



DEBATE PACK

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Debate Pack: Offshore oil and gas industry

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Summary

This Debate pack is prepared for a Backbench Business Debate in Westminster Hall on Thursday 3 March 2016 at 1:30 pm to 4:30pm

The Members in charge are **Peter Aldous MP, Mary Glendon MP and Kirsty Blackman MP**

In their application to the Backbench Business Committee on 23 February 2016 the Members said:

The low oil price has had a dramatic effect on the North Sea industry. [We] represent the three areas of the country—East Anglia, the Aberdeen area and the north-east—that are the most affected by this, although the effects go right across the country.

Ideally, we want the debate to take place before the Budget on 16 March, because there are certain fiscal policies that we think need to be addressed. It is a difficult time for the industry, but there is an opportunity now for the industry to rebalance itself and to reconfigure how it does things. It can have an exciting future for the next 30 or 40 years, from which the whole UK would benefit.

This Debate pack includes recent press articles and Parliamentary material.

There is further detailed briefing in the following Library Briefing papers

- [UK Offshore oil and gas industry](#)
- [Taxation of North Sea oil](#)
- [Oil prices](#)
- [The Energy Bill 2015-16: Background and changes in the Lords](#)

The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

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1. Summary

This Commons Library Debate pack provides a summary of the state of the UK offshore oil and gas industries and outlines the industry, the regulatory framework and key challenges and long term issues for the industry. The Government has introduced an [Energy Bill \(HL\) \(2015-16\)](#) which addresses the objective to maximise the economic recovery of oil and gas in the UK Continental Shelf (UKCS).

State of the industry

The UK offshore oil and gas industry is important to the economy. The industry supports around 375,000 jobs; it contributed some 0.8% of GDP in second quarter 2015 down from a high of 2.5% in second quarter 2008.

Production levels of oil and gas from the UK Continental Shelf (UKCS) are in decline. The remaining potential of the UKCS is dependent on the future levels of investment. The rapid fall in oil prices since the middle of 2014, from over \$100 per barrel (bbl) to below \$30/bbl at times in January 2016, has put significant pressure on the UK offshore oil and gas industry.

Volume and value of production

Oil production declined steadily between 2000 and 2014, while gas production began to fall after 2004.

Oil prices over the period have risen from \$28 per barrel in 2000 to highs of \$111 per barrel in 2001-12 before falling slightly to just under \$100 per barrel in 2014.

Against generally declining oil and gas production, rising prices over most of the period has meant industry income has remained at between £25 billion and £30 billion a year between 2000 and 2013.

Tax revenue has made an average annual contribution over the 10 years 2004 to 2014 of £7.4 billion, though it has declined rapidly in the last couple of years to just over £2 billion in 2014.

Employment in oil and gas

Oil and Gas UK reduced its [estimate](#) (in September 2015) of those employed in the oil and gas industry to 375,000 jobs from 450,000 at the start of 2014.

Oil & Gas UK [estimated](#) that at the start of 2014, the 450,000 employees comprised:

- 36,000 people directly employed
- 200,000 jobs in industry supply chains
- 112,000 jobs associated with these employees' spending in the wider economy
- 100,000 jobs associated with the export of goods and services.

Changing regulatory framework

The regulatory functions for licensing offshore oil and activities previously exercised by DECC will in future be exercised by the Oil and Gas Authority (OGA). In the *Scotland Bill (2015-16)*, regulation and licensing of offshore energy is a reserved matter, this is regardless of which country the waters belong in the UK.

The Government's [*Energy Bill \(HL\) \(2015-16\)*](#) responded to the need to maximise the economic recovery of oil and gas in the UK Continental Shelf (UKCS), the Bill:

- formally transfers the licensing, exploration and development functions currently carried out by the Department for Energy and Climate Change (DECC) to the Oil and Gas Authority (OGA).
- establishes the OGA as an independent regulator and a government company; it is currently an executive agency within DECC.

Recent Government announcements

In response to the oil and gas market changes, the Government [announced](#) on 28 January 2016 the following:

- a major new injection of cash into North East Scotland's economy with the signing of a new £250m UK City Deal, jointly funded by the UK and Scottish Governments.
- £20m of new funding for a second round of new seismic surveys to unlock new exploration activity on the UK Continental Shelf (UKCS), To back genuine innovation, the data will be made publically available, with £1m allocated to award innovative use of data to unlock new fields. This additional investment will also help to accelerate drilling new wells, replenishing our reserves and leading to new infrastructure projects.
- an Oil and Gas Ambassador will be appointed to help ensure the best possible access for UK companies to markets overseas, promote the North Sea around the world and boost inward investment.
- a new Ministerial group on Oil and Gas, chaired by Energy and Climate Change Secretary, has been set up to support the oil and gas industry. The group will coordinate the UK's response to the oil price and focus on exports, skills and investment.
- the Oil and Gas Authority will publish a UKCS Decommissioning plan by the early summer, as decommissioning is a fact of life in a mature basin, that will enable the £15bn Aberdeen service sector to become the centre of a new global market for decommissioning and help UK firms to be ready to capitalise on the huge opportunities that are coming in the years ahead. This will be supported by the Natural Environment Research Council who are investing up to £1m in new projects to support the development of expertise in the UK on decommissioning and its environmental management.

Long term future for offshore oil and gas

The principle long term issues surrounding the industry are:

- continuing and increasing cost pressures resulting in falling in employment
- the growing pace of decommissioning while ensuring that the remaining infrastructure supports new developments where necessary
- declining tax revenues but the need for a fiscal regime that supports investment
- a very uncertain price outlook
- competition from other sources of oil and gas in the UK and from other energy sources such as renewables

Detailed briefing papers

There is further detailed briefing in the following Library Briefing papers

- [*UK Offshore oil and gas industry*](#)
- [*Taxation of North Sea oil*](#)
- [*Oil prices*](#)
- [*The Energy Bill 2015-16: Background and changes in the Lords*](#)

2. News items

Please note: the Library is not responsible for either the views or accuracy of external content.

Telegraph.co.uk
February 23, 2016
[North Sea oil 'standing at the edge of a chasm'](#)
Simon Johnson
Copyright 2016 Telegraph Media Group Limited

Independent.co.uk
February 16, 2016
Chris Green
[North Sea oil and gas workers facing redundancy encouraged to become teachers under Government-funded training programme](#)
Copyright 2016 Independent Digital News and Media Limited

Independent.co.uk
February 9, 2016
[Glow on the horizon as Shetland's gas is turned on;](#)
Tom Bawden
Copyright 2016 Independent Digital News and Media Limited

Financial Times
February 6, 2016
[North Sea oil: after the fall](#)
Kiran Stacey
[Subscription required]
Copyright 2016 The Financial Times Ltd.

Financial Times
February 2, 2016
[North Sea fields face threat over production](#)
Christopher Adams, Kiran Stacey and Chris Tighe
[Subscription required]
Copyright 2016 The Financial Times Ltd.

The Daily Telegraph
January 29, 2016
[Cameron insists UK 'muscle' can help North Sea oil to recover; Prime Minister says second industry boom is possible despite SNP criticism of 'disappointing' package](#)
Simon Johnson
Copyright 2016 Telegraph Media Group Limited

The Guardian

January 17, 2016

[Oil slump - the true cost of falling prices; Standard Chartered last week warned of oil at \\$10 a barrel. What impact would that have on North Sea oil, the consumer and the UK economy?](#)

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Financial Times

October 19, 2015

[North Sea producers call for calm amid the storm](#)

Kiran Stacey

[Subscription required]

Copyright 2016 The Financial Times Ltd.

Financial Times

September 28, 2015

[Prepare for life without N Sea oil, says expert;](#)

Kiran Stacey

[Subscription required]

Copyright 2015 The Financial Times Ltd.

The Daily Telegraph

September 5, 2015 Saturday

[Still pumping 40 years on - is it too soon to write off North Sea?](#)

Andrew Critchlow

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3. Parliamentary questions

Asked by: Peter Aldous

The North Sea oil and gas industry, on which many people in my Waveney constituency are dependent for their livelihoods, is facing very serious challenges at the current time. The Government have taken steps to address the situation, but more is required if the industry is first to survive, and then to thrive. Will my right hon. Friend assure me that he recognises the seriousness of the situation, and will he do all he can to get the industry through these very difficult times?

Answered by: The Prime Minister

My hon. Friend is absolutely right to raise this. I do recognise the seriousness of the situation. The oil price decline is the longest in 20 years and nearly the steepest, and this causes real difficulties for the North Sea. We can see the effects in the east of England, of course across Scotland, particularly in Aberdeen, and in other parts of our country, too.

We discussed this at Cabinet yesterday. I am determined that we build a bridge to the future for all those involved in the North Sea. We are going to help the sector export its world-class expertise. We are going to help such economies diversify. We announced £1.3 billion of support last year for the North Sea. We are implementing the Wood review. I will be going to Aberdeen tomorrow, where we will be saying more about what we can do to help this vital industry at this vital time.

27 Jan 2016 | Prime Minister's questions | House of Commons | 605 c259

Asked by: Baroness Worthington

To ask Her Majesty's Government what measures are in place to limit the exposure of the public purse to costs arising through reliefs and repayments of Ring Fence Corporation Tax, Petroleum Revenue Tax, and the Supplementary Charge, incurred by the decommissioning of North Sea oil and gas infrastructure.

Answering member: Lord O'Neill of Gatley | HM Treasury

The Government believes in making the most of the UK's oil and gas resources – to date the oil and gas industry has contributed £330bn to the Exchequer and is the UK's largest industrial investor, supporting hundreds of thousands of jobs, supplying a large portion of the UK's primary energy needs and making a significant contribution to GDP. With between 11 and 21 billion barrels of oil equivalent still to be exploited, the UK Continental Shelf can continue to provide considerable economic benefits for many years to come.

The Government is committed to ensuring decommissioning programmes represent value for money, which is why we have introduced provisions through the Energy Bill to:

- require decommissioning programmes to be cost effective;
- ensure the Oil and Gas Authority has the powers it needs to scrutinise companies' decommissioning plans to ensure they are cost effective; and
- enable the Secretary of State to require a company to take specific action to reduce the costs of decommissioning to address cost overruns.

02 Nov 2015 | House of Lords | HL2713

Asked by: Baroness Worthington

To ask Her Majesty's Government what measures they have taken to limit their exposure to costs arising from the decommissioning of North Sea oil and gas infrastructure.

Answering member: Lord Bourne of Aberystwyth | Department for Energy and Climate Change

There are robust safeguards in place to prevent the costs of decommissioning falling to the taxpayer. Measures under Part 4 of the Petroleum Act include the ability for the Secretary of State to require the owners of an offshore installation or pipeline to prepare and execute a decommissioning programme for those assets, and to take financial securities from those companies to protect the tax-payer from any default.

We are committed to ensuring decommissioning programmes represent value for money, which is why the Government intends to bring forward amendments at Lords Report Stage of the Energy Bill to: require decommissioning programmes to be cost effective, ensure the Oil and Gas Authority has the powers it needs to scrutinise companies' decommissioning plans to ensure they are cost effective, and enable the Secretary of State to require a company to take specific action to reduce the costs of decommissioning to address cost overruns.

16 Oct 2015 | House of Lords | HL2454

Asked by: Murphy, Mr Jim Party

To ask Mr Chancellor of the Exchequer, when Ministers of his Department last met representatives of the oil and gas industry to discuss the fiscal implications of falling oil prices for the North Sea oil and gas industry.

Answering member: Priti Patel | HM Treasury

The government understands the challenges currently facing the UK oil and gas industry and is engaging closely with stakeholders on this.

We have been proactive in our response to the fall in oil price. Budget 2015 announced an ambitious programme of reform across the oil and gas tax regime to make sure the North Sea continues to attract investment and safeguard the future of this vital national asset. The government announced an immediate cut to the rate of the

Supplementary Charge, from 30% to 20%, which is already in effect; a reduction to Petroleum Revenue Tax, from 50% to 35%, from January 2016; and the introduction of a new Investment Allowance to support investment in the UK Continental Shelf.

This package is expected to deliver over £4bn of additional investment and increase production by 15% by 2019, the equivalent of 0.1% of GDP.

Details of meetings between Treasury Ministers and external organisations are published on the Gov.UK website at the following link: <https://www.gov.uk/government/collections/hmt-ministers-meetings-hospitality-gifts-and-overseas-travel>.

20 Mar 2015 | House of Commons | 227020

4. Other parliamentary material

Debates

Commons Chamber

Energy Bill [Lords]

[Second Reading](#)

HC Deb 18 Jan 2016 c1049-1238

[Extract...]

Amber Rudd (Secretary of State for Energy and Climate Change):

The North Sea oil and gas industry is still of huge strategic and economic importance to the United Kingdom. It has been the UK's largest industrial investor for many decades, supporting hundreds of thousands of jobs, especially in Scotland.

Since the 1970s, the industry has paid more than £300 billion in production taxes. In 2014, the UK continental shelf produced oil and gas equivalent to well over half the UK demand, but as the basin has matured, oil and gas has become more difficult and more expensive to access. That has been brought into sharp focus of late with the sudden and sustained fall in the oil price, which is putting considerable pressure on the industry to create a more competitive cost base and increase efficiency.

As a result, 2014-15 saw falling revenues and falling investment—regrettably, we are also seeing job losses. In order to continue to attract investment and safeguard the future of this vital national asset, the Chancellor set out a significant package of tax reforms for the industry in the March 2015 Budget.

We went further in the summer Budget, with measures expected to increase production by 15% by 2020. In the long term, a sustainable economic future for the North Sea offshore industry will be achieved only if we can maximise oil and gas recovery. That is why the last Government set up the Wood review, and Sir Ian reported that with the right strategy in place, the recovery of North Sea reserves can be boosted by an additional 3 billion to 4 billion barrels over the next 20 years.

Any oil and gas demand that we do not meet ourselves through domestic production has to be met by imports, at significant extra cost to the economy. Industry and government share the same ambitions and are working closely together to manage the remaining resources effectively and efficiently. As we progressively decarbonise our economy, we will continue to need oil and gas for many decades to come. It is far better that the jobs and revenue are in the UK, offsetting imports where we can. Maximising economic recovery from the UK continental shelf must be part of a balanced plan for a diverse and progressively lower-carbon mix.

This Bill will complete the work started in the previous Parliament to implement fully the Wood review. Key to Sir Ian's recommendations is the establishment of the Oil and Gas Authority as an independent regulator with a clear and focused mandate to maximise economic recovery of UK petroleum. Clauses 1 to 76 formally establish the OGA as an independent regulator and steward, which would take the form of a Government-owned company, transferring regulatory powers and functions to the OGA, and giving it new powers to support maximising economic recovery.

The OGA will take forward the principle of maximising economic recovery, set out in Part 1A of the Petroleum Act 1998, with powers taken in the Infrastructure Act 2015. In November, I launched a consultation on the strategy for maximising economic recovery of offshore UK petroleum, which is central to the OGA's future effectiveness. An amendment made in the other place, which we will try to overturn, seeks to broaden the principal objective, greatly expanding the scope of the OGA's role and going far beyond the vision set out in the Wood review. In our view, and indeed in the view of the industry and the unions, diluting the focus of the OGA at this critical time is not the right way to proceed. The OGA should be focusing on maximising economic recovery, as that is what it has been set up to achieve. In the current difficult and challenging circumstances, nothing should distract from that vital task.

The OGA requires clarity on its objectives, and we intend to provide that. This Government are committed to the Climate Change Act 2008, and to our target to reduce emissions by 80% by 2050. We will see the Climate Change Act framework in practice this year when we set in law the fifth carbon budget. Amendments made in the other place seek to change how we count carbon for carbon budget purposes from the fifth budget onwards. Given that the work to set the fifth carbon budget is well underway, and has been for nearly a year, and although it is right to keep our accounting practices under review, now is not the right time to change. To do so now, this far into the process, would threaten serious delay. Therefore, we will seek to overturn those amendments.

Westminster Hall

[North Sea Oil and Gas \(Employment\)](#)

HC Deb 20 Jan 2015 | 591 cc31-55WH

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