlpine: Is that the case at the moment?

Mike Tholen: The biggest problem now is a shortage of cash to invest in exploration in the UK. We need to be competitive in the first place. We need to find the opportunities—a lot of good work is under way to find those opportunities, not least the state-sponsored seismic work that is going on. The OGA is working hard to help us to look at the licensing regime so that we can be smarter on licensing. Most of the barriers are not around tax. A tax incentive may help, but it is not the simple answer to a very complex problem.

The Convener: Okay. We need to move on.

Johann Lamont (Glasgow Pollok) (Lab): I want to return to the issue that was raised in evidence by the trade unions at last week's meeting. If the witnesses have not read that evidence in detail, I would suggest that they do so when they get the opportunity, because it came across strongly that people who are committed to the industry are extremely concerned about the decisions that have been made. Deirdre Michie talked about reduced costs and increased efficiency. Last week, it came across—the charge was laid—that that had come about at the expense of the terms and conditions of the workforce and health and safety. I would be interested to hear your comments on that.

Deirdre Michie: I understand and am aware of the unions' concern in that regard. I reinforce the point that the pain and the impact are being felt across the industry—no one area or set of workforce is feeling that particularly more than anyone else. Companies have to make difficult decisions. Any industry that has seen a 60 per cent reduction in its revenue has to do something fundamental to address that. Difficult decisions that are impacting at a personal level are having to be taken.

What are we doing that is a bit different in this space? The work of the Scottish Enterprise energy jobs task force has been very welcome. It has addressed the downturn differently. It has set up three partnership action for continuing employment events in Aberdeen, which have each been attended by more than 850 people. Those events have been about working with the people who have been made redundant or who are under the threat of redundancy, and looking to support them as they go through those difficult times.

It is a tough and challenging situation, but the industry is very focused on ensuring that we maintain safe production. That mantra will take us through this. We are doing everything we can to support our workforce, while recognising that people have lost their jobs and that that will continue to be the case.

Johann Lamont: Why are production costs lower in Norway but worker terms and conditions are seemingly better? That was the evidence that we were given last week.

Mike Tholen: Norway benefits in one sense by being a younger oil province than the UK. Activity costs are, if anything, often reported as being slightly more expensive in Norway. However, because much more is produced per field and many of the fields are bigger, the cost per barrel is typically lower. That is where Norway is at an advantage compared with the UK—Norway is less mature in the business, so the cost per barrel is better.

Johann Lamont: You have talked about health and safety issues. Last week, we were told that the helpline was not worth while. The unions have become a conduit for workers' concerns, which is legitimate if people are genuinely concerned about their jobs. What direct and regular contact do you have with the trade unions to hear such concerns?

Deirdre Michie: We met the trade unions a couple of weeks ago. Part of that conversation was about saying, "If you're seeing issues that are coming up, we can work with you on those. If you can share with us where you are seeing the issues, that'll enable us to see what we can do in that space."

We have met the unions on an on-going basis, albeit perhaps not as regularly as we should have done, but there is a commitment to make sure that we have regular engagements going forward.

Johann Lamont: You will now regularly meet the trade unions and one agenda item will be to discuss any health and safety concerns.

Deirdre Michie: Absolutely.

Johann Lamont: Behind that are concerns about informal or formal blacklisting. We know that, historically, that has happened. That explains why people may be concerned. Will you take the opportunity at those regular meetings to explore their concerns about blacklisting?

Deirdre Michie: Absolutely. Whatever is on the agenda, we are happy to discuss; there is nothing that should not be on that agenda.

11:30

Johann Lamont: You mentioned PACE, which deals with people who are losing their jobs, but do you think that the energy jobs task force should be addressing the issue of how to maintain jobs rather focusing on redundancies?

Deirdre Michie: That is an interesting question. The task force has certainly been focused on helping to mitigate the impact of the current situation. The task force is still continuing its work, and part of its remit is to identify whether people can move into other sectors and what opportunities exist.

Johann Lamont: I suppose that the point that I am making is that, if there is a presumption that there is no alternative to redundancy, that conversation might not be had. Are decisions being made that mean that jobs are being lost unnecessarily? I will give an example. Last week, we were given evidence that moving to a three-weeks-on, three-weeks-off shift rota creates further problems. Has that been tested? I suppose that the argument is that, by definition, there will be fewer helicopter journeys, so it must make sense, but such rotas might have other consequences that reduce productivity. Is the task force a place where that discussion could take place?

Deirdre Michie: I will deal with the rota point. Many companies have moved to a three-weeks-on, three-weeks-off rota. They have done so because they think that there is an opportunity as regards not just cost and efficiency but safety, because that takes out back-to-backs. Three-on, three-off rotas have been successfully used in the industry for years with no negative consequences, so from a safety point of view a move to three-on, three-off rotas can be seen as very positive.

Johann Lamont: Why do you think that the trade unions do not think that? They talked about the impact on the health and wellbeing of workers and their concerns about the consequential impact on productivity.

Deirdre Michie: When a three-on, three-off rota is moved to, that change is managed and a robust assessment is carried out under HSE guidelines. No company will deliberately set out to make its workforce unproductive. Companies in the sector think that adopting such a rota has benefits for not only the business but the workforce. It is not an unsafe thing to do by any means, and we have proven that over the years.

Johann Lamont: So you have evidence for that.

Deirdre Michie: Yes.

Johann Lamont: And when the unions say that they are concerned about the impact on the mental health of their members and the issue of fatigue, that does not stack up according to the research that you have.

Deirdre Michie: Not in terms of the experience that we have had as an industry.

The unions' concerns are legitimate and we should make sure that we continue to work with them on those concerns, but, as I have said, we have robust assessment processes to ensure that, if there is someone who is fatigued, that will be taken into account in how the offshore workforce is managed.

Johann Lamont: Do you think that, in some cases, the changing of rotas might be an example of short-termism? Could it be said that the move to a three-on, three-off rota is something that companies can do in circumstances in which they need to make savings, when that might be counterproductive? Would it be your advice to companies that they should get the evidence before they make such a shift? Last week, it was suggested that the change in rotas looked like a quick way of responding to a problem.

Deirdre Michie: I reinforce the fact that the drilling community has been using three-weeks-on, three-weeks-off rotas very successfully for years and has been very productive as a result.

Johann Lamont: If those rotas were very productive and sensible, why did companies not shift to them in the past? If that was the case, presumably they would have done so at a time when there was not a crisis.

Deirdre Michie: Each company has looked to see what its optimum operation is. About seven or eight companies have moved to the three-on, three-off rota, but others have chosen not to. Companies have acted on the basis of what works best for their business. Therefore, we are not talking about a blanket approach; a thoughtful approach is being applied, because companies have identified an opportunity to improve their performance, their production and their productivity.

Johann Lamont: I think that there would be people who would be sceptical about that. If such rotas were so good, they would have been rolled out over a long period of time rather than at a point when there are real challenges.

Last week, we received evidence on the use of non-European maritime workers. The National Union of Rail, Maritime and Transport Workers is particularly concerned about the fact that British seafarers will no longer be operating in the North Sea, which will have an impact on not just jobs but the safety of the workforce in the sector. Do you have a view on the use of such a loophole—as it was described—in the legislation? It means that we are putting at risk jobs for British maritime workers and the terms and conditions of those workers who are coming in.

Deirdre Michie: I am aware of that concern. The remit for that particular area does not lie with our trade association, but we can certainly raise the issue with other trade associations that are directly responsible.

Johann Lamont: Should you have a view, given the impact on the industry of being served by a maritime workforce that has poor terms and conditions and is potentially facing safety issues?

Deirdre Michie: From an industry point of view, it is important to us that our people are rewarded appropriately and fairly across the board.

Johann Lamont: Will you pursue that matter?

Deirdre Michie: Again, as the trade association that covers what we are responsible for, I would not have direct influence over that area, but I am certainly happy to raise the issue with the trade associations that are involved.

Johann Lamont: Okay—thank you.

The Convener: I want to follow up on one other point, which Johann Lamont has not raised, that came out of the evidence from the trade unions at last week’s meeting. It concerns the issue of common standards, which the trade union representatives mentioned. They told us that, if common standards could be enforced across the industry so that contractors moving from platform to platform and from company to company were not having to relearn and adjust their practices, that would drive up productivity considerably and drive down costs. Do you have a view on that?

Deirdre Michie: We have a Step Change in Safety body that is looking to address exactly that issue, especially with regard to safety opportunities. As an industry, we recognise that there are opportunities in that respect and that we should be pursuing them.

The Convener: I am conscious of time, and there are two members who want to come in. If there is time after that, we might have some supplementary questions. Chic Brodie can go first.

Chic Brodie: Good morning again. I thank the witnesses for an impressive contribution this morning.

I want to address the issue, which Dennis Robertson raised, of how we retain our workforce. My question is predicated on the fact that the International Monetary Fund has said that there will be a partial recovery of the price of oil to $75 a barrel; that, for Brent crude, we are talking about upwards of $70 in 2017; and that the International Energy Agency is talking about a price of more than $80.

My first question is somewhat parochial. We have talked about the Clair ridge. After a long investigation, I have determined that we are now probing the availability of oil and gas in the Clyde and the Atlantic margins. What do we have to do to encourage the oil companies to pursue with those academics who are now involved the possibility of finding oil there? The oil would be cheaper, as it would be much nearer land.

Mike Tholen: Through the OGA and previously through DECC, licensing of opportunities around the UK has continued. I know of no company that is explicitly pursuing opportunities in and around the Clyde. I know of some that have looked there in the past. If they were still pursuing those opportunities, the conversation would perhaps be different. I am not privy to the outcome of those—

Chic Brodie: A licence—PL262—was issued to BP in 1984. The then Secretary of State for Scotland, George Younger, said that there was oil there in exploitable quantities. Mr Younger and his compatriot in the Thatcher Government, Michael Heseltine, stopped the process because of nuclear submarine passage up and down the Clyde.

Villages had been built, and Ardrossan harbour was bought. It is a personal frustration. What do we need to do to look at not just the Aberdeen issue, which is of course very important, but the possibilities for oil around the rest of our shores?

Mike Tholen: Alas, that predates even my entry into the industry. I am sure that the OGA and others are looking at licensing such opportunities where they think that people will pursue them.

Chic Brodie: Okay. Secondly—

Deirdre Michie: Sorry—I just wanted to build on that answer. As Mike Tholen mentioned earlier, the Treasury gave £20 million for seismic exploration; I am sure that Andy Samuel will talk about that. That involves looking at frontiers that we have not addressed. There is one area near Rockall, so it is not quite where Mr Brodie would like it—

Chic Brodie: There are some areas off Tiree, but I was being very parochial in my question, as I am interested in the Clyde.

Deirdre Michie: As we said earlier, this is a mature basin, but there are still frontier opportunities. Part of the work that the OGA will be looking to do, as Mike Tholen said, will be in terms of licensing and the opportunities from the information about the areas around Rockall and the central part of the North Sea, which will be available in spring 2016. That might bring more opportunities.

Chic Brodie: It is just that companies might say that, based on their exploration, they reckon that there are half a billion barrels off Rathlin Island, which is just south of the Mull of Kintyre—I will keep propagating that.

My second question is for James Bream. Some people are rightly concerned about the environmental impact of burning oil, but of course oil is much more important than that in that it pervades all aspects of our lives. I do not understand why we never used the vertical integration capability of oil to get companies that use oil-based products to manufacture in Scotland. Why did that not happen? Is it too late to make it happen?

James Bream: I am not sure that I can answer that with any evidence. The way in which the oil and gas industry works is that we have operators and a supply chain, and then the product goes on to be used for all sorts of things. When we look at the oil and gas sector, I guess a lot of people think about the oil, but the gas is also extremely important and is used for a variety of products.

I am not sure that vertical integration is necessarily important. I would guess the businesses would base their interest in the product on sheer business economics.

Chic Brodie: Forgive me, but we have an energy jobs task force and I just wonder whether downstream products that are oil based or which utilise gas are part of the conversation within it. If we are laying off people in Aberdeen, are there other activities that use that raw material that we can encourage in terms of inward investment to the area? I know that the raw material has to go through a refinery and what have you.

James Bream: Yes, possibly. I am not on the energy jobs task force, so I cannot really say whether that aspect is within its remit. However, I suspect that it is probably not. It is generally companies themselves that look around to see how they can diversify, and I am not sure that the public sector in its widest sense intervening in that regard would necessarily help. That said, the support of Scottish Development International and UK Trade & Investment generally is really important for continued success in international markets. I am not sure that I see an immediate opportunity in terms of foreign direct investment, but it is possible that I am missing something.

Chic Brodie: Okay. Thank you.

Richard Lyle: There is a question that has not been asked, so I have to get it on the record. Is the UK still self-sufficient in oil supply?

Mike Tholen: Alas, no longer. It has been a number of years—probably a decade or more—since we started to go below being self-sufficient. We are producing roughly half our oil and gas demand in the UK.

Richard Lyle: So basically, if we look at our balance of payments, it is costing us a lot of money to import oil from other countries.

Mike Tholen: We are a net importer of oil and gas, but we still displace an awful lot of oil and gas that we would otherwise need to import. We would need half a billion barrels of oil and gas extra a year at least if we did not produce what we do now.

Richard Lyle: I will turn to the press release that Deirdre Michie put out, which states:

"Government figures show continued demand for our product, as oil and gas will continue to provide some 70 per cent of our energy in 2030 and beyond."

It states that there are still billions of barrels of oil. Chic Brodie said that there are still opportunities for oil extraction in all the areas around Scotland.

The press release also states that with

"a supply chain worth over £39 billion, we have the capability to maintain a significant contribution to Scotland and the UK. The future over the next fifty years is in the hands of the industry, governments and regulators."

Earlier, Joan McAlpine talked about what the UK Government is doing in terms of incentives and assistance. If you have a wish list, now is your opportunity to tell us. What would your industry like Government, the regulators and the industry to do to bring back the employment that we deserve?

11:45

The Convener: That is a very good question. I just point out that we are at the end of our time, and it would be helpful to have fairly short responses.

Deirdre Michie: What is our ask? Our ask is that both Governments keep us on their agendas and that Westminster and Holyrood keep us high on their lists and continue to understand our challenges and to support us. That is the request that I would make.

James Bream: We have asked companies what is required in order for them to maintain their interest in the sector in the UK. They are clear that what is needed is labour, the retention of the cluster in the UK and connectivity to international markets. In that respect, I would ask that you back the city region deal negotiations. That is the one show in town with regard to enabling the cluster to survive.

The Convener: Lewis Macdonald is desperate to get in with a question. Please make it very quick, Lewis.

Lewis Macdonald: I want to give Deirdre Michie the opportunity to say whether the view of Oil & Gas UK is also that the city region deal is critical.

Deirdre Michie: Absolutely. We are very supportive of the city and shire deal. It is obviously important to Aberdeen but, because Aberdeen is crucial to the oil and gas industry in the UK, the success of Aberdeen is critically important to the success of the industry generally. We are absolutely behind it and we want it to succeed.

Dennis Robertson: Aberdeenshire, too.

Deirdre Michie: I mentioned the shire.

The Convener: Great. On that note, we must draw matters to a close. I thank everyone for coming along; it has been a helpful session.

11:47

Meeting suspended.

11:53

On resuming—

The Convener: I welcome our second panel. I am delighted that we are joined by Sir Patrick Brown, who is chair of the Oil and Gas Authority, and Andy Samuel, who is its chief executive. Before we get into questions, Sir Patrick wants to make an introductory statement.

Sir Patrick Brown (Oil and Gas Authority): Good morning, ladies and gentlemen. I thought that I had better start by setting the scene for the new regulator, which has been running for six months. As you know, the Oil and Gas Authority took on not only the former licensing responsibilities of DECC but the new remit that came out of the Wood review.

I have invented regulators and I have served on companies that have been regulated so, when I took this job, I made it clear that I wanted the authority to be a regulator like no other. It was not to be autocratic or bureaucratic and its size was to be limited, because regulators can grow and grow. Throughout the organisation, we will take seriously our role as members of a team—or a partnership; call it what you will—with all the players, including the industry, the unions, the Governments and Oil & Gas UK, because we are well aware that unless we, as the body in the middle, can persuade people to do things sensibly together, the maximising economic recovery UK strategy will not work.

We are new but, as Andy Samuel will no doubt tell you, we have covered a lot of ground. He has done an amazing job in getting us to where we are now. As government changes, as the regulator is formed and pulled out of government and as new responsibilities arise, there are sometimes difficult questions about who does what. We are sorting that out with DECC.

I thought that I would set the scene. Thank you for inviting us and we look forward to your questions.

The Convener: We have about an hour for questions. I will let the witnesses decide between themselves who will field the questions. As ever, I ask members to keep their questions short and to the point. If the witnesses could keep their answers as short and to the point as possible, that would be helpful.

I start by picking up on Sir Patrick Brown's point about the relationship with the Department of Energy and Climate Change. Will you say a bit more about how that will work? In particular, will you do what DECC says or will it do what you say? How will that operate?

Sir Patrick Brown: The situation is not quite like that. We will have some clear roles as regulator and we will be independent in executing those roles. I am absolutely clear on that. We will absolutely not be in the position where ministers can ring up and say, "Do this." If ministers or their officials ring up and ask us to help them with something, we will look at it and ask whether it is part of our remit. If it is, we will be helpful. However, we will not get ourselves involved in any sense in the policy of the Government of the day, because that would be completely wrong.

The Convener: Conversely, will you make recommendations to the Government and DECC about areas where you think that something should change?

Sir Patrick Brown: Certainly. We as a body, like anybody else in the country, can make recommendations to the Government about things that need to change. If there are things that are not working in the UKCS that we think should change and which are DECC's responsibility, we will be bound to say that to DECC.

The Convener: That is helpful. We move on to health and safety issues.

Dennis Robertson: You are probably aware that the trade unions in the industry are concerned that health and safety is being compromised by cost efficiencies. Do you have a role in ensuring that the industry maintains health and safety to the highest standards? We need to get it on record that health and safety is paramount. Do you have a view on that?

Andy Samuel (Oil and Gas Authority): You will be aware of the Scottish energy jobs task force. Along with a couple of people from industry, I led an engagement on 22 May that got what I call the whole system together. I insisted that we had offshore workers, safety reps and the unions in the room. That worked well, because their voice is vital to the debate.

I meet the unions regularly. I think that they would be the first to say—as I think they said last week—that, although industry leaders walk the talk on safety, there may be unintended consequences, particularly during downturns such as the one that we are experiencing.

Three weeks ago, I had a good meeting with six of the union chiefs and I asked how the regulator could help. I explained that we have, as you would expect, close relations with the Health and Safety Executive, which takes the lead on regulatory capacity. However, it is vital that we also do our bit. I explained that Richard Judge, the chief executive of the HSE, and I have agreed a memorandum of understanding. We have regular meetings with the HSE to ensure that we are joined up and, in particular, to ensure that we are not doing anything—for example, in our primary aim of maximising economic recovery—that could go against safety. I am confident that we are not.

12:00

The unions asked me to hold the industry to account on its commitments. I am happy to do that; that is something that a regulator should do. We have a role around stewardship, for example. In part, that will examine how the industry is managing its operations and whether that is efficient.

The unions also asked me to spread positive stories, of which there are many. Some operators are doing outstanding work.

Another issue—it links to a previous one and is something that I am passionate about, having managed operations—concerns the fact that operations are safest and most efficient when operators engage with their workforce. Now, more than ever, is the time when operators should be going offshore and listening to workers, because that is where the smart ideas come from. On safety concerns, if someone spends a couple of nights offshore and sits down in the tea shack with people, it is pretty hard not to find out what is going on. In my experience, offshore workers are open with you when you spend time in their workplace.

We are passionate about engagement with the workforce. Nexen has done that brilliantly over the past two quarters. It has demonstrated continued safe operations while securing a remarkable 40 per cent increase in offshore productivity. Wrench time, which is the productive time that is spent per shift, has gone from five and a half hours to eight hours. Other companies have been talking about that for years, and Nexen has shown how that is delivered through brilliant offshore engagement. Of course, the unions fully support that approach.

There are strong clues about what works well. We also know what does not work well, which is rapid changes without workforce engagement. We absolutely support good engagement, which is good for business and for safety.

Dennis Robertson: Would you commend standardisation of the sort of approach that Nexen has taken? I saw the Nexen presentation and thought that it described an excellent example of engagement, which I certainly commend to the rest of the industry. That approach started with health and safety, not production or cost efficiency. How can you influence the industry to standardise that and to take a collaborative approach to health and safety?

Andy Samuel: There are two issues. On commending really good safe operations, Nexen and I held a brilliant session in this very room. Shortly after that, we published a report to ensure that the approach was widely picked up. I was pleased that quite a number of companies approached Nexen—some directly and some through us—to ask to sit down with Nexen in order to understand what it has done. Sharing positive good practice can be extremely powerful, and we will continue to do that.

On standardisation, there is a curious thing. The industry has been talking about the issue for ages. I was at the Oslo energy forum two years ago, when there was a huge conversation because people were beginning to see that costs across the North Sea, on both sides of the median line, were in an unhealthy position. However, when I have recently asked chief executives—not just managing directors—what they are doing about that, I have been told, "Oh, it is still quite hard." It comes down to leadership. I hope that, if there is one benefit of the downturn, it is that some practices will be transformed, which will include standardisation. By the way, that does not limit innovation. Standardising some things will create space to be more innovative in other areas.

We are seeing some good examples. Subsea 7 shared with me some good work that it shared publicly at the offshore Europe conference. It now has a standard solution for normally pressured subsea tiebacks that operate in normal temperatures. We have 200 discoveries out there already and, if we can drive down the cost by transforming how they are developed, there will be a massive opportunity. A further £20 billion of investment could come from that, and we are pushing that hard through the technology and leadership board that we now co-chair. I was pleased when Subsea 7 told us that it had a solution that can yield a 40 per cent cost reduction.

The important word here is "cost". We are talking not about price cutting but about a different way of working that creates a much more efficient and value-adding solution. We are promoting such actions wherever possible.

Dennis Robertson: I am delighted to hear that optimism. The work of and the opportunities for the subsea sector are probably not particularly recognised, so maybe we need to get that message out there.

As a regulator, what can you do to ensure that health and safety remains paramount in the industry? If the industry is not complying, can you do anything?

Andy Samuel: We are not the health and safety regulator.

Dennis Robertson: I appreciate that. However, you license the industry.

Andy Samuel: We do, but we have no formal sanctions on safety.

Dennis Robertson: Could you influence matters by raising issues with the industry and asking it to comply through the licence?

Sir Patrick Brown: That would be stepping on the Health and Safety Executive's patch. It has the investigatory powers and enforcement abilities, and we should not get in the way of its carrying out its job. If we see things that it has not seen, of course we will let it know. However, it must be up to the executive to take the enforcement steps.

Johann Lamont: On health and safety, I am encouraged by what you have said about the relationship with the trade unions, but do you accept that, when people fear for their jobs, they are less likely to be frank at an open meeting? The unions are saying that people are unwilling to go to the Health and Safety Executive. If that is being identified as a problem, what mechanism can you put in place so that those concerns are relayed to you and then perhaps relayed through you to the Health and Safety Executive?

Andy Samuel: I have managed safe operations across various parts of the world over the past decade. One thing that is clear to me is that change is unsettling. The industry has been talking about human factors for the past decade. It is increasingly recognised that where people's minds are plays a large part in whether an operation is safe. I am absolutely aware, as are all industry leaders, that one needs to pay even more attention to safety during an unsettling period.

We have our own OGA workforce that goes offshore as part of our metering duties. I have asked it to keep more of an ear out for any worrying trends, and it has not reported specifically about the concerns that you have raised. When people are concerned about the future of their jobs, that is not a good thing, so the sooner industry can get through this period of change, the better.

Beyond that, on the effectiveness—or not—of the current reporting regime, as you heard, Deirdre Michie will pick that up. In addition, the Health and Safety Executive should be very concerned if that regime is not working, because it is a vital safeguard. I will certainly mention that to the executive the next time that I meet it.

Johann Lamont: That is helpful. Do you expect minimum standards on engagement with the workforce? Can you impose minimum standards?

Andy Samuel: It is always good to have minimum basic standards.

Johann Lamont: In conversation with operators, will you identify those standards and say that you expect to see them?

Andy Samuel: That is not part of our regulatory duty. As has been alluded to, there is a strong relationship between well-run efficient operations and safe operations. We look for certain things in our standard stewardship around efficient operations. I have no doubt that the Health and Safety Executive looks for similar things. Therefore, we have agreed that our approach should be joined up.

Johann Lamont: You are saying that dealing with health and safety does not fall in your patch. If the Health and Safety Executive does not have the resources or people are not contacting it, surely there must be a mechanism whereby, if you report something to the agency, it will report back to you that it has done something about that. I fear that the concerns will disappear, which will have a huge impact on the workforce and, more broadly, on the industry.

Andy Samuel: If specific concerns are relayed to us, we will of course not just report them but make sure that they are followed up. That is a basic with safety—you do not just see it; you have to own it. My team will follow up on any matters.

Richard Lyle: Pardon me for saying it, but the current situation is man-made. At the end of the day, it is the trading floor of a stock exchange that dictates the price of oil. We learned earlier from the answer to a question that I asked that we are not self-sufficient in oil, which is costing us billions. Britain is now billions of pounds in the red on its balance of payments.

Gentlemen, I would hold you to account on encouraging the industry to invest. We have all those extra fields lying out there that could be used. We have been told that, because some fields are 30 or 40 years old, there is a cost to that, but it has also been said that any new field—the likes of a Norway field—has a lower cost. What do you intend to do to improve this man-made situation of a downturn in the oil industry, particularly in Aberdeen but across the UK as a whole?

Andy Samuel: An awful lot—that is the answer. There is a risk that we might take on too much, and we can talk about that. We have just published our corporate plan for consultation. My chair gave me a good challenge: what will success look like in five years and can you really test your team and ensure that we are leaving no stone unturned? However, there is a caveat, in that we agreed early on that the OGA's head count will not exceed the curious number of 179, which is a figure that I came up with in an early draft of the business plan.

The serious point is that the mission is quite large and it overlaps with the work of other UK and Scottish Government departments. We need to keep our focus on our primary mission, which is maximising economic recovery. What are we doing? A draft sector strategy for exploration, stewardship and infrastructure has already been formulated. As you heard earlier, we are doing a lot of work with the Treasury on the fiscal side, which I can say a bit more about.

We are working with investors to help them to see what is available. Having met them, I would summarise their attitude as being impressed with the pace of change and what both Governments have been doing to support the industry compared with what they see in other places around the world where they operate. That is not to say that there is not a lot more to do, because there is. We talk about driving investment, but our job is creating the right conditions where companies want to invest.

In parallel with our corporate plan consultation has been the MER UK strategy consultation, led by DECC but with strong input from us. That was launched a couple of weeks ago, and the consultation document is important. We have had good feedback from the industry and the workshops in Aberdeen and London.

That defines, if you like, the meat on the bone of our primary mission, how we intend to do it and the obligations that it places on the industry. It is important to point out that it does not give us as a regulator the power to force companies to invest, but it does create a use it or lose it mentality. It is no good asking a company to lose a valuable licence if no one else wants to take it on, so we need to make it attractive going forward.

On the kind of work that we have started doing, we are using the £20 million that we got from the Treasury, which is of massive value, to get new seismic data in what we hope are highly prospective areas. We will not publish the data, which we are getting processed, on its own; we will try to add value to it by highlighting the prospectivity. We are recruiting as best we can good geologists, geophysicists and other people to highlight the prospectivity. Through that, we will also take a good look at areas such as the Clyde.

Chic Brodie: Good. I am on your side.

Richard Lyle: That is the point that I was going to ask you about next. Back in the 1970s, there was all the licensing and the sudden whoosh of infrastructure and all the work that came into different places. As Chic Brodie said earlier, there are many other places within the radius of Scotland's shores that could have undiscovered oil. We know that oil companies want to maximise their profits and are perhaps having a downturn in jobs, but you are now encouraging them and will be issuing licences for places where there is no exploration at the moment. Can you confirm that that is the case?

Andy Samuel: Future licences are always subject to the environmental assessment, which is regulated by the environmental regulator within DECC. We always have that caveat, which is potentially one of the issues with the Clyde. We are looking at the Clyde because it is the analogue of Rockall, where we have just shot vast amounts of new 2D data, so we are extrapolating the geology. We think that the Clyde basins are a bit small. Although there are a few shows, the current view is that it is probably not hugely prospective. However, given that there is always new thinking, data and ideas, we should never say never.

12:15

Chic Brodie: I am on your side again.

Andy Samuel: There are a whole bunch of basins around our shores that need to be looked at, which is one of the reasons that Sir Ian Wood's review made the recommendation. The previous department did not have sufficient resources, people or funds to leverage data and highlight prospectivity. We cannot change mother nature, but we can make sure that we give ourselves the best chance of maximising recovery from whatever we have.

It is worth pausing to consider data. There is a huge opportunity. We need to ensure that the wealth of data that has been acquired over 40 or 50 years is leveraged much more, both by the regulator and by industry. There are promote companies, for example, which are small outfits with excellent geoscientists. If we give them access to data, they could turn it into really good new concepts, which can then excite companies to come in and invest.

On exploration, we are almost finding that there are too many good ideas. The chairman and I are trying to impose a discipline where we try to encourage not just us, but also the industry, working collaboratively through the new boards that we set up, to focus on the top three opportunities for the next year and get them over the line. The boards and the MER UK forum that we set up will be publicly held to account, because we will issue minutes and an annual report. There will be a lot more visibility on priorities and progress, which will further encourage investors because they will be able to see which way things are going.

When I speak to investors, the headlines are: the concerns that they used to have about fiscal instability are receding—the Treasury's driving investment plan helps them a lot—although that is not to say that there is not still work to do on fiscal; they are encouraged by the new regulator but want us to keep focus, because they are a bit worried, as are we, about mission creep; and they are encouraged by the fact that this year will probably be the first in which we have a better exploration success rate than Norway.

Apache has made three very noticeable discoveries and has very generously shared some of that information, which is good for Apache and its shareholders, but is also very good for the basin. There is nothing like a bit of success to breed an appetite to invest more. Two of those discoveries were in very mature areas, around Beryl and Forties.

I met Apache's exploration geophysicist recently and he is rightly proud of the work that he has done. That is leveraging the latest, high-quality 3D seismic imaging. The day before the Offshore Europe conference, we ran a workshop where we got 20 of the largest companies together and highlighted the benefits of new 3D data for unlocking prospectivity. That was very well received. Technology moves on very quickly in that area and we need to make sure that companies keep up to date with that opportunity.

Richard Lyle: I am encouraged by your comments. I hope that you will not let DECC prevent you from doing what you intend to do. Do you see a further renaissance of the oil industry in Scotland?

Andy Samuel: The chairman and I talk about different scenarios. As was suggested earlier in the meeting, there are some potentially very difficult scenarios and I am hugely worried about those. I frequently write to other parts of government to share the context—I live in Aberdeen and it cannot be avoided. I am really worried because I can see even worse scenarios than those that were discussed earlier. I can also see some good scenarios.

As a regulator, our job is to look to the future with different lenses and ensure that, regardless of things that we cannot control, such as the global price of oil, we are doing everything that we can to support maximising economic recovery and, with that, investment. Jobs follow on from that. At the moment, I am more concerned than I am optimistic.

Richard Lyle: Thank you.

Chic Brodie: What you are saying is very impressive. I am surprised that you are going beyond just being a regulator. You said last month at the Energy and Climate Change Committee meeting at Westminster that you are a regulator, but you are looking at going beyond that and you have just enunciated the promotion of investment.

On that basis, what is the relationship between you and DECC? In another energy area, our feeling is that the relationship between the regulator and DECC has not been as encouraging as one might hope and that regulator is perhaps not as assertive as you seem to be. What is your relationship with DECC?

Sir Patrick Brown: The relationship is a perfectly normal one. We are the child who is getting away from the parent. [*Laughter*.] However, it is a friendly relationship. We are not under pressure except to get on with doing what we have to do. Andy can comment on what happens day to day.

Andy Samuel: There is a sponsor team within DECC that has oversight of what we do and we have a good relationship with that team. I talked about the vital legislation—there is the energy bill and the MER UK strategy. It is a collaborative relationship, which it needs to be. Both those areas are led by DECC but it gets a lot of good input from us and vice versa.

Patrick Brown alluded earlier to when we set ourselves up and found that some parts of the system—for example, the supply chain—seemed to want us to do more than we had been set up to do. We are taking that point back to the Government to have a conversation about it. It is important for us to retain focus, but we do not want to let people down. Clearly, other departments such as the Department for Business, Innovation and Skills, UK Trade & Investment and Scottish Enterprise have more of a formal role in some areas than we do.

Being based in Aberdeen and—I hope people would say—being generally quite good at listening, we hear about the opportunities and the concerns and we try to join the dots. It is a critical time for the industry and the right leadership and the right forward moves are vital.

Chic Brodie: Forgive me, Mr Samuel, I am not concerned about you. It might be DECC that I am concerned about. That is why I am asking whether there are any inhibitions or whether any hurdles are being put in your way. You have a clear strategy in regard to what you are trying to achieve.

Andy Samuel: I think, with Patrick's support, that people are happy that we need to gain independence. In relation to the industry paying the levy to fund us, I think that it is realising that that is how most other regulators are funded. It also gives the industry some certainty that the role of the regulator will not be threatened down the line. That may have been the problem with DECC over the years—the department shrank over time. Having that independence will protect us in the future.

Sir Patrick Brown: Part of that independence is that, apart from stuff that is really commercially confidential, we will be open. What we are doing, why we are doing it, the decisions that Andy Samuel and his team make and that the board approves will all be on the website.

Gordon MacDonald: I want to go back to the earlier point about the importance of data. When you were in front of the Energy and Climate Change Committee at Westminster, Andy Samuel said:

> "We have recently acquired 20,000 kilometres of new data over two vast areas."

Are you able to say where those opportunities are and how significant you think they could be?

Andy Samuel: That was about the data over the Rockall area west of Scotland and the mid North Sea high, which lies between the southern North Sea and the central North Sea. The Rockall is an interesting area. For such a large area and for what is, as we always say, a highly petroliferous province, we think that the prospects are good for the North Sea, or the UKCS, compared with many parts of the world where people go exploring. There are some wells with some very interesting shows.

The next stage will be to get the data interpreted and then, I hope, we will run a licensing round. Subject to the environmental assessments and our consultation with industry, we think that the next licensing round should be targeted at those frontier areas, to get some healthy competition and interest. If we are successful, companies will no doubt bid with 3D seismic data, which will be the next stage.

We think that that is very important, but there will not be a game change in the next two years, which is why, in parallel, we are trying to highlight the opportunities that already lie in the basins within licences, in the small pools and the discovered resources.

Likewise, there is definitely an active hydrocarbon system in the mid North Sea high, so we think that the prospects are very good.

Gordon MacDonald: Oil & Gas UK's operations director recently said that there are up to 24 billion barrels of oil remaining in the UK continental shelf. Are the two vast opportunities that you have just highlighted in addition to the already-identified figure of up to 24 billion barrels?

Andy Samuel: We talk about a range, and our range is between 10 billion and more than 20 billion barrels. It includes some element of that, certainly for the mid North Sea high. We are keen to sharpen our estimates as we bring in people who can leverage the data, as I said earlier. It is just the obvious next stage. We will probably find that the upper limit may go up as we get more data—I hope so.

A key point in all this is the chance of success, because that is what the industry really factors in when it is making its exploration decisions. It is important to get the right data and to de-risk the prospects. We tend to find that it is not hard to come up with big numbers, but the industry is very loth to try anything that does not have a 15 per cent or higher chance of success. We need to help to de-risk some of those plays.

Joan McAlpine: After the chancellor's autumn statement, Ian McClelland of Edison Investment Research said that he feared that

"without short-term fiscal support the government is closing the door early on much of the UKs remaining offshore reserves".

He was very critical of the fact that there were no fiscal announcements. Did you speak to the Treasury about getting fiscal incentives into the autumn statement, particularly on exploration?

Andy Samuel: My work on fiscal matters started when I worked in the industry, as I used to be on the fiscal forum. The autumn statement last year was a pivotal moment, as it was when the Treasury launched "Driving investment: a plan to reform the oil and gas fiscal regime". That plan was a recognition of three key principles. One was that, over time, the tax burden needs to fall. A very key second principle, which was driven by listening to the good work of the Scottish independent expert commission on oil and gas and people such as Professor Kemp and Melfort Campbell, was a recognition that the value of the industry these days is often more about the supply chain and the £35 billion of turnover than just the offshore tax take. The third principle is that the regime needs to be internationally competitive.

This time last year, at the fiscal forum, there was an agreement that the priority was the investment allowance. Some very good work was done to get that over the line for the March budget. Clearly, another priority was the overall rate of tax, and there was the 10 per cent reduction in special corporation tax. We also worked with the Treasury to provide some evidence around our concern about what we called the domino effect and the fact that those in the most mature parts of the basin were still paying the highest tax rate. That had some influence over the reduction in petroleum revenue tax, which was a positive surprise.

I was not expecting anything in the autumn statement this year, because the "Driving investment" plan had publicly said that the Treasury would work with industry, with the support of the OGA, on the next three priorities that industry had put up, which were exploration, access to late-life assets—which is crucial—and infrastructure. Workshops have been taking place on those. The last one will probably complete next week, ahead of the meeting of the fiscal forum on 16 December. That will be an interesting conversation, as we will see whether there has been any convergence of thinking and whether something can be done, probably for the budget next year. That is really a matter for the Treasury, however.

Joan McAlpine: Did you not ask the Treasury for any measures in the autumn statement?

Andy Samuel: We would not necessarily ask; we would provide evidence and advice. We have not received anything specific. We are working through the three work groups to determine what is the most important. Certainly in exploration, which is often talked about, an awful lot of non-fiscal work needs to happen quickly. We are focused on that and I can expand on it.

12:30

Joan McAlpine: What about extending investment allowances to cover the costs of ageing assets?

Andy Samuel: Some good work that did that was done after the budget and announced in a summer statement. There was quite a big extension and we provided advice on it. The intention was to promote new investment on ageing facilities. That has been well received and some companies announced some substantial new investments on quite mature areas straight after the budget. The Treasury is absolutely on board with the fact that the work that is needed on some of the old facilities is not standard maintenance but complete overhaul, which requires the investment allowance. That principle has been established.

Joan McAlpine: I appreciate your evidence. Much of it has been positive but, as Mr McClelland said, there was nothing in the autumn statement and more incentives are needed. In Aberdeen and Grampian Chamber of Commerce's review of the industry in the spring this year, 81 per cent of contractors said that tax issues were a constraint on activity. Given the way in which the chancellor talked up the Office for Budget Responsibility's figures for the oil price looking ahead—many people would say that the mockery that he indulged in around that went down very badly in Aberdeen—and the central part that that played in his statement, I would have thought that, on the industry's behalf, you would be keen to push for measures that provide an incentive.

Andy Samuel: I discuss tax frequently when I meet the industry but, actually, it is not top of the list because many companies are not paying much tax. It is obviously a private matter to them and we do not see the data but they tell me that, regrettably, they are paying very little tax right now. Therefore, they have other asks of the OGA and Government more broadly. That is not to diminish the importance of following through on the driving investment plan, which is vital.

Cost and efficiency are the vital workstreams right now. The industry has taken the lead on those and we are trying to help. Professor Kemp has done some brilliant analysis over many years. Last year, I think, he published an analysis that said that a 15 per cent reduction in cost would be worth five times a further 10 per cent reduction in the supplementary charge tax. It has a very substantial and positive impact on companies' economics.

We talked earlier about standardisation. It is no secret that the Treasury is also intensely interested in what the industry is doing to grapple with the situation. As we said, it is not about price reduction; it is about a transformation in how the industry works—particularly how operators and service companies work together.

The work that I am keen to support relates to trying to get those interfaces to work better. That is not my direct responsibility but it is a huge opportunity. We hear from every service company that, if it can get involved with operators early in a project, it can add a lot of value by coming with solutions rather than being told what to do. For instance, Melfort Campbell—our chair and I met him last week for a very good session—asks whether we can get a demand-led system instead of relying on rather bureaucratic supply chain processes.

There are some amazing opportunities for the industry if it will grab them. It is obvious, actually: drilling costs have increased by 700 per cent over 15 years, so addressing that must be a low-hanging fruit. Some companies are doing that and—guess what—they are the ones that are maintaining or even increasing activity. Some companies are seeing a counter-cyclical opportunity.

Cost and efficiency are the most important things for the industry to address right now.

Joan McAlpine: I do not doubt that there are a number of measures that we can take. It is just that the Aberdeen and Grampian Chamber of Commerce survey showed that 81 per cent of contractors thought that tax was an issue. However, you are saying that it is not an issue.

Andy Samuel: I am not saying that it is not an issue. Before I started this job, I was asked to present to the Oil & Gas UK annual council, which will come up again next week. I looked at the slides that I presented, and I had four main priorities—cost and efficiency; getting on with Wood; fiscal reform; and leadership and transforming the industry and the culture. Those four priorities are as important now as they were a year ago.

Joan McAlpine: I have one last question, if the convener will indulge me.

The Convener: Please be brief.

Joan McAlpine: The most recent report that we have from the Aberdeen and Grampian Chamber of Commerce, which was done with the University of Strathclyde, shows that half of the operators were unclear about what your role is. Given that you have a statutory role in MER, that is a problem, is it not?

Andy Samuel: I spoke to James Bream about that this morning. I think that it was half of the contractors, because that survey was aimed at the contractors or the service companies, which are not part of the MER UK obligation. They are not cited under the Infrastructure Act 2015 or the Energy Bill. There is an important question about where the boundaries of the OGA's remit lie.

I said to James Bream that we have some very good materials that say what we do, and I have asked him to share those more actively with his membership. I have also asked him to let us know when he has meetings and I or one of my colleagues will happily go along and explain what we do, with the slight caveat that we have a bit of work to do internally to determine where the boundaries are.

By the way, some of my team would like to do an awful lot more, because—

Sir Patrick Brown: I am saying no because we have to do the key things first.

Andy Samuel: It is about striking a balance. However, we see opportunities.

The most important thing is the point that Melfort Campbell makes. The service sector, particularly in the north-east, is full of great ideas. If we can get those heard earlier by the operators, that can create a lot of opportunity. They talk about plenty of low-cost, high-impact solutions, and that could be transformational.

Lewis Macdonald: That relates to one of the things that I am keen to ask about. I note your comment a few moments ago that you are currently more concerned than optimistic when you are looking at scenarios, but behind that, what is your view on why the UK continental shelf is so high cost relative to comparable provinces? Where are the low-hanging fruit in increased collaboration and tackling those costs in order to shift from the pessimistic scenarios to the optimistic ones? What does the industry need to do better in order to address those costs?

Andy Samuel: The main reason why the UKCS is higher cost—Mike Tholen alluded to it, and I agree with his comment—is that we now have 300 fields producing a third of what they used to produce, as compared with, say, Norway, which has a third fewer fields producing quite a bit more. The mathematics mean that the cost per barrel goes up.

Another point—the previous panel did not talk about it, but it certainly plays in my thinking—is that there was a prolonged period of oil price in which the service sector became massively stretched and overheated. I came back into the basin three years ago, I think, at the peak, and I found it hard to get the quality of service that I had been used to when I worked here previously because the whole supply chain was extremely stretched, and with that came massive inefficiency.

We have to retain the skills, anchor what we have and seize the opportunity. My concern is that it is a bit like an ageing patient. I swap notes with the Norwegians and I met the Alberta energy regulator recently, and this is a global issue, but younger basins are going to be more resilient. That is why we rushed out our report on the domino effect in February. We have an unusual situation with lots of interconnected old assets that are at threat.

As far as the solutions are concerned, standardisation is massive—there is a huge opportunity there. True collaboration is another one. I know that ASCO has come up with a simple logistics vessel-sharing proposal that can save £100 million. I am delighted that six companies have got together and agreed to share spares and inventory—that is a £50 million opportunity. It took them a while. There is a good cultural point to make in that context. The idea had been spoken about for a long time, but it was a struggle to get everyone on board. When six companies said that they were doing it, suddenly those outside the camp said that they wanted to be in the camp. The answer was, “You can join in at the end of Q1, when we open it up again.” There is a message to send out about leadership. It is not a case of trying to get everyone on board, but if we get groups on board, others will quickly follow.

We think that there are many opportunities of that kind. I had a very good meeting with John Pearson, who chairs the industry’s efficiency task force. It has launched its rapid efficiency exchange, where companies will share good ideas. We will support the take-up of that.

The most important thing in this area is leadership and behaviours, so I was surprised that Deirdre Michie did not mention the efficiency charter that OGUK, in collaboration with the industry, has come up with, because I think that it is quite good. The nice thing is that it is pretty simple and memorable. It has five key points, one of which is standardisation. We have said that we will support that absolutely, not with a regulatory duty, but through an influencing role.

I am optimistic that there can be a transformation in costs and efficiency, although I would like that to happen with a lot more pace. Notwithstanding that, if oil stays at $40 a barrel for another couple of years, which is one credible scenario, that is a very grim scenario. I really hope that that does not happen, but I am not an expert on global geopolitics and supply and demand.

Lewis Macdonald: You have described some of what the OGA does very fully, but you have also alluded to the situation in which an operator is sitting on old infrastructure—pipelines, for example—which it no longer gets much value from, other than by renting it to other operators with peripheral fields. Is there an active role for the OGA to play in ensuring that those networks of pipelines do not fall over because some operators with mature fields no longer gain value from them? Does the model of the OGA conducting or commissioning seismic exploration at its own hand apply to other things that can be done in the sector?

Andy Samuel: You have asked two very good and difficult questions. The first one goes to the heart of the MER UK strategy and has been much debated. I was delighted—the chair also attended the session in London—that the industry really appreciated the thought and drafting that had gone into the strategy, which, in effect, gives the OGA the power to prepare and publish a regional plan. We are doing that in a couple of areas—the northern North Sea and the southern North Sea—right now, because we have to. We are trying to come up with what we think is the best regional solution, which we will be able to share with operators. If their plans do not meet our expectations, we get into the stewardship/regulatory conversations and might have to use our powers.

However, the industry is very supportive; it can see that that process is in its interests because, if it is done right, it leads to more value for everyone. A little example of it being done right is the work of the operational gas group in the northern North Sea, where a lot of companies work together in very difficult circumstances to maximise the benefit of fuel gas; that includes bringing gas from Norway. That has recently been agreed, and it is a nice small example of what we would like to see a lot more of in the future. The industry saw that looking at the bigger picture can quite quickly create more value.

I hope that we will be able to demonstrate real value from the £20 million investment in seismic exploration, and I hope that that may be something that we repeat. In relation to being more interventionist, we are sometimes asked whether Government will step in and take on ageing infrastructure that no one else wants to operate. I pass on those conversations to policy makers in Whitehall. Not surprisingly, the answer is no, because if the market does not want it, why would Government want to pick it up? Our job is to make these things more attractive and to make the market work.

We are aware of some market failures. One of them, crucially, involves the transfer of late life assets, for which the Treasury currently has a key workstream in place. There are some potential barriers, including fiscal barriers, that are preventing new companies from coming in and maximising value from the ageing assets. I tend to get one ask from private equity representatives, whom I meet regularly, which is, “Can you try to solve that one?” I am not sure that it will be easy—in fact, I am sure that it will not be easy—but we have some very intelligent people in the Treasury and elsewhere in industry who are working that very hard, because it could be a game changer.

12:45

Lewis Macdonald: There is one thing that the Treasury and the Scottish Government might ask you about, which I asked Oil & Gas UK about in the previous session: the Aberdeen city region deal. With regard to the industry and its ability to plan for the future, will you as a regulator comment on that if you are asked by either the Scottish Government or the UK Government about what should happen?

Andy Samuel: Yes. We have been working closely with Scottish Enterprise, particularly on the technology and innovation aspect. It has been extremely interested in the work that we are leading with industry on the technology leadership board, because that is seen as a precursor.

We have provided some value cases in which, needless to say, the value is extremely high. That is very useful in supporting the city region deal. We wrote a letter of support—with the caveat that we would like to see the overall business case, which is being worked on—because we think that it is a good thing. More broadly, we think that there are some fantastic skills across the UK and obviously in the north-east.

It comes back to the need to create the right conditions, anchor those skills and maximise the export opportunities.

The Convener: We have time for one last question.

Dennis Robertson: With regard to skills and future projections, are you concerned that we could lose some of the skilled workforce? There will be opportunities after exploration and, with the mature fields required to close, there will be decommissioning, which is extremely valuable. Are you concerned that the skills may not be there? Do you have a role in trying to encourage companies to retain those skills for the future? Do you have a strategic plan for decommissioning?

Andy Samuel: Those are three very big questions. I am concerned: I was concerned from day 1 of my job, and even before I started my job. We formalised our concern in our “Call to Action” report in February. Since then, I have been very active on Scotland’s energy jobs task force, to which it has been a pleasure to contribute. It has been a very good task force, and I have worked with others on the values and principles. Recently, we have been asked to take on the leadership bit too.

More specifically, when we meet companies at PILOT dinners and at every opportunity that we have, we ask them what they are doing. Notwithstanding the difficult economic situation that companies are facing, they are looking to retain graduate schemes and apprenticeships where possible. They understand the importance of that, and we highlight our appreciation of and support for their work in that respect.

My human resources director has gone further by working with a sub-group of Scotland’s energy jobs task force. He is looking at transfer opportunities and at what we can do to anchor people and keep them. The ideas that Bob Keiller has spoken about publicly are very good, and we support all that work on both sides of the border. We also have a role in highlighting the gravity of the situation with colleagues in the Department for Business, Innovation and Skills and UK Trade & Investment, with whom we have a very good relationship.

Dennis Robertson: And on the decommissioning?

Andy Samuel: Sir Ian Wood, in his review, called for a single decommissioning body because he recognised that—notwithstanding our primary role to keep things going and maximise the economic recovery—there comes a time when decommissioning is the right approach for a particular set of assets.

A plethora of different bodies have been involved. We have worked with them and got agreement to form a single decommissioning senior board. It has its first meeting this week and will then report to the MER UK forum.

One of my key asks is that we take a strategic approach. We are not waiting for that work—we have been doing quite a lot. We found that, in the southern North Sea, there were eight operators decommissioning 500 wells. Getting them to work together has led to a 40 per cent cost saving.

More strategically, decommissioning is a great opportunity for the service sector. As was remarked on in the previous session, it could be an international competitive advantage if it is done correctly. We can help first of all by being very transparent about what is coming up. In the past, the service sector heard about decommissioning but it never came, so people said, "Is this a real opportunity or something that keeps on being pushed back?"

We have an authoritative position that we can publish and we have produced a draft version in our draft corporate plan, with our best estimate of what is coming up and when. We know that some organisations, such as Aberdeen Harbour, are very interested in that, as they are looking at potential expansion plans and see it as a good opportunity. The transparency of data is a no-brainer. Getting operators to work together and to phase their approach is also a no-brainer. Paying due attention to changes in regulation under the OSPAR convention and the like is vital. There are massive opportunities, and some threats, for the industry. We feel that we have a role in scanning the forward horizon.

We have also flagged decommissioning as an opportunity to the cross-party parliamentary group, which in the previous session of the UK Parliament focused in particular on local content. We have suggested that, in the next session of Parliament, that remains a vital consideration, but we have flagged up that decommissioning could be a really good topic for that group, and it agrees with us. We hope that the group will be up and running on that subject too.

There is quite a lot that we can do. The strategy is being actively formulated right now.

The Convener: Thank you—we are out of time. I thank you both, Mr Samuel and Sir Patrick, for coming in and answering our questions this morning. It has been a useful session. We now move into private session.

12:51

Meeting continued in private until 13:05.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

Information on non-endorsed print suppliers
Is available here:

www.scottish.parliament.uk/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk