Written evidence submitted by Imes Group Holdings Ltd (OGI0003)

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Executive summary.
1. The remaining life of the UKCS represents a massive opportunity not only for the value of the hydrocarbons produced but for the industrial demand their production could produce in the Scottish Economy. The remaining resources represent a massive opportunity for Scottish industry to invest to retain existing and win new business so anchoring a technology driven competitive Oil and Gas supply, service and support industry in Scotland. We need to add to the focus of Achieving MER UK a real focus on enabling the Scottish industry to invest in both the new requirements driven by the need for greater efficiency and effectiveness and the ability to compete and win globally. From this will also develop the opportunity to diversify and expand in to the wider energy industry as well as other sectors.

The Committee invites evidence on the following questions:

- **What challenges does Scotland’s oil and gas industry face, and how can they be addressed?**
2. There are 2 outcomes we should be looking to achieve:
   - To get the maximum Oil and gas recovered from the UKCS;
   - To maximise the value generated through the Scottish and RUK economy from doing so.

3. The key figures in considering this are:
   - That the UK industry supply products and service to achieve approximately 47% or the UKCS spend.
   - Of that Scotland gets approximately 49% of that 47%.
   - Every 1BBOE recovered generates approximately £50bn of Total Value add to the UK economy at these levels.
   - Every 1BBOE produced generates roughly £50bn of Total Value Add in to the UK economy.

4. The challenges are thus:
   - To attract the investment from the Exploration and Production community so they bring their capital and capability to Maximise the recovery from the UKCS.
   - To develop the competitiveness of the Scottish indigenous industry base to enable it to win a greater percentage of the UKCS spend so generating greater value for the Scottish Economy.
5. Recognising that the opportunity for Scottish Industry to play a major role in ensuring we optimise recovery from and value of the UKCS is without doubt the greatest economic opportunity facing Scotland today.

6. The conversation focused on this is largely not happening as it is needed, and this enquiry must be a good opportunity to put this right.

7. If achieved an important element will be the long term anchoring of companies serving the Global oil and gas industry from Scotland and the UK. Exports and overseas operations can emanate from Scotland if we maximise this opportunity long after domestic production has ceased.

- How can the economic return from Scotland’s oil and gas reserves be maximised?

8. Over the years with this being the first Westminster Government recognising the inherent value of the Oil and Gas industry, we have failed to recognise the importance of this question. Too much focus on the operators producing and not enough focus on the domestic industry turning that production in to Total Value Add has meant we have failed to establish the R&D base and so the centres of excellence we see today in Automotive and Aerospace.

9. With the lack of the catalytic effect of Government spend on R&D over the years the industry has developed as a high cost industry, lacking in the vital area of technology investment and development. As a result, for example, we have been overtaken by the Norwegians in areas such as Sub Sea, Automation and subsea production. By putting in place the background resources and clustering industrial capability, knowledge and knowhow with skills and training, academic and scientific research and cross cutting technology enablers we could start to build the industrial centres of excellence, attracting the investment needed to re-establish and hold key competitive advantage.

10. In an industry of this scale, real development of Industrial Sectors of Excellence should have been formed with international universities setting up campus’ in and around the main centres of demand. This lack of cohesion has meant that the industry is not anchored, has moved to areas of investment in growth and technology, and can only be recovered by a committed investment in the background activities and resources that enables industry investment developing a significant enhancement in competitive advantage largely driven by technology.

- What action is the UK Government taking to support the long-term future of the oil and gas industry in Scotland, and how effective has this been?

11. The industry is in a discussion with the UK Government on a sector deal. Much will depend on whether the Government is able to look at the industry as a special case
that has been starved of the catalytic effect of Government investment in R&D since investment first came in the 1960’s and 70’s. Using the sector deal to create real Industrial Centres of Excellence attracting investment in sub sectors of the industry to create world leading clusters is the only way of recovering and then establishing sustainable advantage.

12. There needs to be a step change in the effort to really establish an industry anchored in the UK competing and winning on the basis of competitive advantage. This will quite extensively be driven by the ability to attract investment in to exploration and production. This converts in to demand need which if managed and reacted to properly gives the UK industry the chance to displace some of the more than 50% of spend imported whilst developing the world beating technologies, products and services that are competitive globally. An element of this is a significantly more competitive supply chain enables investors to maximise ROI so attracts investment. This interdependence needs to be better understood.

13. The ability to maximise recovery and value is dependent on what the industry has referred to as a 3 legged stool:

~ First is the fiscal regime. With the Treasury lead of looking at the industry from a perspective of the Total Value Add generated throughout the whole of the UK economy rather than taxing or production profits, the tax regime has been transformed from one of the least attractive to one of the most attractive globally.

~ Second is the regulatory regime and the formation of the OGA whereby the Government acceptance and implementation of Sir Ian Wood’s report has again made the UK regime very good for attracting new investment.

~ Third is the competitive advantage. The UKCS has the reputation as the most expensive basin globally in which to produce Oil and Gas. If the indigenous industry can invest in displacing the high level of imported products and services and developing products, services and technology that make the UKCS one of the more efficient even in its late life, then that advantage and expertise will be sought out and competitive anywhere in the world.

14. This is a short term opportunity as the industry learns to adapt and government and industry have to work together to ensure we attract the investment and put in place the industry infrastructure needed to deliver the transformation.

- How well do the different stakeholders (UK Government, Scottish Government, companies) work together? Does the current devolution settlement enable all stakeholders to support the sector?

15. Possibly the greatest issue on this is failure to recognise the agenda driven by the Exploration and Production companies as against the agenda of the indigenous industry. Both are valid but the focus has always been on operators and not organic growth of the UK indigenous supply, support and service industry. Much of the interface between the industry and Government, for good reason, has been
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operator to Government. There has be a wholly inadequate ongoing conversation on how we maximise the value of the opportunity that these offshore resources present.

16. We have failed to look at a further 20-25BBOE off our shores as an opportunity. Most countries would look at the potential value and develop a cohesive plan to maximise the value of extracting a target of say 25BBOE and work back. What would we need to do to achieve this? We have tended to have a fractured and unfocused approach which many still believe will see us only produce another 8-10BBOE. A £500bn lost opportunity.

17. So we lack the required common ‘sense of purpose’ that would get respective government, agencies and the industry focused. The changes in recent years particularly with the development of the OGA has made progress, but if we want to achieve all we should be setting out to achieve, we would need more cohesive objectives and plans which do not rely on the new regulator to hold the responsibility for the economic development benefit.

18. My experience of working with both Westminster and Holyrood is that the politicians are able to put political differences to one side and really focus on the opportunity. This needs to be built on.

- How can Scotland maximise its expertise, technology and infrastructure in oil and gas industry to secure the industry’s future as reserves decline? What support is needed from Government to maximise these opportunities?

19. We need to focus on developing a number of Industrial Centres of Excellence, real clusters that can in today’s environment be UK wide ‘clusters’ developing an anchored base of companies competing and succeeding globally. I believe we know well how this works with the experience in Automotive and Aerospace. If we build real and effective centres, on a hub and spoke model, we could develop world leading sub sectors that lead the world in late life, hard to produce, technology driven areas of the industry that will continue to generate value for the Scottish Economy long after production in the UKCS has ceased. What needs further consideration is that if we can develop these quickly we will have a real impact in making the UKCS more efficient and effective and so underpin the delivery of the MER UK ambition as well.

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