Written evidence submitted by Scottish Labour Party (OGI0007)

Scottish Affairs Committee inquiry: the future of the oil and gas industry

Submission from the Scottish Labour Party

The challenges facing Scotland’s oil and gas industry come from the age and maturity of the North Sea, relative to other oil and gas-producing provinces around the world. Because most of the easy-to-reach hydrocarbons have already been produced, what is left demands more exploration, more investment and more innovation. Most of the essential infrastructure is upwards of forty years old, and as a result it is expensive to maintain.

Even after decades of production, there are estimated to be between 10 billion and 20 billion barrels of oil equivalent remaining on the UK continental shelf. The lower figure represents known reserves, which could be recovered using existing technologies. The higher figure includes offshore oil and gas reserves which require the application of new technologies, or which have not yet been discovered. Potential future production could therefore be doubled by meeting the challenges of exploration and innovation.

Industry, government and trade unions are all signed up to a policy to maximise economic recovery of the UK’s offshore oil and gas, which could sustain jobs and business in Scotland for the next thirty years. In reality exploration has more or less dried up during the downturn since 2014, while the development and application of new technologies have also been affected by the low oil price. That puts maximum economic recovery, and therefore future employment and economic activity in Scotland at risk.

Effective government support for offshore oil and gas is key to meeting these challenges. We welcome the initiative of the Oil and Gas Authority to lead exploration, by commissioning seismic surveys of unexplored areas of the seabed and making their data readily available. We also applaud the creation of the Oil and Gas Technology Centre as part of the Aberdeen City Region Deal, with support ultimately from both government and industry, which can lead to the new generation of solutions required to maximise economic recovery. We believe direct support for the industry can and should go further.

The downturn highlighted the risk of vital infrastructure being decommissioned early, because it is no longer profitable in itself. A typical example might be a hub platform which processes hydrocarbons from a number of different fields, where the host field is no longer productive but the hub is essential to maximise production from a range of satellite fields. The decision on the decommissioning of the hub should therefore not be one for the operating company alone, and the OGA has already been active in seeking to agree area plans with operating companies, covering hubs, clusters of fields, regional infrastructure and wider area developments.

The challenge here is compounded by the fact that many different companies with competing interests may be involved, and even a single piece of infrastructure might be jointly owned by
different companies. Industry has accepted the need for collaboration in place of competition, in order to reduce costs and maximise recovery, but individual companies will still seek to put their commercial interests first, and so effective area planning is dependent on persuading a range of different companies to compromise their individual interests in the common good. We believe the powers of the OGA need to be strengthened significantly in order to allow it to do its job.

Companies may be unwilling to share with the regulator their forecasts of production and of spare capacity on infrastructure, so the OGA should have powers to compel them to do so. In addition, the regulator should have powers ultimately to impose area plans in the national interest, including powers to compel companies to pool or trade their interests in particular areas in order to make rational planning easier to achieve. This might in some circumstances involve a public stake in key infrastructure, but it would typically involve the regulator requiring companies to compromise their short-term commercial objectives in the long-term interests of the sector and the economy as a whole.

We also want to see further support from both government and industry for the development of new technologies for maximising economic recovery and for future diversification. The Oil and Gas Technology Centre and its emerging centres of excellence can develop the value-added technologies the industry needs, but they need to have confidence in future funding in order to achieve their full potential. There also needs to be good co-ordination with trade unions in the introduction of new technologies offshore, so that change is seen as supporting rather than threatening future employment.

As well as maximising economic recovery, it is also important to maximise the economic benefits of decommissioning once further production is no longer possible. The opportunities for decommissioning in Dundee as part of the Tay Cities Deal and the Centre of Excellence in Decommissioning in Aberdeen are therefore welcome developments, as is a strategic approach from the UK and Scottish governments and their agencies. While physical dismantling of redundant equipment is a relatively small part of the overall process of decommissioning, it is important that as much as possible of the whole process is done on this side of the North Sea.

Scotland’s oil and gas supply chain is already heavily engaged in exporting its technologies and expertise to other provinces around the world, and this aspect of the industry should continue to benefit from government support. In addition, many of the same skills and technologies have a direct application to offshore renewable energy, in the North Sea and further afield, and again it is important that government works with industry to support this diversification. The North Sea has a vital role to play in the transition to a low-carbon economy worldwide over the next thirty years, and some oil and gas businesses have already begun their own transition to become broader-based energy companies. A just transition will protect both workers and customers, and public policy can help both industry and workforce to achieve that transition in a way that brings long-term economic as well as environmental benefits.

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