Scottish Affairs Committee

Oral evidence: The Future of the Oil and Gas Industry, HC 996

Tuesday 18 December 2018

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Watch the meeting

Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Hugh Gaffney; Christine Jardine; John Lamont; Danielle Rowley; Tommy Sheppard; Ross Thomson.

Questions 323 - 408

Witnesses


II: Claire Perry MP, Minister of State, Department for Business, Energy and Industrial Strategy, and Emily Bourne, Director for Energy Development and Resilience, BEIS.

Written evidence from witnesses:

- Scottish Government
- UK Government
Chair: We welcome you once again, Minister, to the Scottish Affairs Committee. We are delighted that you have found some time to help us with our oil and gas inquiry. For the record, could you say who you are, who you represent and anything by way of a short introductory statement? In that process, you could maybe introduce Ms Berge, too.

**Paul Wheelhouse:** Thank you very much, Mr Wishart. I welcome the opportunity to present evidence to the Scottish Affairs Committee’s inquiry into the future of the oil and gas industry. At the outset, can I just wish everyone a happy Christmas when it comes? I am sure you have a lot on your plates at the moment, but I hope you get some peace over Christmas to enjoy yourselves.

As the Minister for Energy, Connectivity and the Islands, the oil and gas sector is a central interest in my portfolio and for the Scottish Government and has been so since I took the energy brief back in 2016. Oil and gas is a key component of the Scottish energy system and the economy and Scotland has 465,000 square kilometres of exclusive economic zone in terms of the waters. The North Sea holds beneath it a significant potential, with up to 20 billion barrels of oil equivalent remaining, which could sustain production for the next 20 years and potentially more, in fact. Today it employs an estimated 110,000 people in terms of direct and indirect employment in Scotland and the sector in 2017 accounted for approximately 7.9% of Scotland’s GDP.

The Scottish Energy Strategy states our commitment to the sector, recognising both the significant opportunities remaining, our continued support of maximising economic recovery, and that a strong domestic oil and gas industry can play a positive role in supporting the low carbon transition and helping ensure self-sufficiency—or as best as we can—for the UK economy as the economy makes that low carbon transition.

It has been a challenging few years for the oil and gas sector, and the fall in oil price from above $110 per barrel in 2014 to a low of below $30 per barrel at the start of 2016 led to a significant decline in cash flow in terms of new investment and indeed the loss of tens of thousands of jobs across the sector in Scotland and the UK. The Scottish Government have done all in their power to support the industry and its workforce, including the creation of a transition training fund, a decommissioning challenge fund, committing £90 million, alongside the UK Government’s similar commitment towards innovation through the Oil & Gas Technology Centre, supporting transferable tax histories, Vision 2035 of the Oil and Gas Authority and the sector deal and leveraging the enterprise agencies wherever possible.

There are now positive signals emerging from the sector as the benefits of sustained reductions in lift costs per barrel and oil price gains have
improved the UK Continental Shelf’s basins compared to the position globally. The supply chain is also seeing new diversification opportunities in areas such as offshore renewables, decommissioning and carbon capture, utilisation and storage as well.

Oil and gas will provide two-thirds of the total UK primary energy by 2035, according to the Department for Business, Energy and Industrial Strategy and therefore, as is the case for Scotland, oil and gas needs to be a vital component of an energy policy that considers affordability, security of supply and environmental sustainability. It is important to stress that in Scotland’s case our Energy Strategy is consistent with our climate change plan and our statutory greenhouse gas emission targets as set out under the Climate Change (Scotland) Act 2009.

I would also like to introduce my colleague Kersti Berge, Director of Energy and Climate Change in the Scottish Government, who will help me field the questions that you send my way, but I welcome the panel’s questions, in saying that.

Q324 Chair: Thank you very much for that, Minister. You say it has been a challenging few years for the oil and gas sector. Perhaps that is an understatement that you made in your introductory remarks. As we go forward now, what do the Scottish Government see as the opportunities that will now be coming Scotland’s way in oil and gas? What do you see as the main challenges that we have to look at as we go forward?

Paul Wheelhouse: That is a really important question and certainly there are a number of headwinds that all sectors face at the moment. Oil and gas has obviously come through a pretty tough period and I made reference to the oil prices earlier. We are now in a position where we typically see oil prices sitting in a range of $60 to $80 a barrel, so things have improved. Having said that, I think that today the price is around about $58 a barrel, so we are at the lower end of the spectrum, whereas we have also gone above $80 in recent months.

It is certainly the case that one of the main challenges is sustaining the reduction in lift cost per barrel going forward. There has always been a tendency for booms and busts within the oil and gas industry. When times are good, costs rise and escalate, and that is how we found ourselves in the position we were in when the prices did drop in 2016. Many businesses were highly exposed to that because their costs had risen very considerably in the period of the good times.

Working with the Oil and Gas Authority, Oil & Gas UK, and through our industry leadership group that we have, which I co-chair with Melfort Campbell from the Imes Group, we are working to try to find a way of sustaining the cost base for the sector. It is a global industry and operators operating in the North Sea are seeing a challenge in that they are competing for capital between basins around the world. The North Sea has to compete for resources within BP, Shell and other companies with areas such as west Africa, the Gulf of Mexico and south-east Asia.
That is a real challenge for the sector in being able to convince those who are making those decisions, the investment decisions, at board level that there is a stable future for the UK Continental Shelf and that there is a sustained downward pressure on costs, which I know has been painful for the industry, but that needs to be sustained to allow the sector to compete globally. That is a real challenge.

There have obviously been significant job losses within the sector. We estimate in the region of 70,000 have lost their jobs in Scotland alone, and in the region of 130,000, I believe, across the UK as a whole. There have been significant job losses in the sector, so we have obviously been working hard to try to support those individuals and businesses who have been affected to survive and come through that downturn and hopefully respond positively.

There are also positive opportunities. We are seeing the diversification I referred to of the supply chain. It is now increasingly operating in areas such as subsea engineering, offshore wind and tidal energy, and we are seeing businesses that were almost exclusively deployed in oil and gas by necessity, having diversified through the downturn, seeing the opportunities to work in these emerging sectors, which gives them hopefully a bit more stability going forward. They have a more diverse range of business to sustain them as we go forward in future years.

Q325 **Chair:** I am grateful. Obviously a big part of what we have been looking at is the establishment of the OGA and the “Maximising Economic Recovery Strategy”. It has to be said that nearly all the witnesses that we have had in front of this Committee have been very positive about these developments and about what has happened following the Infrastructure Act 2015 and the Wood review. How closely involved are you with some of the discussions and operations, particularly around MER? What essentially is the Scottish Government’s role in this and how would you describe how MER and the development of the OGA has been in terms of this sector?

**Paul Wheelhouse:** We have kept very closely engaged and I would agree with those witnesses who have heaped positive praise on the Oil and Gas Authority. Obviously it is an Aberdeen-based institution, so you would expect me to be positive about it, but I think Andy Samuel and the team at the Oil and Gas Authority provide a very positive role in helping assets get into the right hands, making sure that late-life assets are passed on from operators to new players in the industry, making sure that we get the best value out of those fields and also helping to support the work of both the Scottish Government and the industry in terms of developing our response to the decommissioning market as well. It has been a very positive player.

We are seeing that the Oil and Gas Authority has been a very positive contributor to the industry leadership group that I co-chair with Melfort Campbell. Andy Samuel himself sits on that group and takes the matters very seriously. We have had very positive and constructive engagement
with Andy and his team as the regulator and also indeed meet Andy Samuel on a bespoke basis to have discussions on behalf of the Scottish Government with the authority. I met with him last week actually, 11 December, to discuss the outlook for the sector. I would very much welcome the role that it has played in developing Vision 2035, which as a vision came out of the Energy Jobs Taskforce that was a Scottish Government programme. We have to look forward to the future for the industry and try to envisage what the industry might look like two or three decades down the line, but credit to the Oil and Gas Authority; it has really gripped that and taken it forward.

In the discussions we had at the ILG last week, Oil & Gas UK was suggesting a key role for the industry leadership group in Scotland might be to help with the diversification strand of the Vision 2035, looking at the new opportunities in areas such as decommissioning, obviously interaction with other energy sectors, developing subsea engineering, looking at export development and these sorts of areas.

There is quite a cluttered landscape in some respects in terms of different organisations that operate in the oil and gas sector, but there is potentially a nice gap there for the ILG in Scotland to fill, working with the OGA and Oil & Gas UK to try to identify diversification opportunities for the sector and ensure that the workforce has a just transition, which I know is an issue you might want to return to later.

Q326 **Chair:** The MER does seem to be working effectively and all the various strands seem to be working very efficiently in terms of partnership and relationships. As we go forward, are there any particular challenges that you see that MER might have to look at and confront as we start to develop some of the things that you were mentioning there?

**Paul Wheelhouse:** There are some challenges. Workforce is an issue. It would not be lost on members of the Committee, I am sure, that the industry has an image that it needs to address, which is perhaps an outdated image of what the sector is. On a number of fronts we are trying to attract women into the sector. It has always been a challenge, but that is something that I know the industry is really serious about. There are some great leaders in the sector who are women, but it is about trying to make sure that there are attractive career opportunities for individuals.

Trying to persuade young people that there is still a viable future for the industry at a time when we are making this very public low carbon transition is also an issue. We have been trying to develop a positive narrative for the sector on how it can play a positive role and a leading role in trying to drive low carbon transition. We genuinely think that that is possible for the sector, but it does present an image issue with millennials in particular, who are very conscious about climate change. We need to create the positive narrative that will develop that.
There are some immediate issues, depending obviously on how the Brexit negotiations go. There could be some difficulties presented by the WTO-type options, which presents tariff barriers that might affect the service aspects of the industry. Vision 2035, the Oil and Gas Authority’s vision and OUK’s vision, which is obviously shared by both Governments, is something that depends a lot on trying to double the market share globally where the sector takes in largely a knowledge-based sector driving projects from the north-east of Scotland, from Scotland more generally, and obviously from the UK Government point of view the wider UK, using the expertise that we have in the UK Continental Shelf to drive that jobs growth. That is a great opportunity, but if you then face a tariff barrier compared to other key hubs such as Houston or Stavanger, then you have a challenge.

We need to make sure that we take adequate account of the needs of the oil and gas and indeed wider energy services sector. There are great opportunities in offshore wind, clearly floating and fixed, in terms of international markets and we would hope to see projects led from Scotland and from the UK in that sphere. If there is a tariff barrier, that makes life a little bit more difficult for everyone.

Chair: Thank you. I know that John Lamont wants to come in on this, but I saw Danielle Rowley’s interest irked when you mentioned millennials there.

Q327 Danielle Rowley: It was encouraging to hear you talking about attracting people, especially women, into the sector. Are you doing anything to ensure that jobs are secure, well-paid, good, permanent contracts?

Paul Wheelhouse: That is a very important issue and clearly the trade unions are obviously very active in that space, the RMT in particular, in looking at the needs of the sector. On one of the key issues we funded some work through Skills Development Scotland, which has funded a study by RGU and OPITO to look at the future workforce dynamics of the sector going forward to 2035, looking at some of these issues about how the roles will change and how that may affect the skillsets that young people need going into the industry and also retraining opportunities within the industry.

You are right to identify that one of the key challenges that the Oil and Gas Authority and the industry more generally need to face up to is to try to improve workforce engagement and make sure that there are good industrial relations. As much as lift cost is an issue in terms of securing investment to the sector, it is also an issue that if there are industrial disputes and action prompted by poor workforce engagement, perhaps on a company-to-company basis, that could undermine the investment environment in the North Sea as well.

Yes, we need to look at that. We need to give people viable careers and if you are trying to attract young people into the sector you need to give
them some security of employment and take health and safety very seriously, as I think certainly the senior level of the industry very much does. You also have to provide some certainty about the terms and conditions people can be working under and make sure that workforce engagement is stepped up and improved. That has been lacking in recent decades and it needs to be addressed.

Q328 **John Lamont:** Good afternoon, Minister. I just want to follow up on the opportunities for the oil and gas sector, particularly onshore exploration. Could you clarify whether fracking has been banned in Scotland?

**Paul Wheelhouse:** We are now going through a process, as Lord Pentland has determined in his determination of the legal case in the Inner House of the Court of Session that we have a developing policy. We have announced what we call a preferred policy, which is a legalistic term, which means a policy still under development. As I announced in October 2017, that would be subject to a strategic environmental assessment and a business regulatory impact assessment. Both of those are statutory obligations on the Scottish Government on behalf of the Parliament to undertake these exercises.

In short, we are aiming to have a preferred policy that would prevent fracking happening in Scotland. Lord Pentland opined that we were entitled to refer to the effect of our policy as an effective ban, even though he said for the purposes of the case that was being heard in the Inner House that was an irrelevance because the policy was still under development. I am pleased to say the SEA and the BRIA are well underway. We are expecting to conclude those exercises shortly and will then report back to Parliament on the consultation findings and hopefully finalise our policy position in the first half of 2019. That will put into effect the policy announced in October 2017.

Q329 **John Lamont:** You made reference there to the court ruling and the judges said there was no such ban. They said the references by yourself to an effective ban were, “mistaken and did not accurately reflect the legal position”. Your own Government’s lawyers argued that your references to a ban were just a PR gloss. I wondered how you think you are going to get to a policy when that is the basis of the court’s opinion of your position.

**Paul Wheelhouse:** I stated in October 2017 that we would put in place our preferred policy position after conclusion of the SEA and the BRIA. Effectively the exchange between Lord Pentland and our QC, James Mure, was touching on those issues in terms of how it was presented. Lord Pentland in paragraphs 47 to 53 of his determination did cite the fact that we were perfectly entitled to refer to our position in robust terms to describe the effect of the consequences of the actions we have taken. Both the actions we have taken to date and putting the planning policy on to a permanent footing, subject to the SEA and the BRIA, will have the effect that there is a control on fracking. He has referred in his determination between paragraphs 47 and 53, if you have them to hand,
that we were entitled to use robust language to describe the effect of our policy position. We stick to that policy position and are not moving away from the actions we announced in October 2017. We are just following exactly the trajectory we set out in October 2017.

Q330 John Lamont: How much shale gas is imported from the US via Grangemouth?

Paul Wheelhouse: I do not know the volume, Mr Lamont, and that is a commercial matter for INEOS. As you know, those powers are reserved to Westminster, so we do not have the ability to impact on that even if we wanted to. What I do know is that Scotland is self-sufficient in natural gas, so we do not need shale gas for heating, which has been suggested by some parties. It is being used. Ethane from shale gas is the main product that is being imported via the Dragon ships at Grangemouth for the INEOS plant there and that is a feedstock for the petrochemical industry. It is not a necessity in terms of energy, it is a feedstock for petrochemicals.

Q331 John Lamont: It may not be a necessity, but it is slightly hypocritical, I would suggest, given the Scottish Government’s view on fracking. I want to move on in relation to the transfer of skills within the oil and gas sector. This came out of our evidence session in Aberdeen. The point was made by one of the witnesses from the Oil and Gas Institute, “Would I see that onshore being a powerful addition to the portfolio? Absolutely, because if we produce it here, we have jobs, tax and activity here, we do not rely on imports and it helps with the balance of payments for the UK.” The point that was being made was given the decline in the offshore sector for oil and gas, the industry was very keen to be able to redeploy those skills in the onshore sector. Do you reject the opinion that was expressed to us at that evidence session?

Paul Wheelhouse: I will found my position on the evidence that we paid for and was provided to us by KPMG, which I hope you would regard as a respected consultancy, a major practice, which concluded that there would be a minimal employment impact in Scotland. Those individuals are entitled to have their opinion, of course—and they are entitled to feed into our consultation on our SEA and BRIA, I should say—but if they believe that the salvation of the workforce in the oil and gas industry will be onshore oil and gas, KPMG concluded that there would be a relatively modest level of activity in its central scenario, which is providing up to about 1,500 jobs in Scotland, including direct, indirect and induced employment. In total, it will not offset the loss of jobs that will come in the offshore oil and gas industry going forward. I think that it is an ill-founded hope, to rest the future of the workforce in the oil and gas industry on a relatively modest amount of employment that would be created.

In terms of the 0.1% of GDP it would add to the Scottish economy versus the climate change emissions that would arise from creating a new
industry, which are very substantial, as concluded by the UK Committee on Climate Change, our statutory advisers, we took a view—obviously subject to the SEA and BRIA—in our preferred policy that it was not in the interests of Scottish people to develop an onshore oil and gas industry. There are many better ways we could generate jobs for those individuals in the oil and gas supply chain than creating a new industry that will only sustain 1,500 jobs in total.

Q332 John Lamont: The industry experts and the academics who gave evidence to our Committee before were wrong, is that what the Scottish Government are saying?

Paul Wheelhouse: What I am saying is that we have a good quality piece of work that has been done for the Scottish Government—

John Lamont: Yes or no is sufficient.

Paul Wheelhouse—and I am not going to criticise experts who have given evidence to this Committee out of respect for those individuals. They are entitled to their view, but the Scottish Government have funded research that has concluded that there is only a modest activity that would be generated in the central scenario, taking into account that we could not expect to see every area of Scotland that was eligible for onshore oil and gas activities in the BGS survey being developed for planning.

Mr Lamont is quite keen often to criticise the development of renewables onshore and in my home patch on the basis of planning matters and ensuring we listen to local communities. We had a very strong response from those local communities most likely to be affected by fracking in and around the central belt of Scotland, who were very strongly opposed to the industry. I think that we have to listen to the public in that respect.

Tommy Sheppard: Minister, I had not really anticipated that we were going to spend this amount of time talking about fracking—our inquiry is much wider than that—but since my Conservative colleagues have chosen to labour this point, I would like to place on record my congratulations and support for the Scottish Government in their actions to try to make sure that fracking does not take place in Scotland. I do not know, but I think I probably would speak for the majority on the Committee, who are delighted that the Scottish Government are trying to reflect Scottish public opinion in that regard. I hope very much that we might be able to provide some leadership to the rest of the United Kingdom in terms of the role of fracked gas within future energy policy. I just wanted to state that for the record.

Paul Wheelhouse: Okay.

Chair: We usually invite questions, but we will maybe let that one pass. Thank you.

Q333 Ross Thomson: Minister, do you welcome the current fiscal regime that
we have in the North Sea now?

**Paul Wheelhouse:** Certainly broadly, yes. We have pushed quite hard, as I mentioned in my opening remarks, for the transferable tax histories, which we welcome. That has been a positive development in allowing new operators to emerge into the sector—as I say, specialists in late-life asset management decommissioning, to allow those operators to emerge and perhaps the more traditional operators such as BP and Shell can then focus their efforts on developing new fields and new production. We do broadly welcome the position we have now reached and we certainly advocate fiscal stability, which is something the industry very much asked for.

The one area where we perhaps would welcome further work—I appreciate it is not as easy as it may sound, but we need to try to work together to find a solution to this—is looking for new incentives to stimulate exploration activity, which has, as you probably know, as a Member representing the north-east, taken a big hit in recent years. It is beginning to pick up, but certainly to ensure we have, as best we can manage it, self-sufficiency in oil and gas production during the low carbon transition going forward, we need to maintain our levels of investment and exploration to ensure that in the 2020s and beyond we have new fields entering production. That does not necessarily add to the reserves, which I know is an issue that is often discussed in social media—the contention about why we are continuing to push for more exploration. Because the UK economy is about three-quarters dependent on hydrocarbons for its energy requirements, we need to make sure that we continue production as we transition to a low-carbon future.

**David Duguid:** I want to go back to something you said a little while ago about the oil and gas industry leadership group. I did a little bit of looking up online. The first search item that came up was an old version that had Fergus Ewing still in the chair, but then I found the newer version. Obviously you have the OGA represented there, representing the UK Government. I was wondering what engagement that group has with the Department for Business, Energy and Industrial Strategy, particularly in relation to the Clean Growth Strategy.

**Paul Wheelhouse:** There is good interaction between Scottish Government officials and BEIS officials now. I certainly would not want to suggest there is anything other than a positive relationship. We tend to work very closely between Scottish Government officials both through the vehicle of the ILG, but also separately from ILG to try to engage on positive developments for the industry. In that sense, while OGA is I guess the only formal representative of a UK Government agency on the ILG, it is a very important one. The Scottish Government also sit on the MER UK forum. I represent the Scottish Government on that forum to represent our views when we can do so. I welcome participation in that.

We also have Scottish Government representation on the new council around CCUS, carbon capture, utilisation and storage, so there is quite
good practical working between officials both in BEIS and the Scottish
Government on a day-to-day basis. I would like to think that we are
developing a good relationship with Claire Perry, the Minister, as well in
terms of engagement on matters of mutual interest. I hope that helps to
address the concern there might be that we do not work closely together.
We do try to work together. There will from time to time, I am sure, be
differences of opinion, but I am glad to say that things tend to be working
quite well at the moment.

Q335 David Duguid: I am sure the Minister will forgive me if I ask the Energy
Minister a similar question when she comes on the next panel.

Paul Wheelhouse: Of course. I would say in terms of the industry
leadership group, you raise an important point. We just discussed at the
latest ILG last week the need to step up the communications about the
activities of the industry leadership group. It has been low profile. It is
doing very good in the background, but taking a leaf out of the book of
industry leadership groups I have previously co-chaired, such as Life
Sciences Scotland, as a good example, they are much more front foot in
terms of communication about ongoing activities. Now that the industry
leadership group has responsibility for oversight of the work of the former
Energy Jobs Taskforce, I think that it would be important that we up our
game in terms of communicating to the industry and other key
stakeholders the work that we are doing.

Q336 Hugh Gaffney: What is your view of the proposals for the oil and gas
sector deal?

Paul Wheelhouse: We certainly welcome the oil and gas sector deal.
Obviously we have been working through the industry leadership group
on the Scottish response to that proposal. I would like to think if the
sector deal is successful that Scotland could outperform the average in
terms of the impact on the sector. We are fortunate that because of the
structures we have in economic development with Highlands and Islands
Enterprise, Scottish Enterprise, Skills Development Scotland and Scottish
Development International, we have some very effective agencies that
are well-recognised by the sector as providing a positive contribution to
the sector that can work together in a way that might be more
challenging for local economic partnerships in England to do a similar
role.

We have the opportunity in terms of the landscape to outperform the
sector as a whole and there are key elements of it that we hope will have
particular resonance in Scotland, such as the work around underwater
activities and subsea engineering. We have a great deal of activity
located in Scotland and key aspects of the supply chain in the north-east
and facilities such as Fort William that could be deployed in that as well.

In decommissioning we are probably ahead of the game in terms of
developing a response to the emerging decommissioning market.
Therefore that would hopefully put the supply chain in Scotland in a good
place to exploit that. There are strands around transitional technologies—and I know the Oil & Gas Technology Centre is particularly keen to develop this aspect of it—in terms of the crossover between oil and gas expertise into areas like offshore wind and offshore floating wind, and also the carbon capture, utilisation and storage market. There are some great opportunities for us to do well.

Trevor Garlick, who heads up the sector deal team, also sits on the industry leadership group. I had a meeting with him on 20 November to talk about Scotland’s response and the aspects of it that we are looking for within the sector deal. I would largely regard it as a very positive development and it will help the industry adapt and change as it needs to going forward, so we are keen to support it.

Q337 Hugh Gaffney: On that basis, would the Scottish Government be willing to make a financial contribution to the Government-funded elements of this deal?

Paul Wheelhouse: I have discussed that with Claire Perry herself. I hope that it is not breaking privilege to mention this, but we have raised the opportunity. We are keen to engage with the UK Government on how we can support it. We are vesting a lot of funds already in areas such as construction development grants for oil and gas supply chain companies. I think that it would be good to look at how we can co-ordinate that to try to redouble the effort on the sector deal and make sure the sector deal works in the interests of the Scottish supply chain and that we are as effective as we can be in pooling our collective resources.

I am not sure if the Committee will be aware that we increased the level of spending in R&D in the last year and the next two years for small companies in terms of R&D grants by about 70%. It has gone from £22 million a year to £37 million a year, and I have certainly been saying to oil and gas companies, who are sometimes real engines of innovation in the wider energy supply chain, that they should try to engage in and draw down funds in that area. It would be good to co-ordinate that as best we can with the sector deal and I have made that offer to Ms Perry, which I hope is seen with the intent it genuinely had, which was to work together on this.

Q338 Hugh Gaffney: Are you content that the industry commitments in the deal are ambitious enough to warrant the amount of Government funding that they are requesting?

Paul Wheelhouse: I do think that it is a well-conceived proposal that the industry has put forward. There is obviously significant private sector investment, and as we have seen with the Oil & Gas Technology Centre, significant funds coming in from industry as well as Government. I think that this is a very important sector in terms of the potential to support the Oil and Gas Authority’s vision for 2035 as well. If we are going to develop this global-facing supply chain that is basically relying on the skills and expertise of the workforce in the sector, then that has to be
founded on staying ahead of the competition and investing in innovation, R&D and being ahead of the game in areas like decommissioning.

I suppose it is both a downside and a positive that the UK Continental Shelf is a maturing basin so there are lots of fields that are coming to the natural end of their life as we are finding new fields. That does mean that the UK Continental Shelf has an opportunity to steal a march on other basins around the world to develop decommissioning expertise. That could be just one strand of that growth opportunity internationally. By dealing with the complex issues of decommissioning in a really tough environment, we can deploy that knowledge pretty much anywhere where there is oil and gas activity. I would like to think that the sector deal, in looking at that decommissioning strand, would help support that opportunity being exploited.

Q339 **Chair:** On the question that Ms Rowley raised about gender diversification, I see in the nuclear sector deal that there is a commitment to improve the gender diversity within that. Do you think that should equally apply to the oil and gas sector deal?

**Paul Wheelhouse:** I know the industry is trying very hard. I certainly am sure that key industry figures would not be upset with me saying this: there is a disappointing level of oil employment and unfortunately during the downturn in the industry many of the back office functions were held by women. Management positions were held by women, and those are ones that have taken a real hit. Production itself has perhaps gone through a downturn and a slump, but has responded more recently as volumes have gone up. If we are thinking about where we are at compared with say five years ago, by the end of this year we expect production to be about 20% higher than it was five years ago. That shows that the workforce and the production side has perhaps come through the worst and we are seeing rising production levels.

What has really hurt the industry hard in terms of the gender balance has been the loss of jobs in the onshore activities, office functions, management positions, finance, HR, these sorts of areas, where there has been significant loss of employment, and that has hit the gender balance industry pretty hard. It is going to be tough. We would obviously like to see more progress and I would certainly support the industry if they do choose to go for an ambitious target there.

Q340 **Chair:** I think that we will ask the Minister when we see her about their plans for that when it comes to the sector deal. On your response to Mr Gaffney, I was not too clear about the conversations that you have had with the UK Government about providing some financial support and resource to the sector deal. Have there been any conversations with the UK Government? Have they approached you to get involved and have they asked you to provide any financial assistance at all?

**Paul Wheelhouse:** There has been, I suppose, in the context of my former colleague, Mr Brown—still a colleague in Parliament, of course—
the former Cabinet Secretary for the Economy. I had a number of engagements with Greg Clark, the Business Secretary, at UK level around the development of the Industrial Strategy and sector deals and obviously made representations around key sectors in the Scottish economy. We have had formal engagements that were offered by UK Ministers in that context.

What I suppose had not happened is that there had been direct ministerial engagement between myself and Ms Perry around that, so I offered to work with the UK Government on seeing what more we could do to align our activities and just to remind the UK Government of the significant spend through our agencies in Scotland, not least on export development and R&D innovation, that could support the UK Government’s own efforts around the development of their sector deal. Therefore there is an offer there to work closely, and I am pretty sure that that will be seen positively by Ms Perry, but I will leave her to comment on that later.

Q341 Christine Jardine: Just to clarify that, from your answer there I am not sure about the question that the Chair asked, which was were you asked by the UK Government to commit funding. What we have is a reserved area—

Paul Wheelhouse: I do not think we have been formally asked.

Christine Jardine—but what I take from what you are saying is that you have approached the UK Government, you have had discussions, they have consulted you on it, but nobody has asked the Scottish Government for any money yet.

Paul Wheelhouse: I do not think there has been a formal request. I will check with Kersti, but I do not think there has been a formal request for us to put any funds in.

Q342 Christine Jardine: Has there been an informal one?

Paul Wheelhouse: Not that I am aware of either, but we have offered. We have taken the front foot, if you like, and offered.

Q343 Christine Jardine: You would like to invest, but as it is reserved and it is a matter of not just great economic but security concern for the UK Government, the UK Government have responsibility for that. You have offered to be financially involved and they have not yet taken you up on that?

Paul Wheelhouse: Not yet, but I do not think there is anything negative in that. It is a relatively recent meeting I had, I think just over a month ago, with Ms Perry in Parliament here and raised that possibility, just because we were welcoming the development of the sector deal, in response to Mr Gaffney’s points, and saying, “This is a positive thing. Can we work more closely with you?” We invest significant funds annually in the oil and gas sector. We would be keen to make sure that that is
working to maximum effect for the industry. It just makes sense to make sure that we are getting the maximum impact of public spending and that we are not cutting across each other in terms of what we are doing.

We are already collaborating on the Oil & Gas Technology Centre, so it just seemed logical to say, “Let’s look at how we can dovetail the work that we are doing”, not necessarily to say that we want the UK Government having their fingerprints all over what we are doing in Scottish Enterprise, but there is on a day-to-day basis good collaboration between DIT and SDI, for example, in terms of export markets, so why don’t we just co-ordinate our activity a little bit better at a Government-to-Government level to try to make sure it is having maximum impact on a sector that, although things are positive, is still coming out of a pretty tough period. There is an appetite on our part and I hope that is something that is taken at face value by UK colleagues.

Q344 Danielle Rowley: How are you looking to balance and resolve tensions between supporting the sector, but also your climate change responsibilities, particularly your aim to reduce carbon emissions by 90% by 2050?

Paul Wheelhouse: It is an extremely important question and one that I think all of us have at some point or other had to double-take just to make sure that we are getting this right. We have tried in the Energy Strategy, which we published about a year ago this week, a narrative around what we believe is an important role for the oil and gas industry as a real engine of innovation and a great repository of skills in terms of the kinds of skills you need offshore, in offshore wind, tidal energy, wave energy, and that we make the maximum use of that very talented pool of individuals to support the transition to a low-carbon economy.

Currently, about 76% of our primary energy needs in Scotland come through hydrocarbons, so even though we have made massive progress on electricity, 54% of our energy consumption annually is in heat and about a quarter is on transport. Clearly our transport systems and our heating systems are still very dependent on hydrocarbons and we cannot just switch that off overnight. It would cause absolute chaos and obviously cause a lot of harm and hardship for people. It is about trying to manage that transition, making sure that rather than seeing the oil and gas sector as some sort of opponents of low carbon, there is a really good opportunity to use the spending power and the investment capability of the big balance sheets we have in some of the main operators to deploy those resources and skills to help the transition.

There is some really good emerging evidence of these things happening through the supply chain as well. For example, East Coast Oil & Gas—I am not sure if it is in Mr Thomson’s constituency, but it is certainly in the south side of Aberdeen—is a business that, and the clue is in the name, has been involved largely in oil and gas, but which has developed a new tidal turbine to power subsea oil and gas platforms to provide an uninterrupted power supply for those platforms. That is a new marine
energy development that has happened out of an oil and gas supply chain company trying to fulfil the needs of an oil and gas production capability.

We have Equinor, a big Norwegian state-owned company, which is investing heavily in floating wind and are using the skillsets that are in the oil and gas sector to do that. They have even taken things to the extent that they now have Project Tampen, which is in the Norwegian sector of the North Sea, which is going to have 11 offshore wind turbines providing electrical power for two major fields in the Norwegian sector. That is going to take out about 126,000 tonnes of CO$_2$ a year from oil and gas production.

There are lots of areas where the industry, for its own needs to decarbonise to deliver corporate social responsibility objectives, is investing in the sector. We also have tremendously talented individuals who are engineers, who are experienced at deploying technology in a very hostile environment, who could be well-deployed, I believe—and I think the industry also accepts this—in developing the renewable energy sector and particularly offshore wind.

Floating offshore wind, for those who are not familiar with it, uses the same techniques that have been deployed in oil and gas production in deeper waters. You have in some cases a concrete case, which is basically a floating concrete structure that supports the turbine. In other cases it might be a steel jacket, but in both cases they are moored in the same way as an oil and gas rig would be in deep waters. They are deployed by the same kind of individuals, the same kind of vessels that would be used and the same supply chain, so there are great opportunities there to build a positive role for the industry going forward.

This is the perhaps uncomfortable truth. I stressed the point earlier, but consistent with our climate change targets for 2050 and 2032 in terms of the climate change plan, our projections are we will need oil and gas going forward, decreasing amounts perhaps for our domestic needs, but we will need gas as a fuel not just in the transition, but probably beyond it for certain uses. Obviously oil and gas also provides feedstock for other products as well: plastics, pharmaceuticals, petrochemicals that are used for other purposes. It is not just burning fossil fuels, they are used in key manufacturing processes and products.

We need to have an honest discussion about that with the public and our environmental NGOs, whose contribution to this debate I very much value, and make sure we make clear the reason why we cannot just shut off oil and gas today. We would otherwise be for the foreseeable future, if we did stop production today, dependent on an increasing amount of imports to the UK to meet our needs as we go through the transition. UK Continental Shelf production is well-regulated. I have praised the OGA already. It is operating to as good environmental standards as you can manage in the oil and gas sector internationally, and I believe it is the responsible thing for us to do to produce that domestically and try to
meet our needs domestically rather than import from other places where perhaps the regulations are not as tight.

Q345 Danielle Rowley: Could I just go back? You mentioned before transferable tax histories and welcoming that. Is there anything in that that ensures climate responsibility? Why support a tax relief that is about ensuring profits for companies, but again does not protect jobs or working conditions?

Paul Wheelhouse: It is really important and I know some of the terminology in the industry does grate. It does grate with me a little bit to talk about maximising economic recovery, for example, although I understand the rationale for that language. It is about making sure you have efficient production. It is effectively about making sure we provide as much domestically as we can because the UK is a significant net importer of oil and gas now and without the domestic production—although Scotland is self-sufficient, I would make that point—the UK would face significant growth in imports. By investing in the way we have described in terms of technology and innovation to try to make sure we maintain the efficiency of production, we are potentially reducing the overall climate emissions of our energy consumption because we are producing it closer to home in a more efficient system that does monitor things like methane emissions and emissions from wells in a way that is maybe not as well-regulated elsewhere internationally.

I appreciate that it is a very difficult message to get right, but we are trying to work with industry to get that right. Without continued production, we then lose perhaps an income that would then pay for the development of carbon capture, utilisation and storage, which is a key opportunity for the supply chain, but is an absolute necessity globally.

I was very much taken by the recent summit we had organised by BEIS and the International Energy Agency in Edinburgh. Professor Jim Skea, who now heads up our Just Transition Commission for Ms Cunningham, the Environment Secretary, was very clear that in all scenarios that the IPCC—he is one of the co-authors of their key report—looked at, 1.5 degrees, 2 degrees, 3 degrees, 4 degrees, carbon capture, utilisation and storage is essential. Without it, the world cannot stay below 4 degrees, let alone achieve 1.5 degrees or 2 degrees. You need the oil and gas supply chain to support that, so we need to manage that transition, redeploy where we can into these new areas, but we need the industry to have a viable future to be able to fund development of very expensive technology.

Q346 Tommy Sheppard: Minister, that is a convincing answer, but I want to press you a little bit more on this, because I think there is a central paradox here between responsibilities to climate change and the future of the oil and gas industry. Let me just preface this by saying that I think we can all acknowledge the ambitious targets that the Scottish Government have set for emissions and welcome the progress that has been made towards it. What do you say to the climate change
campaigners and the environmental lobby who say that the truth is that the majority of the known oil and gas reserves ought to be left in the ground rather than being brought above surface and burned for energy? Nobody is talking about turning the tap off overnight, I appreciate that that would be ridiculous, but if over a 20-year period you are minded to go in that direction, what does that mean for the security of the industry and the jobs that rely upon it?

**Paul Wheelhouse:** It is probably one of the most important questions from an industry perspective that can be asked, because it is something that impacts on investment decisions already. We obviously have a growing divestment movement, which the industry is well aware of, and concerns around key sovereign wealth funds such as the Norwegian general pension fund, which does not, as I understand it, now invest in high carbon. This is helping to drive the industry. I have been quite impressed in recent times, and I do not think it is just for show, how senior figures in the industry are embracing the fact they know that this is a transition they have to go through.

I am glad to say on the industry leadership group I do not think there is anyone who has their head in the sand on this now. They realise there is a need to diversify the industry. There are great opportunities for the industry with CCUS, for example, to allow industry to be involved with hydrogen production, which is a low-carbon transport fuel, is a low-carbon heating fuel, and that could be done in a carbon-neutral way. That is providing an alternative future for the industry and that is something that some of the bigger players are really beginning to embrace.

We obviously have the Acorn project, which we are co-funding, up at St Fergus near Peterhead, which is going to take forward development of carbon capture, utilisation and storage technology with a view—because there is a gas terminal there—to looking at the opportunities for development of hydrogen through a process called steam methane reformation. That would allow that to be done with CCUS in a way that is carbon neutral. You can sequester that CO$_2$ safely in fields like Goldeneye in the central North Sea and it should never leak, based on the experience in Norway.

There are great opportunities to decarbonise the sector itself. I do very much support the aims of the environmental NGOs in decarbonising our economy. We share the same vision—that we want to see a future where we have a low-carbon economy—but through the work of the Just Transition Commission and the workforce that I have described in terms of supporting CCUS, we hope that we can maintain employment levels, albeit perhaps in different products and services, going forward and that there is a viable future for the supply chain. It is a case, I guess, of looking at the oil and gas sector as an energy sector going forward that is going to increasingly transition itself into newer opportunities, but I do recognise the pressure to try to keep the oil and gas under the ground and not use it. Our Energy Strategy and our climate change plan from a
Scottish perspective for that ambitious decarbonisation trajectory in areas like transport and heating will help support that process.

Q347 **David Duguid:** You mentioned something earlier about how there is competition internationally for where we invest in oil and gas. I was just wondering if you would recognise one of the values of the UK Continental Shelf as a basin, not just in our own internal investment, but international investment as well. It is certainly not the cheapest place to operate, but do you agree that there should be a recognition that one of the reasons operators and exploration companies continue to invest in the UKCS basin is indeed our track history in environmental and safety regulation when it comes to that?

I would also just ask you if you would agree that the larger operators—I think that you have already touched on this—such as BP and Shell, although producing larger amounts of fossil fuels overall across the world, not only have the technical and financial resources available, but also have the declared vision to move towards a lower carbon future.

**Paul Wheelhouse:** On the latter point, I could not say whether it is universally the case, but certainly some of the key operators we deal with on a day-to-day basis, such as Shell, BP and others, are very much now embracing that transition and are keen to point to their investments both in terms of innovation and R&D, but also in new areas. Shell, for example, is very heavily engaged in the hydrogen agenda I discussed earlier. Obviously because they have that strong balance sheet behind them and they are less dependent on external finance—not always, they do still draw upon external finance, I believe—largely they are able to borrow off balance sheet internally to fund investments. They are perhaps better placed than some of the smaller companies to embrace that new technology and to drive the innovation that we need to see, working with the OGTC, the Oil & Gas Innovation Centre and other sectors of excellence in that respect.

On the environmental record, I think that it is a fair thing to say that the sector in the UK Continental Shelf and the supply chain has a good—There is always a risk involved with any extraction of hydrocarbons and things can go wrong, but importantly, the industry has learned a lot from previous mistakes and difficulties and is well-placed in an international context to demonstrate that it has a good level of responsibility. As I said earlier, I pay tribute to the Oil and Gas Authority not just from the point of view of environmental sustainability, but also in terms of trying to get the right culture in the industry of engagement between operators and their supply chain and to drive forward more workforce engagement as well, to be responsible in that respect. They take health and safety extremely seriously, I know that much.

Across the board, we can be reasonably confident that of course you cannot prevent things happening in their entirety, but that the industry, both from a regulatory and an industry perspective, is taking all those matters extremely seriously.
David Duguid: On that point, do you agree with the Energy Minister, Claire Perry, when she says that the record of environmental and safety performance, which is second to none—I think those were her exact words—should be taken into account when we look at whether or not we exploit shale gas?

Paul Wheelhouse: Environmental performance is extremely important. We have said in our own response to the onshore oil and gas demand from industry that we believe it could be well-regulated, so that is not the issue, in a sense. The OGA, if it was involved, would have a potential to regulate the industry well. It would obviously have to tidy up some aspects of the regulatory environment, which are largely complete, but there were some areas that were identified in the expert panel group and also in subsequent discussions that we took forward as part of our latter exercise running up to the announcement in October 2017 that looked at what other regulatory issues might need to be addressed.

The key issues, as I said earlier in response to Mr Lamont, are around the climate change impact and the relatively weak economic impact the sector could have, based on the KPMG study. There are obviously indeterminate health impacts as well, so it is very difficult in the absence of the industry being up and running. We may learn, from the experience in England and elsewhere about these matters, about the health impacts on a longitudinal basis, to understand what impact they may have. Health Protection Scotland concluded that there was effectively an indeterminate position. It could not be sure that it was safe, but neither could it be sure whether there were going to be negative impacts. These are areas that have obviously helped to inform our thinking around the position we have ultimately taken on that.

Chair: Thank you. We only have 15 minutes left and we have a number of questions, so we will try to see if we can be a little bit more concise with questions and answers.

Danielle Rowley: Briefly, Minister, you mentioned before the Just Transition Commission, which was launched in September. When is it due to complete its work report? What will the outputs be and how will they be used?

Paul Wheelhouse: It is a very important strand of work that we are undertaking. I will, if I may, Mr Wishart, just bring in Kersti in a second about the plans going forward to give as accurate an answer to Ms Rowley as possible.

We have made the initial appointments to the Just Transition Commission. Professor Jim Skea is also on the UK Committee on Climate Change and a member of the IPCC panel that developed the report produced recently on the 1.5 degrees scenario. We also have Charlotte Hartley from the 2050 Climate Group, which is representing young people going forward, looking at the future of the sector. She is also a member of Pale Blue Dot Energy, which has a role in the Acorn project at St
Fergus. We have Karen Turner from the University of Strathclyde Centre for Energy Policy, who also has some expertise in CCUS, and Tom Shields, who heads up the Chemical Sciences Scotland industry leadership group. They have all been appointed and there will be further appointments going forward before we start the work in earnest. I will hand over to Kersti to deal with that question.

**Kersti Berge:** We are hoping that the Just Transition Commission will have its first meeting in January next year and it will report back to the Scottish Parliament. It reports into the Economy Minister, Mr Mackay, and also Ms Cunningham, the Environment Minister. It is both Ministers—that is, it reports into the Scottish Government at large.

It will report in two years’ time and the focus, the principle, the idea of just transition is recognised in a number of countries. Broadly speaking, it means how we make sure that the economic and social transition to a low-carbon or carbon-neutral economy works well, and there are many aspects to that. They have just recently announced the remit of the commission at the COP24 conference. It is looking at maximising the economic and social opportunities for moving to a low-carbon economy by 2050, and in doing that making the best possible use of Scotland’s existing strengths and assets and also understanding and mitigating the risks for the transition to a low-carbon economy on poverty and income equality, both in terms of people in particular places, but also in different parts of Scotland.

It will be a very important commission and it will report back to the Scottish Government in two years’ time. What that does not mean is that the Scottish Government will stop looking at what needs to be done to make sure that this transition happens in the best possible way while that commission is ongoing.

**Q350 Deidre Brock:** I was interested to hear you touch on carbon capture and storage, Minister. You will know, of course, that we have had witnesses to this Committee saying that without the development of CCS the pathway for oil and gas would need to decarbonise much faster and the cost would be a lot higher. You also know that there have been already two UK Government-funded competitions, but both were cancelled. The last one was promising £1 billion of capital support. Those were both unfortunately cancelled at a cost of £168 million.

Looking at the NAO report into that second competition, which was pretty damning, it does mention—and this is January 2017, so the numbers must have gone up by now—that there are 16 examples of operational large-scale carbon capture and storage projects worldwide. I am just wondering what the problem is with the UK. Why can the UK not get itself together and provide the funding? Why do the UK Government not stick with it and keep with the promises to develop that technology? It seems a crucial issue at this point.

**Christine Jardine:** Can I ask a question? Is that not a question for the
UK Government rather than for the Scottish Government?

**Deidre Brock:** I would quite like to hear the Minister’s comments, if that is all right.

**Paul Wheelhouse:** Certainly I will try to respect the point that has just been raised by Ms Jardine. What I would say is we obviously were very disappointed—as was the industry itself, I know—at the cancellation most latterly of the Peterhead project. That was obviously very much a project that there were great hopes that we would sustain and grow a new supply chain in the north-east of Scotland. To some extent, we are where we are with that. We are extremely disappointed with what happened and we certainly very much opposed that decision at the time.

We now have a position where we have maintained our consistent support for the development of CCUS because we have always recognised—indeed I remember, going back to RP2, I developed it as part of the effort in 2013 as Environment Minister at the time for the Scottish Government looking at CCUS. It was still in play at that point. It was a great opportunity going particularly beyond 2030.

What now we are seeing internationally is that the evidence is such that—I think that this is a point that has been recognised by UK Ministers in responding to this—we need carbon capture, utilisation and storage much earlier than had previously been allowed for. Obviously global climate emissions are still rising, sadly. We are seeing that countries like Scotland and other nations that are more progressive—I include the UK in that—have made great progress in terms of reducing emissions, but we are still in a position where global emissions have been rising.

Frankly, Dr Fatih Birol from the International Energy Agency has made it absolutely clear that we cannot do what Paris needs us to do without CCUS. Therefore there is a great urgency behind developing that technology. Scotland is very well-placed in the context of this renewed interest on the part of UK Ministers. We believe that because of the work that has been going on in the background at Peterhead around the Acorn project and the work that Pale Blue Dot Energy is taking forward—and Professor Haszeldine and others, who I know have given evidence to the Committee—we are now in a position where Scotland maybe is about five or six years ahead of other clusters in the UK and has perhaps a really good opportunity to develop a viable project by the mid-2020s. That is the goal we all now share, to try to get something up and running in the UK by 2025.

Q351 **Deidre Brock:** That National Audit Office report also expressed concerns about the impact on investor confidence, particularly as a result of those two competitions being cancelled. I wondered if you could comment on that. What impression do you have of that?

**Paul Wheelhouse:** I have no doubt that it did really shake confidence. In the discussions I have had since 2016, when I have been asking key players—I should not name them; that would not be fair; you can use
your own imagination as to who they are—who had been involved in those previous decisions about their perception as to the investor environment, they were really shaken by that and had lost confidence that there would be certainty of policy.

I am optimistic. I think that Ms Perry is genuinely enthusiastic about CCUS and we obviously want to harness that enthusiasm for the benefit of the north-east and for Scotland more generally. I do think that if the UK Government maintain that support and indicate that they are in it for the long haul, that could be really helpful. They need to, to some extent, pull back from the perception that they have been blowing hot and cold on the issue. I do think that genuinely Ms Perry is an enthusiast. Obviously who knows what happens with Government reshuffles and so forth. It happens to us as well and you then have to have the certainty that any Minister coming in would continue that activity. I certainly believe that the current Minister is very supportive of it.

Q352 Christine Jardine: With respect, Minister, I do not think that answered the question; but on the other hand, I do not think you really can. I think that it is up to a UK Minister to answer why they have not gone ahead with carbon capture and storage.

How would you respond to comments that I have heard from experts that the problem with carbon capture and the reason that the UK Government have been forced to step back from it twice is not any lack of commitment by anyone, but simply the difficulty in achieving anything that would be regarded as workable and efficient and would meet the standards required? Is there just a problem with carbon capture itself as being much longer term in order to achieve than had originally been anticipated?

Paul Wheelhouse: I think that you are right, it will be for Ms Perry to answer for the UK Government on the rationale for the cancellation of the original project.

On the issue you raise around what has changed, I think that there are a number of things. There has obviously been some very good quality work done on the reservoirs that are going to be used themselves to, if you like, test that they would be suitable to be able to safely store CO\textsubscript{2} in large quantities. We now have confirmation that Goldeneye in particular in the central North Sea is very well-suited to carbon capture, utilisation and storage technologies being deployed there to store CO\textsubscript{2} in huge quantities, potentially up to 360 million tonnes. We will get confirmation of this figure, in case my memory is not up to it, but I think that 360 million tonnes of CO\textsubscript{2} could be stored in that reservoir alone, which is many times Scotland’s annual emissions. There is a great opportunity there. There has been good work done to identify that the aquifers can work.

At the summit that we had recently that was chaired by Ms Perry and Fatih Birol, we heard from representatives of Equinor in Norway that they
have been doing this safely since 1993. CO\textsubscript{2} can be stored safely without leakage. That is a really important test, so we can have confidence in that. Ms Brock highlighted that there has been extensive examples around the world where this technology is being trialled. What the summit brought together was an appetite for people to share the investment in the R&D, the innovation, to try to make sure we can develop a technology more cost-effectively together than we could individually. I think that is a great opportunity.

Q353 **Christine Jardine:** Sorry, develop together? Who?

**Paul Wheelhouse:** Globally, both business and Governments around the world. There was a multinational flavour to that summit, where we had representatives from the Middle East. Japan is very enthusiastic about this as well—the United States, other jurisdictions in Europe, the Netherlands. There is a lot of interest in the technology now and what has been perhaps transformational—and I do pay some credit to the UK Government in this respect, bringing that event together. We are maybe not happy with progress previously, but there seems to be a bit of momentum on this now.

**Chair:** Thank you, Minister. We just have a few minutes left and I know Mr Duguid has a couple of questions that he can maybe shoehorn together to ask the Minister.

Q354 **David Duguid:** I will try to do that. I just wanted to make a comment on the National Audit Office report that Ms Brock referred to. I know that I do not have it in front of me here, but I do remember that one of the factors was the increase in consumer cost that was calculated as being part of the decision. As was suggested there, we might come back to the Minister on those questions.

Obviously as MP for Banff and Buchan, I am very interested in keeping an eye on what is happening with St Fergus, as I have done since I first heard of the project several months ago. Recently, both the UK and Scottish Governments have announced funding for the Acorn carbon capture project. What specifically will this funding deliver and will that site still be eligible for the £20 million funding available to develop a pilot CCS scheme?

**Paul Wheelhouse:** On the eligibility of funding, again that is a BEIS funding strand, so you would probably have to ask Ms Perry about the eligibility criteria for that.

We certainly believe, as I mentioned, I think in response to the point that Deidre Brock was referring to earlier, that the Scottish opportunity is very well-placed. I do believe that St Fergus, which is great news for your constituents, is probably ahead of the game in terms of the work that has been done both by the academic community and the business community and with support from the Scottish Government throughout. We have made two tranches of funding, in fact, to this. We announced, I think in the 2017 programme for Government, some initial funding for the Acorn
project and we have also provided a second tranche of funding, so in total about £275,000, which is not a huge amount, I appreciate, but it is now the second tranche that has been matched by the UK Government and there is significant input from industry and academia to this as well to help take it forward, which might ultimately be a £230 million-scale project. It is important feasibility work, looking at the technical aspects of this and building towards the project being in place.

The work will obviously be looking at the technical aspects and the feasibility and making sure we can demonstrate there is a viable project there to fund. I know that you have taken evidence from Professor Haszeldine, who is very optimistic about the potential for the Acorn project to be a success. As far as I am aware, of the two sites in the UK, it is the only one with the pipeline infrastructure in place, so that is a major advantage to St Fergus to be a leading site for investment in the UK.

Q355 **David Duguid:** We talk about the Scottish cluster, which is a strange word to use when you are talking about St Fergus and Grangemouth, which are so far apart and connected by a big long pipeline, but it is still connected. The St Fergus gas plant itself, with its three pipelines extending offshore and the Feeder 10 pipeline down to Grangemouth, is it a much more appropriate site for the development of this project than the Peterhead power station would have been?

**Paul Wheelhouse:** Yes, possibly we are in a better place. Obviously with a gas terminal at St Fergus itself, as I mentioned earlier, potentially you could see in the future with appropriate investment hydrogen production there. Equally, there are opportunities out of CCUS being connected to Grangemouth for that plant to not only decarbonise, but also get into similar areas such as hydrogen production and other biofuel production.

If we are looking at the role that CCUS could play and how it helps the wider economy to tackle climate change, with CCUS potentially the energy sector could go into negative emissions. Without it, that is going to be very challenging. CCUS does provide a game-changer and that takes a lot of pressure off the rest of the economy. We are obviously facing challenge in terms of land use change. Trying to find enough sites to plant trees is always going to be a challenge because the land is privately owned, but we do have the ability with CCUS to offset some of the pressure that might otherwise be in the economy.

Having the major industrial complexes at Grangemouth and also the gas terminal at St Fergus associated with this project gives us a lot of options that we could potentially explore to provide the revenue streams that could make CCUS viable. There is obviously a potential market for the end product if it is hydrogen or an ability to use that industrial power to develop something.

Q356 **David Duguid:** Finally, what other action, if any, do you think the UK Government need to take to continue its support of commercial
deployment of CCS technology?

Paul Wheelhouse: Certainly some of it is already happening, as I say. Getting the global community to come together in that summit has been a very positive move, which we have helped host and participate in. Looking at how we can support the development of fuels such as hydrogen, the UK Government are due to do a review of the gas infrastructure in the early 2020s. We are developing our own vision statement, which will be published after the Christmas recess, which is trying to influence that. How you develop the networks, both the electricity network and the gas network, to support our decarbonised transport systems going forward is crucial. The regulation around the percentage of gas injected into the gas grids in the form of hydrogen is obviously a reserved issue. If the UK Government were to look at flexing that up from the current levels to a higher level, that would create a new market to support CCS.

Chair: We are going to have to leave it there. Thank you ever so much, Minister.

Paul Wheelhouse: It is a pleasure.

Chair: We did not get a chance to go over some of the issues with decommissioning, but I think that we have the Scottish Government's view on all of that now, so we will maybe be able to refer to that again through the course—well, there are no more hearings to be had, but in preparing the report. If there is anything else that you feel that you could usefully contribute to this inquiry, you know where to submit that evidence. Thank you very much for your evidence today.

Paul Wheelhouse: Thank you very much.

Examination of witnesses

Witnesses: Claire Perry MP and Emily Bourne.

Chair: Minister, good afternoon and welcome to the Scottish Affairs Committee. We are very grateful for your time to help us with our soon to be closed inquiry into the oil and gas sector in Scotland. For the record, please say who you are and anything by way of a short introductory statement. You can maybe introduce your colleague at the same time too.

Claire Perry: Thank you, Mr Wishart. It is a pleasure to give evidence today. I do congratulate the Committee on looking deeply into this extremely important sector. Could I introduce my director, Emily Bourne?

Emily Bourne: I am the Director for Energy Development and Resilience in BEIS with responsibility for upstream oil and gas policy.

Claire Perry: If I may just make a couple of remarks to set the scene and then we will obviously open ourselves up to all sorts of questions, I think that it is a particularly timely inquiry, given what is happening with
the oil price today and over the course of this year. Of course we have seen in this industry a sector that has gone from incredible economic strength through some tough times, but I think through a series of actions that we have taken together have put themselves into a much better place, into a much more resilient place, which is very important for jobs and the supply chain.

Of course you will know that this sector supports almost 300,000 jobs across the UK, including a supply chain that is split about 50:50 between England and Scotland. It continues to be a major contributor of our primary energy needs and all modelling into our low-carbon future suggests that it will continue to have a role to play. It is also, and I think increasingly so, an important transition sector. We bring coal offline completely in this country by 2025. Gas is clearly part of that mix, and what we have realised is that gas is very important, particularly if you can decarbonise it. It is also important for industrial heat and potentially for hydrogen generation.

I know you will quiz me on Government support and I am happy to go into that, but I would just share with the Committee that having visited Aberdeen several times now—in fact, my first trip as a Minister was to go and see the OGA and the OPRED team and chair a forum in Aberdeen because it is such an important sector—it does appear that those investments and those changes, including the role of the OGA and latterly the transferable tax allowances, are starting to deliver what we hoped, which is a more resilient and more co-operative sector and new entrants into the overall extraction.

Of course the focus on sustainable and economic development is important. Indeed, we have approved 17 new developments on the Continental Shelf this year compared to seven last year and we have seen some of the largest capital commitments made in more than a decade. I do think that is a tribute both to the new renewed health of the sector, but also the excellent work of the OGA. I do think that Dr Andy Samuel and the team have played a very important job.

I can talk more in our evidence about our safety record, which I believe is world-leading, and our decommissioning challenges, but also the vital role of new technology and new entrants and, frankly, a change of working. One of the things that is occupying the sector most is their skills gaps potentially coming up and how they transition away from a dirty industry dominated by gentlemen to an industry that is more data-focused, more diverse and a little more dynamic. I think that that is a tribute to the industry’s forward thinking and I do strongly believe this will be a vital part of our energy mix, but also a vital employer for Scotland and across the UK.

Q359 **Chair:** We are very grateful to you, Minister, and thank you very much for that. I suppose it will come as no great surprise that we are obviously interested in the Government’s support, particularly around the sector
deal. I think the whole Committee is very excited about the prospects for the sector deal: £1 trillion of activity possibly to be generated.

Can we start by asking you whether you will be finding all or part the support that the sector has asked for in its sector deal proposal?

**Claire Perry:** It is a very topical question. I know you have taken evidence. I have been extremely impressed in the work that Trevor Garlick and others have done in continuing the work of the OGA and thinking hard about what the sector needs to do jointly to improve its productivity. If I can slightly put it in context before we talk about the specifics of the deal, I feel that the sector is almost a poster child for what we have been trying to latterly achieve in the Industrial Strategy with other sectors. We have been in a close co-operative sector Government partnership now for, gosh, 40 years.

Of course the Wood review in 2015 was another intervention that set in place some wholly strategic directions and also led to substantial commitments of funding. It set up the MER strategy in 2015-16. There was £2.3 billion of fiscal support. In 2018 we had the transferable tax history that, as I mentioned, has been important for the repurposing of assets. The Aberdeen city deal: I have seen some of the impact of that on the ground. It is fantastic, and obviously 50:50 funded between the Westminster and Scottish Governments. I have been impressed with the Oil & Gas Technology Centre’s work and indeed the new decommissioning centre. Hopefully we will be able to talk about decommissioning and the potential for that.

There has been a huge amount of sector partnership going on. I welcome what the sector is now focusing on, which is the supply chain, the skills that are required and also further involvement in the energy transition. On the back of the CCUS global summit that we held in Edinburgh, where it was very notable how many large oil and gas companies were there and how many experts were there, the role of that sector is important, so we are going to continue to work with the sector.

You will know, Mr Wishart, that getting these deals done, even when you want them to be done, is a cross-Government conversation and those conversations are happening. The good news is it is not stopping the work that is happening already in the sector. Indeed, the announcements made for the decommissioning centre and the signal in the Budget that we want to have this global centre of decommissioning excellence are part of that conversation.

Q360 **Chair:** We are very grateful for that, but I go back to my original question, which is how much of the support that the sector is asking for are the Government prepared to provide?

**Claire Perry:** The financial support, if you will forgive me, I do not want to have those conversations in front of the Committee because they are part of the negotiation with the sector. All the sector deals are a conversation about, “In order to give you X, what will you do?” You will
see the sector deals that have been put over the line. For example, if I can refer to the offshore wind sector deal—which I know was also widely supported by the Committee—where, in return for clarity of the future auction structure, we are asking for commitments, particularly about the onshoring of UK supply chains and jobs, so those conversations are happening.

Emily, would you like to say any more about the sector deal? You speak to Trevor very regularly.

**Emily Bourne:** Yes. Only that we have been engaging quite regularly with Trevor and the rest of the sector about the proposals and that we welcome the way that the industry has come together. This is quite a large and diverse sector, particularly when you look at the supply chains. Trevor has done a great job in bringing them all together and coming up with some coherent proposals that are very well-supported within the industry. We are continuing those discussions, as the Minister said. This is an iterative process. It has been the same process. It has been an iterative process for all the sector deals that have come forward to Government and it is important that we involve other Departments in that conversation as well as BEIS.

Q361 **Chair:** It is very difficult for this Committee to get a sense of how this will be progressed if we are not getting some sort of answer about how much the Government are prepared to financially resource this. Are you going to come close to what the industry are asking you? We have seen all the different streams and the proposals that have been shaped up. First of all, are you happy with what has been proposed by the sector? Are we going to be close to meeting what they are asking for in terms of the financial resource?

**Claire Perry:** I am really conscious how frustrating it must be and, you know me, I am not trying to obfuscate an answer, but it is genuinely negotiation and a question of, with other sectors bidding into a finite pot, what can we get out of—sorry, that sounds wrong. How can we develop with our industry what we need to see in terms of improved productivity? I am genuinely not trying to avoid the question.

**Chair:** No, I appreciate that.

**Claire Perry:** I am trying to put the context, I guess, a little bit around a finite pot of funding for sector deals, a desire to get as many as possible not just over the line, but—I know you know this—it is a different way. It is not just sectors coming to the Government and saying, “Give us some money.” It is a much more strategic conversation about, “What are you going to do? What are you going to do for your supply chain? What are your commitments for job creation in Aberdeen or elsewhere? What are you going to do about diversity? What does that really mean? What about skills?”
I was very struck at the last MER, talking to the shop stewards, that there was talk of strike actions on the rigs. There are some genuine concerns from workers, who have been in that industry for many years now, about what their future looks like. In some cases, they do not feel a sense of comfort and reassurance about the future of the industry. It is really important that those skills and that knowledge are captured in the sector and we also—

Q362 **Chair:** With due respect, I do not think we have any issue with that.  
**Claire Perry:** Okay, sorry.

Q363 **Chair:** I understand there are conversations to be had and you have obviously been working with the sector, but I think most of us around this table have been through the city deal process, which could be as longwinded as you want and can be quite tortuous. Do you have any indication when you may be able to announce progress as to when decisions will be made? Could you share that with the Committee perhaps?  
**Claire Perry:** I would like to say something about that in weeks, not months.  
**Chair:** Weeks?  
**Claire Perry:** It is important to note that my Secretary of State also had a conversation with the sector on the same topic, I believe last week.  
**Emily Bourne:** Yes.  
**Claire Perry:** Therefore we are in very active conversations with them.

Q364 **Chair:** That is very helpful. Thank you for that. Just lastly on the deal, are you satisfied with what the industry has shaped up in terms of its proposals and suggestions about what should be included?  
**Emily Bourne:** We are very positive about the proposals that the industry has put forward. We would like to talk to it more about some particular areas that the Minister has mentioned, including the role of the sector in energy transition. It may be that there are iterations to be discussed.  
**Claire Perry:** That is the important point, Mr Wishart. The other thing with sector deals is you get version 1.0 and, as we have done with this sector over many years, you then get iterations. It may be that we announce some things that we are going to do together, but then we put on the table bigger conversations or other directions we would like to work at together. Whether we call that a sector deal or an ongoing partnership is a moot point, but clearly this is a sector that is absolutely vital to our economy.  

Q365 **Chair:** Lastly on the deal, the issue—I am pretty sure I am going to get an affirmative response from you—that was raised about gender
diversification in the industry, we know within the nuclear sector deal, for example, there is a commitment to improve gender diversity. Could we see a similar type of commitment for the oil and gas sector?

**Claire Perry:** If I can share one of the agenda items from the last MER forum, the OGA had challenged itself on this and talked about its own gender diversity or lack thereof. Also, what is bizarre in the sectors is you have some amazing women who are occupying very senior levels in the sector. I am part of the Powerful Women Alliance, which seeks to change that. The sector they know needs to do more and some of it is just getting young women and girls and people from non-traditional oil family backgrounds into the technology centre, seeing the opportunities and realising it is not just going to sea in a hi-vis jacket. There is now so much more sophistication to the process. I think the sector completely understands that and that is something we will be looking for.

**Chair:** Thank you for that. Certainly in the course of this inquiry we have met some very impressive women in an industry that has historically culturally been dominated by men in suits, so thank you for that.

**Q366**

**Christine Jardine:** You have covered the first question I was going to ask you about the sector deal, so if I can move on and ask, going forward, how is the Government looking to support diversification of the oil and gas supply chain into new sectors and markets?

**Claire Perry:** Ms Jardine, is that in relation to other forms of energy?

**Christine Jardine:** Yes.

**Claire Perry:** There is a huge amount of diversification going on already. It is very interesting talking to companies like BP and Shell, who published some pretty ambitious thought pieces about where they want to get to in 2050 and are backing up those conversations with investments. I am thinking of BP’s investment in light source, for example—I was at a roundtable with BP last week—all the investments BP has made in alternative fuelling stations.

We are not actively managing that process—that is a market transition—but I would point to one initiative, the work we have been doing with the OGCI, the Oil and Gas Climate Initiative, which is a very new development. Oil and gas companies are committing some reasonably substantial pots of money into the next stage of how they make their transition and we have been working very actively with them in our carbon capture, usage and storage strategy.

Hopefully the Committee will have seen the announcement I made two weeks ago about the industrial cluster funding we want to do, where we see generation from fossil fuels potentially being involved in that, but also a much broader approach to decarbonising industrial clusters. Of course many of these companies are also involved in chemicals, so for them it is part of their supply chain as well.
I am also struck that there are lots of conversations happening. The industry is very vibrant about should you have hydrogen plants sitting using excess offshore wind energy? They are actively thinking about projects like that themselves. We are basically working with them with our priorities, which are to decarbonise the energy system as much as possible, find low carbon, have low-cost energy sources and supporting them in what they are doing in terms of their diversification.

Christine Jardine: In that context, how specifically would you say the Government are looking to support the transfer of skills from skills and technology from the traditional oil and gas sector to the renewables sector? Because they are—as you have just described—becoming increasingly interchangeable.

Claire Perry: It is a brilliant question both in terms of skills where we have worked with the Oil & Gas Technology Centre, which has an active energy integration and transition theme, and so it is working on that and also some of the resources. For example, with decommissioning, we do not want to decommission pipelines that could be helpful from a carbon capture place going forward. There is more work to be done. We are all aware of it.

On the skills side, again I was very struck—and this was the conversation that we had with the trade union representatives—that even if certain offshore platforms are being shut down as part of decommissioning, of course there are new assets opening up the whole time. The transition to offshore wind servicing, for example, which is often done from the same ports, is a vital opportunity, so we have been urging the sector to talk to the offshore wind industry around some of the conversations about the sector deal, but also about some technology investments.

When the sector talks about decommissioning or subsea technologies, they have big overlaps with the offshore wind sector, which is again an area that we are world-leading in, so there is more to be done. We are trying to signpost, I suppose, and challenge them, but I do think those conversations are happening already.

Emily Bourne: If I could add, Minister, we are working with OPITO, the industry skills body, looking at transferable qualifications through different bits of the energy sector—so, looking at the situation you can have where someone who is qualified to work in oil and gas would have to undertake some new qualification to move into renewables and how we sort that out. That is an important piece of work going forwards.

Claire Perry: The good news is you do not have to do a dunk test in order to go to an offshore wind farm, I have been told. I have not managed to do either of those. You have to go on a ship. You do not have to do the dunk test, so that is one less thing to pursue next year.

Chair: I am grateful for those small mercies, Minister. Thank you.

Ross Thomson: Minister, first of all, I would like to put on the record
that we are delighted that your first visit as Minister was to Aberdeen and that you even came back as well, having had that visit.

Claire Perry: I did, yes. It is a lovely city.

Ross Thomson: I know that it is something that has genuinely been warmly welcomed by the industry to have that engagement.

Are the Government content that the additional support for decommissioning being requested in the sector deal will add value to support that is already provided to the Aberdeen city regional deal?

Claire Perry: I want to thank you for the warm words. I do want to pay tribute as well to the work that is already happening on decommissioning on the cost side, where the OGA has this objective of reducing costs from £60 billion to £39 billion—it is already delivering those decommissioning reductions—and we have also said that we want to have a global centre of decommissioning excellence.

What I was very struck by, in fact, during that first visit to the technology centre—where we saw some of the innovation in new well seal technologies—is that there is such an enormous global market for these technologies. This is a decommissioning trend happening across the world, and I understand the market is worth £82 billion over the next 10 years.

I am pleased that we have managed to take some more money out of the Aberdeen city regional deal and put it into the global centre of excellence. I suspect that there is more that we will be able to do in that decommissioning space, and I know that Wendy Kennedy, who has been an excellent head of OPRED, has given evidence to you. This would be a place where we will rapidly realise that there is more to do.

Of course with the call for evidence, I believe opening in January, for what we might do, it might be a perfect opportunity for some more funding bids or indeed something else that could go into the next iteration of the sector deal. As I say, I was personally hugely impressed and amazed at the size of that global opportunity and some of the technology leadership we are showing in the North Sea.

Q369 Ross Thomson: You have touched on the Oil & Gas Technology Centre through to some of the infrastructure to enable the expansion of the Aberdeen Harbour as well. Do you think that the city deal has broadly been quite good for the oil and gas industry?

Claire Perry: Both having seen on the ground what is there, but also having seen the tails up that is happening with the industry, I would say it has had a huge impact. Because it has been so focused on stimulating that hugely important sector, not just the Aberdeen footprint, but how you can expand that out globally. We would say—and I have not seen a PAC report to suggest otherwise—that it is money well spent.

Chair: Supplementaries.
David Duguid: Thank you, Minister, for joining us today. I would like to back up what Mr Thomson was saying about welcoming you to the north-east of Scotland, because it is not just about Aberdeen. I look forward to welcoming you to the St Fergus Gas Terminal at some point in the future.

Claire Perry: Yes, indeed. Yes, very good.

David Duguid: We will be talking about that a bit later on. The question I was going to ask is you mentioned the international global market for a lot of the technology being developed in Aberdeen, and Aberdeen has the opportunity to keep reinventing itself as a global centre of excellence, as does the rest of the north-east of Scotland, of course. Do you acknowledge that there is a concern—I think it was raised by Trevor Garlick of the sector deal bid team—that time is of the essence, and other areas, such as Brazil or Norway, may be looking specifically at the subsea technology global centre of excellence opportunities?

Claire Perry: First of all, I do want to reply that in fact you are quite right about the productivity gain the industry has provided to that whole region of Scotland. In fact, if you look at the productivity map that is in the Industrial Strategy, it shows up very well. It is a highly productive region, which is why it is such an important industry.

I am aware of the other concerns, the other bids, and it is certainly a point to take away when we are having the conversations. I am also confident that if you talk to the global industry players who attend MER, when it comes to the North Sea, the UK is seen as having the most competitive fiscal regime now for oil and gas exploration and I would imagine what we are rolling in behind in terms of technology support. It is not just working in Scotland or even in the north-east of Scotland.

The sector deal is looking at all kinds of UK-wide collaborations working with other universities, because we do have centres of excellence in many, many areas around these technologies. That is a point for us to take away and feed into our conversations. We would not want to lose the race, but equally, if we are working in a sector, we want to do it in a way that is really sustainable and will have an immeasurable impact going forward.

Hugh Gaffney: You mentioned in your opening statement about funding, water strikes and things like that and talking about these city deals and all the rest of it. Are we looking at workers’ health and safety, particularly when it comes to helicopters?

Claire Perry: Yes. Thank you, Mr Gaffney. We have had various conversations around helicopter safety. Emily, you may need to prompt me. I know I have definitely written to various agencies about this because there have been concerns. Of course it is a Health and Safety Executive lead, but you are quite right. I think one of the striking things that people who have done the dunk test tell me is quite what a harsh working environment it is. For all you might see the pictures and imagine,
it is a very tough place to work. I am proud of our record overall with health and safety and our stewardship.

I am sorry, I am going to have to ask Emily. This issue of helicopter safety has been raised with me, and I know I have taken action on it, but do you remember—

Emily Bourne: I am sorry, I do not.

Claire Perry: Could we write to you on that point, if that would be helpful?

Hugh Gaffney: Yes, definitely.

Claire Perry: We will.

Hugh Gaffney: That would be helpful.

Chair: I look forward to that correspondence, then.

Q372 Deidre Brock: Could I ask, Minister, there has been a further call in the Budget for evidence on how to strengthen Scotland’s role as a decommissioning hub. Why do the Government feel that another call for evidence is necessary and what does it add to the work that is already being done in the area?

Claire Perry: Thank you for asking me that important question. As we have said, we have been focused on decommissioning, but I think we have been focused on it historically as a cost problem to be solved, and indeed many of the fiscal measures have been directed at decommissioning in the safest possible way and at the lowest cost way. My sense is—and it may just be my perception—that the sudden realisation that this is a massive export opportunity for the UK, frankly, is like so many things we do in the energy space. It is the same with offshore wind. We have suddenly realised that we can get huge economic impact from investing in these technologies and exporting them.

The other reason for asking for a further call for evidence is, I suspect, if you had asked how we might decommission five years ago it would have involved divers and submarines and things. Now, technology, AI, robotics—all the things that the centre of excellence is investing in—are materially changing the decommissioning approach. Also, that plays very well into the two of the big four things in our Industrial Strategy, looking at the AI and digitalisation impact, which we are very good at in the UK as well. An opportunity to set up a centre of excellence that is truly based on future-facing technology, rather than the things we might have thought we would be doing four or five years ago, I think has driven this call for evidence going forward.

Q373 Deidre Brock: Could I ask what the timescale is for that call for evidence?

Claire Perry: It is an HMT evidence session, isn’t it?
Emily Bourne: We will be putting something out early in the new year seeking input from industry, particularly input from the OGA, but also more generally.

Claire Perry: Are we leading on that or the Treasury?

Emily Bourne: We will be leading on that at BEIS.

Claire Perry: There we are, I have come to learn something. Timing-wise, I suppose we probably typically run a three-month consultation.

Emily Bourne: I should think so. We have not settled on the timing yet. We are at the start of this now. We have a huge decommissioning challenge and opportunity in the UKCS and we are one of the first basins to go forward and do this, so now is the time to find out what we can do to capitalise on that, so I think it is a very open call.

Q374 Deidre Brock: Are the Government willing to support the decommissioning element of the sector deal before that review is concluded?

Emily Bourne: The decommissioning element is largely going forwards in the form of the centre of excellence, which I think will be opened in January in Aberdeen. That part of the deal has been able to get going and given the timing imperative, it is good that it has done.

Q375 Deidre Brock: It will not be slowed by—

Claire Perry: Again, I am sorry to keep referring to sector deals, but they have just become a formulaic thing and they were not intended to. The idea is if there are good ideas that can be funded, we do not have to wait for a formal deal, we can just get on and do them. As I understand it, funding was available from the Aberdeen city deal to co-fund the centre of excellence. It is at the university, it is not at the technology centre, and it felt like a very good thing to say, “Yes, get on with it.”

Q376 Chair: When Trevor Garlick gave evidence to this Committee, he told us that the current midpoint cost estimate for decommissioning to 2050 is approximately £47 billion. I do not know if that is a figure you recognise.

Claire Perry: Yes.

Q377 Chair: The thing that he said, which surprised me there, was about an uncertainty range of plus or minus 40%, which seems to be quite extraordinary. You could have an uncertainty range of about 4% or 5%, which is probably normal in most business planning, but to have 40%, surely there must be something that could be done to try to ensure that it is going to be a limited offset. Is that part of your planning when you are looking at decommissioning?

Emily Bourne: I would say on that that we are looking decades ahead to get the full basin decommissioned. Understanding what the costs and the technology options are going to be that far in advance is quite a
challenge, particularly given that, as I say, we are at the start of this journey. OGA has set a target for the industry of reducing their costs by a significant amount to get that down. To give a more certain estimate at this stage would be extremely challenging. What we will need to do with OGA is to look at that as we go forwards and look at the effects as time goes on.

Q378 **Chair:** The OGA has potentially slashed the bill by 7% or £4 billion in the past year. Trevor Garlick—again to this Committee—described cost reduction as one of the biggest prizes in decommissioning. What is the Department actively doing in order to try to claim the biggest prize in reducing the costs? When you set out targets, do you give them any sort of indication about what they should be looking to achieve here?

**Claire Perry:** We are, as you pointed out, Mr Wishart. There has been good progress already. I was looking at some of the work that is happening. There are decommissioning execution lessons learnt from existing projects, which are shared. Again, this is an industry that had never co-operated in this way and so, even by having the OGA, you were able to make this a group project rather than individual companies taking on individual risks.

For me, the technology opportunity here is absolutely huge. It is a little bit like the reduction in cost of offshore wind, which someone described as reducing costs like a tech sector and it is actually a mechanical engineering challenge. I suspect the same is somewhat true here—that you will be able to apply different forms of technology that will radically reduce decommissioning. Plus, as we are also realising, we have done work on mapping the assets from a carbon capture basis, but we may well repurpose rather than decommission some of this equipment. We need to work out how to express that on a cost basis and who pays, but there is also that thinking going on.

Q379 **Danielle Rowley:** The Government are introducing transferable taxes today in the current Finance Bill. What impact do you expect this to have and how will you judge whether it is successful or not?

**Claire Perry:** As I recall, it was the No. 1 ask of the industry in 2017 of the Treasury, so we were very pleased to be able to do that. As you know, it will reduce tax barriers to new investment in the North Sea. I am told that even prior to it coming into place, it is already having the desired effect, which is essentially assets moving out of the hands of those who no longer wish to exploit them because potentially they have bigger global opportunities, and moving into the hands of new players or indeed smaller players. What we are seeing is assets changing hands and them being reinvested in. That is the wrong word, but essentially the right assets moving to the right owners, which is what this history was designed to achieve.

Emily, would you have anything to add on that?
**Emily Bourne:** Yes, exactly that. If we are seeing new players coming into the basin and we are seeing new capital being attracted, that was the aim of the measure. The failure that it was trying to address was some of these deals, which could potentially mean that assets could be taken forwards by someone who could invest in them, were not happening because of the concern about the tax relief not being there. That is the measure that we will be looking at and that Treasury will be looking at because it is obviously Treasury policy.

**Q380 Danielle Rowley:** How does this measure relate to an overall strategy of supporting stability of jobs in the region, especially looking at smaller businesses coming in and ensuring that jobs and rights are protected?

**Claire Perry:** One of the things I was very struck by—speaking very frankly—when I went to the first forum was a sense from the industry players that they had perhaps acted too harshly when the first oil downturn hit. I may be saying things completely—but there was a sense that they had almost gone into this hunker-down mode. They had lost skilled people from a very highly-skilled workforce and they realised that that was the wrong thing to do. That is why I think the attempts the industry has made to become more cost effective at a much lower oil price and well below even where we are today—we are £58 today—are really valuable. I took away from my meetings with the industry almost an acceptance that they had perhaps got that wrong and that they were more interested in making sure that they had the workforce of the future.

We talk about skills and standing up a more diverse workforce very glibly, but you have to find and train those people and you have a highly-trained workforce that, if you look at the profile, tends to be a little older. You do not just replace those people overnight, so my sense is that they are genuine when they talk about their desire to recruit, train and retain their staff going forward.

**Q381 Danielle Rowley:** Over 80% of offshore workers are employed by contractors. Do you see that changing at all?

**Claire Perry:** Gosh, Emily, you will have a better perspective.

**Emily Bourne:** I could not say, to be honest. There is a very established contractor workforce and the industry is used to working with contractors. Some of the work the OGA is doing with the sector is to try to get better collaborative behaviours between operators, contractors, the supply chain, different players offshore for mutual benefits, so that is a big part of their focus. It is difficult to say how the job market might evolve over time. As you say, we have new players coming in, which is part of the strategy, and that can change the picture a little bit, but I do not know how that would be likely to evolve.

**Q382 Hugh Gaffney:** We have heard mixed evidence on the environmental impact of removing structures as part of decommissioning. How is the environmental impact of the removal of structures during the
decommissioning process currently assessed? Further to that, are the Government planning on reviewing how these assessments are done?

**Claire Perry:** I am going to let Emily answer in detail. I will say there are currently some submissions on my desk about this. It is something that is taken incredibly seriously. I am genuinely proud of our environmental standards, both at the extraction and the decommissioning stage. I do think we have world-leading standards there.

Emily, do you want to comment on the process?

**Emily Bourne:** Yes. I know that Wendy Kennedy gave evidence to you as OPRED team lead on this. Environmental regulation is the core function. What they are there to do is to consider the environmental impact of any activity in the UKCS. With regard to decommissioning, they are looking primarily at the environmental impact, but they are also looking at things like safety, obviously—very importantly—technology, feasibility, impact on other users of the sea, such as fishermen, obviously cost, and OGA will comment on the cost.

Every proposal for decommissioning is looked at in great detail over a number of years, as it is being developed with the operator, to consider these different factors. It is very much on a case-by-case basis. At the moment it is still quite early. I think Wendy talked to you about how the industry is still learning, so that will be developed as we go on. We have comprehensive guidance, which has been updated this year, which is seeking to again give industry more of a steer on the things that we are looking at.

As the Minister said, we are getting different learnings coming in from people from other countries and from technology development. The OGTC is doing a lot in this space and OPRED will be actively looking at that and looking to refine the guidance as we go on.

**Q383 Hugh Gaffney:** Has anybody been to Mexico to see how it works or are we still at the stage where we are just reviewing the whole thing and what are the best options they would be telling us?

**Emily Bourne:** OPRED have been out to the Gulf of Mexico to look at the rigs-to-reef projects that they are taking forwards there and to learn from them. That is a basin that is even more mature than ours, so there is some early learning there.

**Claire Perry:** That is a really interesting question. It flows into the fishing debate as well and the stewardship of the North Sea. Again, that is why it is so fascinating, because all the things we thought 40 years ago about what we would do with this equipment, if you can leave it safely in situ, now potentially has a different purpose, whether it is a reef or whether it is carbon capture, so it is to this point about why it is so important to work with the industry on this and why it is so important for them to collaborate. We have almost a unique collaboration structure now
happening on the Continental Shelf, which is really helpful if we want to make policy changes.

Q384 Chair: I have a couple of supplementaries on this, if that is all right. This is an important issue because my understanding is there are 58 subsea installations that would be subject to an exemption anyway, which would be left in the North Sea basin. That is correct, is it? That is your understanding?

Emily Bourne: Yes, I think those are the correct numbers.

Q385 Chair: On the rigs to reef, we heard from a number of the wildlife groups and there seems to be a disagreement, particularly from two of them. The Scottish Wildlife Trust thinks that the rigs-to-reef project is one worth pursuing, then we have Greenpeace that tells us that it has to be restored to a pristine state and returned to the condition that it was when the rigs first went down. I do not know if you are aware of these conversations and discussions among wildlife groups and which side you possibly favour.

Claire Perry: This might be a good question for the consultation if you have not already done so, because clearly your Committee will hopefully have a view. I am interested in both sides of the argument and what other basins think of this, but this might be something we could include into the consultation.

Chair: The other thing to note of course is the Scottish North Sea is remarkably different from the Gulf of Mexico when it comes to these particular issues. This is something to always bear in mind, but David Duguid wants to come in on this.

Q386 David Duguid: You touched on a couple of questions I was going to ask about. The evidence we received previously—I think at the last Committee meeting we had on oil and gas—from the wildlife environmental groups was that the current line of thinking is that if we were to look at the rigs to reefs as an option, we would have to remove the structures, take them onshore, clean them and then put them back again, which changes the whole thought process. As Mr Wishart said, the Gulf of Mexico, I understand, where it has happened up to now it has been in very shallow or relatively shallow water compared to the depths we are talking about here in the North Sea. I wanted to make those points and make sure you are aware of those.

Claire Perry: Thank you. It is going to be a very interesting report.

Chair: We will look forward to your conclusions with great interest.

Q387 Hugh Gaffney: We have just had some tension; let’s have some more tension. How is the Government managing the tension between the maximising economic return strategy for oil and gas and the objectives of the Clean Growth Strategy?
**Claire Perry:** What a very good question. If you asked the Extinction Rebellion protestors, who were very vocal at the conference of the parties, and who have a very passionate view that we should be moving very rapidly away from oil and gas, you would probably get a different answer. I think our view is that if you look at where we are in the UK, we are still reliant on fossil fuels for a large part of our energy. I believe we have something like 80% of our homes heated by gas and 65% using gas for cooking. While we absolutely see fossil fuels declining in the mix going forward, every scenario we see for our cleaner future has some element of fossil fuels in the mix. I guess the view is that if we are going to be using fossil fuels, we would like to use those that are generated from our domestic assets and that employ people in the United Kingdom.

I also realise that the oil and gas companies are very keen to be involved in this transition. It has been very striking how their attitude has changed. Well, probably not their attitude, but their commitments have changed over the last couple of years. They know we want to reduce our carbon emissions by 2050 by 80% and indeed have asked how we might go to net zero. I suppose they see this as an existential question for them going forward, which is why they are investing in renewable technologies and investing in carbon capture and storage.

But for me, if we are going to be burning any element of fossil fuel, even with carbon capture and storage, I would like to burn at the right price energy that we have produced domestically because it preserves jobs and investment in the United Kingdom.

**Q388 Hugh Gaffney:** Do you think that the maximising economic return strategy properly reflects the economic costs of the CO\(_2\) emission associated with oil and gas?

**Claire Perry:** At the moment we put an oil and gas price on our emissions, so not only through the Emissions Trading Scheme, which of course the extractors do not pay. It is paid on our generation through our industries that are part of the trading system, but also we have our own unilateral carbon price that we put on generation assets in the UK, which by the way has been really helpful in driving us off coal. The one thing that the UK has done, which the rest of the world looks to us almost with envy, is we will be off coal as a generation fuel completely by 2025, which is a huge process.

With any project I suppose the social cost of CO\(_2\) emissions has to go into any Government spending decision that we would make, but what would be your view on the industry?

**Emily Bourne:** The industry is subject to the EU ETS, and that is clearly an important tool for Government. As the Minister says, the key thing is that we are using a lot of oil and gas going forwards. We are already importing a lot. UKCS is supplying about 65% of our oil demand and about 50% of our gas demand at the moment, and it is a declining basin,
so the more that we can extract from that basin while we are still using those fuels rather than import it from elsewhere.

**Q389 Hugh Gaffney:** Do you think coal is going to be finished by 2025? Is that importing it in?

**Claire Perry:** No, not burning it anywhere. When I got elected in 2010, it was used in energy generation. It is still used a little bit in steel and coke making, which I am not referring to. I want to say that 40% of our energy generation came from coal-fired power stations in 2010. At the moment there is a handy app that shows you our energy. It is probably about 5% or 6% at the moment and we will have it to zero by 2025.

We have said basically that if the market signals do not deliver, we will legislate for it, because we do not need it and there is a question about how much of all of our activities across Government ought to be coal-free. Should we be supporting the exporting of mining equipment? That is a separate conversation. We are leading the world and in fact we set up a thing called the Powering Past Coal Alliance, which now has over 80 signatories to encourage other countries, companies, states to do the same.

**Q390 Deidre Brock:** I want to ask about the role that the Government sees—and it is probably a continuation on from what you were just saying to Mr Gaffney—oil and gas playing in the UK energy mix for the next 35 years.

**Claire Perry:** Yes. I am just looking to see if I have the numbers Emily was using. Emily, do you have that forecast for what we think it is going to be?

**Emily Bourne:** The forecast we have is—

**Claire Perry:** Sorry, we think that the UK Continental Shelf will supply approximately 27%, which is a very precise number, of national demand in 2035. That does not mean that that will be entirely substituted by non-oil and gas—because I am sure there will be an element of imported gas in that mix as well—but every scenario we have worked on with the Committee on Climate Change does have an element of gas in the generation mix and of course oil is incredibly valuable feedstock for many other industries, so it is not just the energy generation that is important.

**Q391 Deidre Brock:** I wanted to ask about estimates of how much oil and gas was remaining in the waters around Scotland. I am going to quote a tweet, which I do not do very often, Minister, but it was a Highland writer and historian who posted a very wry comment: “Geologist baffled as to why North Sea oil reserves shrink and expand in direct correlation with imminence or not of Scottish independence”, which I thought was quite good. There were lots of quibbles in the run-up to the independence referendum about how much oil was left and quibbles over Sir Ian Wood’s figures and BP offering its opinions.

Then of course we hear recently of the major new developments in the
Clair Ridge, BP quoting in *The Scotsman* on new facilities introduced at a cost of £4.5 billion, designed for 40 years' production, and the regional president saying that that is “the result of years of planning and hard work by BP, our partners and supply chain colleagues”. This is a question I get asked a lot: who can the public go to for authoritative estimates about those figures? I would suggest it is confusing for many of us in politics, let alone those outside the political bubble, so who can the public trust? Who can they go to?

**Claire Perry:** The figures I have, which I believe are trustworthy, are that we have had 43 billion BOEs recovered to date. There is an estimate of 10 billion to 20 billion barrel equivalent still remaining in the Continental Shelf. You are right, it does seem to go up because it has gone up by 3.7 billion. Geology is geology. We are the world’s leading geologists, so we know where the oil and gas rock formations will be. It is just simply a question of can someone produce it economically? That is a function of oil price and cost of production. Part of the value of having the MER is that sense of if we can collectively drive down the cost of production, if we can do things like the transferable tax allowances that mean that a company might accept a lower rate of return because these are the most strategic assets it has, rather than some huge discovery in Indonesia, you can continue to see extraction going forward.

There is also a view—and this gets back to the question about energy transition—that as the costs of carbon rise, that will become an increasingly important factor in driving exploration investment away from fossil fuels. My sense is this is not going to be an infinitely exploited resource because other technologies will just become so cheap that we will not need to do it. There is certainly a level of confidence that we do have economically recoverable reserves in the North Sea out for the next 30 to 40 years.

**Deidre Brock:** That is interesting, thank you.

**Claire Perry:** But I am not an expert.

**Q392 Deidre Brock:** Indeed, but you have confidence in these figures, because of course there has been a suggestion there has been a certain amount of political interference in those figures—small p and large P—but you would refute that?

**Claire Perry:** I do not know. I have not heard that, but I am struck by what has happened with the Clair Ridge—which is a brilliantly-named project, even if it is missing an E. Part of the fact is that we have set up an incredibly fiscally attractive regime for exploration and that has been very much a cross-party group. I am very proud to be part of a Government that have led on that because therefore you are then attracting the attention of those companies who do want to come and invest. It is an interplay, I suppose, of geology and politics, which can be productive and also be the oil price and operating costs and technology.

**Q393 Chair:** One of the other things that we tend to get historically is Scotland
and Norway in their waters roughly discovered oil at the same time. They have a £1 trillion oil fund, which I just read today accounts for 1.4% of every limited company globally. This is just the oil fund of Norway. Scotland has its share of the UK’s debt and deficit. What do you say to the people of Scotland about what has happened to their North Sea oil and how have they managed to be able to benefit from it?

Claire Perry: Surely, Mr Wishart, you are not inviting me to come up with slogans for indyref. No, the point does get made about Norway and of course Norway is an entirely different country in terms of population size and complexity and economic demands. It has not had anything like the same challenges we have had around the National Health Service funding or the welfare system. It is very different.

I know we are not going to talk about shale gas, but I think it is important if we are talking about fossil fuel exploitation going forward that there are plans with the shale industry to create effectively a sovereign wealth fund, both for national benefit, but also local benefit. That is important.

Chair: An oil fund would be something of interest to you as we go forward. If we are seeing the figures that you just outlined and there is this potential, can Scotland perhaps maybe even at this point get a—

Claire Perry: I think we have had this debate across the House. The whole Scottish North Sea exploration was funded by UK taxpayers and UK-based—

Chair: I am not sure we could have managed it.

Claire Perry: Perhaps I will not answer that one.

Chair: We will move on then, shall we? We will move on to something that is probably a bit more positive, a good use, which is carbon capture and storage. It is very unusual that we get a live announcement during the course of an inquiry, but I think we are all very grateful for what has been proposed and the investment that the UK Government is putting into CCS.

Mr Duguid will want to ask you some questions on that imminently, but can I just ask are we going to be successful this time? We have been here twice before when there were assessments done, expectations rose and hopes, and then they were dashed. Can you assure us today this will not happen with this project?

Claire Perry: I totally accept the point about how disappointing the competitions were, not just for politicians, but also for my officials who worked tirelessly on those. In fact, the same excellent team is helping to push these forward.

A couple of things have changed. The first is I reference the desire of the oil and gas majors to now be involved substantially and not just on a project-by-project basis. That is really important, because when we look
at the projects that were on the table—I was not the Minister at the
time—one was a coal decarbonisation and they were point to point. They
were not trying to decarbonise industrial clusters, so not only do we have
more capital available—because ultimately somebody has to pay; it is
either taxpayers, shareholders or consumers have to pay—we have more
shareholder funding available. Also we have realised that the opportunity
to decarbonise clusters is what is on the table. The Acorn project is very
much focused on how you create decarbonising for those heavy industries
that it is very hard to decarbonise otherwise.

I would also urge the Committee to read with care the action plan that
we published alongside the excellent carbon capture, usage and storage
conference in Aberdeen, which set out that we expect to have or want to
have a scale plant, not a pilot plant, functioning by the mid-2020s. Of
course none of these documents get put out without serious cross-
Government sign-off, so I think we are more confident. We had a very
good carbon capture, usage and storage taskforce and council this year,
including some excellent academics from north of the border. We know
what we need to do. We know how the technology will play out. It is a
question of how we create a funding and partnership model to deliver
that.

Q396 **Chair:** The significant difference then from this Acorn project to the ones
that we previously had in place was the clusters around industry and the
industrial sector. Are you confident that you have given sufficient
funding? I know it is £175,000 that has been given. Is that going to be
sufficient?

**Claire Perry:** In fact, I have a little acorn in my car that I was given by
the Acorn project as a reminder, but from acorns mighty oaks grow, Mr
Wishart.

**Chair:** How tall could that oak become, then?

**Claire Perry:** In fact, one of the things that I was pleased to announce—
gosh, I do not even know what date—last week at COP was that we have
taken £170 million of the Industrial Strategy Challenge Fund to put into
this decarbonising industrial clusters mission. An element of that, we are
sure, will be carbon capture, usage and storage. My hope is that will be
the start of several clusters, not just one cluster going forward.

**Chair:** Thank you. We cannot go past CCS without Mr Duguid.

Q397 **David Duguid:** As I have previously mentioned, obviously the Acorn
project is in my constituency on the existing St Fergus Gas Terminal. The
first question I want to ask, I asked Mr Wheelhouse, the Scottish
Government Minister, the same question: do you agree that the St
Fergus location being part of that cluster—so it is connected through the
feeder pipeline down to Grangemouth as well as three pipelines
offshore—at least logistically, if not financially and for other reasons, is a
far superior location to the Peterhead Power Station, which was the
subject of the previous competition?
Claire Perry: I do. I think, again, not to traduce the work that was done, but that sense of the clustering, the opportunities to take that pilot and then to scale it up very substantially on either end of the pipeline is really good. That is why we have been pleased to put a grant into that.

I mentioned the £170 million, but of course we have also set aside a £15 million CCUS innovation fund, which has been very successful in terms of receiving bids. We have the £300 million Industrial Energy Transformation Fund that we have set up criteria for. My sense is you will get CCUS projects bidding into more than one pot of BEIS funding. But yes, I think the Acorn project is a really interesting one.

David Duguid: It is a project I am looking at very closely as well just because it is on my doorstep, if nothing else, but also being from the industry historically. The funding announced from both Governments was very welcome, but will there still be a process for that site in particular or other sites to bid for a share of the £20 million of funding for support of pilot projects, which was announced recently, or is that a different source of funding, and what is the process for sites to bid for that?

Claire Perry: It might be helpful if I write to the Committee with the list because we have so many proliferating BEIS funds now, including the £170 million. If I set forward opportunities for projects like St Fergus, where they might want to think about bidding, would that be helpful?

David Duguid: I guess so, yes.

Claire Perry: Yes. But I do again want to welcome what they have done because I think they are thinking about that clustering.

David Duguid: Like I said earlier, you are most welcome to come up and visit any time—although there is not much to see there, because they have not actually dug any ground yet, but the gas terminal itself, where it is going to be situated, it is very clear to see just how that all works.

The other question I was going to ask is—I think you may have covered this to some extent already—what has the Government learnt from the previous two CCS competitions that we can bring forward into the future projects?

Claire Perry: What we learned was, when you are thinking about who pays—shareholders, taxpayers, consumers—we perhaps have that balance wrong. The barriers in the last competition were commercial and the costs were effectively too high. We have also learnt that in order to reach our decarbonisation targets, we are going to have to do much more creative work on clusters. In fact, the aim of the clusters mission is to have a zero carbon industrial cluster by 2050, something at the moment seems like a very long way away. Understanding the role of CCUS in that has completely changed from several years ago.

The other thing we have learnt is that the private sector, particularly the oil and gas companies, are now seeing CCUS as something that they
need to be involved in to preserve their business models, so there is more of an appetite from the private sector to partner in these projects.

Q400 **David Duguid:** When you say there is more of an appetite for—

**Claire Perry:** Cash.

Q401 **David Duguid:** Yes, certainly, an appetite for cash, but an update for larger operators in the other engineering companies to be part of that technology development, so that is something else we can export from in the north-east of Scotland.

**Claire Perry:** Yes, and collectively. Again, we had an amazing conference. Edinburgh was a wonderful setting for it and we had the CEOs of BP, Shell, Drax and Occidental; we had three or four Energy Ministers; we had the head of China Oil and Gas. The world is looking at this technology because everyone has realised that no one is doing it effectively at scale.

There are something like 22 plants running globally, of which 16 use their CO$_2$ for enhanced oil recovery, which is not carbon neutral in my calculations. We know that we need to crack the model. There was just a huge amount of appetite and realisation that it was not just chucking hundreds of millions of pounds of taxpayers’ money at it, it was trying to work out how you put it into a different mix. It is a bit like if we were to sit down and design the energy system or the water distribution system from scratch, we are trying to think about that with carbon, and that happened very organically over years and years. We are trying to do something very quickly.

I will also say I stopped on the way back from Edinburgh at Drax’s plan and saw its pilot CCUS plant, which is really interesting. It has huge plans to ramp that up and it was good to see that working in situ.

Q402 **Deidre Brock:** You think that bigger investors are now coming to the table around CCS. Shell was involved in one of the two final projects that made it to the end of that £1 billion competition that was cancelled, so how does that—

**Claire Perry:** You are right, they were. They have set up the oil and gas climate initiative with an excellent chief executive, who is the former head of GE Turbine. It is a serious counterweight now and it is not just looking at these one-off point to point projects. It is trying to say, “How do we build this? How does this cluster work? How do we then build in hydrogen production or new carbon materials to create new industries there?”

Q403 **Deidre Brock:** The National Audit Office report of January 2017 did express concerns that investors might be put off by the cancellation of those two competitions, and of course it was a significant loss of money to the Government as well. The Minister from the Scottish Parliament previous to your arrival, Minister, agreed that investor confidence had
been affected by that. What are your views on that?

**Claire Perry:** I am a Minister who likes to deliver clarity, one way or the other, on investment decisions because that is my background, but equally, Minister Wheelhouse was at the CCUS conference and I think there was no lack of investor confidence and indeed a broader appetite for involvement in this process than I think we have ever seen. Now of course we have to deliver, but as I say, we have set out the action plan. We have set out a very clear pathway and we also now have this funding towards our net zero industrial cluster.

**Deidre Brock:** Certainly Minister Wheelhouse was suggesting that you were very keen on the whole CCS project and keen to see it through, so we look forward to that.

**Chair:** This issue so interests the Committee that we did hold a session specifically on CCS and some of the issues surrounding it and some of the difficulties and challenges and opportunities. One thing that was raised with us was from Scottish Carbon Capture and Storage. It was concerned that some of the oil and gas infrastructure that could be used for carbon capture was being decommissioned, saying that no partner in Government was taking responsibility for promoting reuse. What is the Government doing, therefore, to incentivise the reuse of this infrastructure for carbon capture?

**Claire Perry:** That is an important point. In fact, I believe it is one of the OGCI’s founding—I do not want to say principles, but it is certainly on its agenda. Indeed, I have raised questions on this exact point as I look at some of these decommissioning proposals. I want to say we put in our action plan—

**Emily Bourne:** We did, yes.

**Claire Perry**—that we would get back out there and have a look at this infrastructure. Not all of it is suitable. Emily, do you want to—

**Emily Bourne:** Yes. The action plan includes work that we will be doing with OGA and the industry to look for those existing assets that might be valid for reuse for CCUS, and also working with the industry and OGA to develop a policy framework for how we take that forward. At the moment we have bits of infrastructure that potentially could be decommissioned, which have this potential for reuse. What we want to do is to have an agreed policy framework around that as to how that would be treated.

**Claire Perry:** I want to share with the Committee that I had a conversation with Shell about the decommissioning process. I had written to them and said, “Should we be repurposing these? How do we think about reuse of this in the mix?” You do not want to just rely on an individual Minister doing that, but I think we are very aware now of this need to not decommission something that could potentially be useful.

**Chair:** Just on that, who would be responsible for that infrastructure? Is
it going to be the oil producer, who I am presuming would be the owner of it, or would it be those responsible for delivering the CCS project?

Emily Bourne: At the moment the operator has liability in perpetuity for its assets, which is one reason why it is a question about it does not want to retain it indefinitely with that liability. I think that is one of the questions that we would look at.

Chair: You can see there are lots of technical issues around this. Obviously we have seen and we have heard the opportunity that presents itself when it comes to CCS and we do recognise the Government’s commitment to deliver it. Could you help us in the future and clarify some of these points for us? Lastly on CCS, will the Government be seeking to support the use of capture CO₂ enhanced oil recovery and, if so, how would it do that?

Claire Perry: This is a question I always ask, because if you can generate a revenue stream—for example, we had a great industry shortage of food grade CO₂ this summer, and this is something that sits ironically alongside in terms to get them off the ground. I want to say it is already used in some cases, but they use seawater, don’t they, in the North Sea rather than CO₂?

Emily Bourne: No one has come forward, as far as I am aware, with the CO₂ for the EOR proposal, but if they did, it would be for the OGA to advise on that as the regulator and OPRED—which is the part of BEIS that looks at the environmental regulation—would need to give an environmental permit as well. As the Minister says, the type we are more likely to see here are probably not using CO₂, but using polymers or some other form of EOR.

Chair: The Fergus development would be using CO₂, is that what you just said there?

Emily Bourne: We have not seen any come forward with a proposal for CO₂ for EOR.

Claire Perry: There is a global market for CO₂. In fact, if you talk to Rodney Allam, who has invented the new Allam cycle, he will say, “You sell this stuff for $100 a tonne,” and whether there are wells in the States that are using their own domestic stuff or buying it, import it, there is definitely a market for it.

Chair: In the previous proposals there were all sorts of examinations just of the profit margin for CO₂ and how the whole economics of it would work and it did all seem to stack up. It was quite surprising it was eventually pulled, but we will leave that alone just now. Unless anybody else on the Committee has any further questions, I think we can excuse the Minister. That was really helpful, Minister, and thank you for that.

There are just a couple of things to take away. Obviously if we can get any clarity about timings when it comes to the city deal, that would be
very helpful for this Committee.

**Claire Perry:** Thank you very much, Mr Wishart. It is an interesting inquiry and really helpful for us, because we are all in a slightly new world of thinking about this industry, so I am looking forward to seeing your report.

**Chair:** Indeed. Thank you for your evidence this afternoon.