RESPONSE TO THE SCOTTISH AFFAIRS COMMITTEE CALL FOR EVIDENCE ON THE FUTURE OF THE OIL AND GAS INDUSTRY

Unite the Union Scotland represents around 140,000 working people and their families throughout Scotland. Unite is the UK’s largest trade union with 1.4 million members in a range of industries including transport, energy, construction, financial services, manufacturing, print and media, the voluntary and non-profit sectors, education, local government and the NHS.

Scope of the inquiry

- What challenges does Scotland’s oil and gas industry face, and how can they be addressed?
- How can the economic return from Scotland’s oil and gas reserves be maximised?
- 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?
- 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?
- 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?

Industry Overview
North Sea oil and gas remain central to the economy of the whole of Scotland. We continue to press the UK government to support a long-term strategy to maximise economic recovery. Unite is clear on the need for immediate action to support the oil and gas sector – supporting a roadmap based upon clear principles which deliver certainty for the industry. We need genuine co-operation between government, industry and trade unions to alleviate the increasing pressure on the sector while protecting employment rights.

We support calls for the UK and Scottish governments to pull together an industry summit which would regularly meet. However, moves to change the taxation regime must be tightly monitored and regulated at both Scottish and UK level with employers providing tangible evidence that they are used to protect jobs, conditions and health and safety.

Support for the industry should include but not be limited to urgent action on government revenues from offshore oil and gas. The Treasury has a range of taxes that impact on the industry, most notably the Supplementary Charge on Corporation Tax, which reflects the exceptional profits the industry made in the boom years. Unite has advocated changes in the North Sea tax regime to stimulate investment on the basis that it does not lead to an assault on the workforces terms and conditions.

The North Sea cannot be left exclusively to market forces because the sector is of vital economic interest and paramount to the security of supply. There is a national interest to be taken into account. The UK and Scottish governments have been slow in response to the deteriorating situation in contrast with support for the UK’s new nuclear fleet. The industry needs to have confidence that they can invest for the future and certainty about the fiscal framework for a sustained period. While tax changes are a necessary component in the strategy, it will be insufficient going forward to maximise extraction. Rather, the key issue if activity is to be maintained is the injection of fresh capital.

The Oil and Gas Authority (OGA) has a strong mandate to maximise production, however, we need more imaginative policies including the usage of Scottish and UK government borrowing powers to leverage money into the sector including public stakes in a way that it has done so for the nuclear sector. The below table illustrates that while the price of oil has risen to around $80 per barrel the lasting effects of the downturn remains.
Oil revenues were as high as nearly £8bn in 2011-12 for Scotland but are now just £200m. In March 2013, the Office for Budget Responsibility had forecast oil revenues of £4.8bn for 2016-17, while the Scottish Government forecast revenues of between £4.2bn and £10.7bn for 2016-17. However, the latest quarterly figures show that taking account of Scotland’s geographical share of North Sea oil revenues there was a return to a surplus, with tax revenues rising to just over £1 billion.

The Scottish and UK governments must work to support the whole supply chain in the North East and across the country. We have repeatedly voiced our disappointment that the UK government’s Oil and Gas Workforce Plan, published on 6 July 2016, fell short of developing a strategy to arrest decline in the industry. The oil and gas industry lost 150,000 jobs since

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1 https://fraserofallander.org/scottish-economy/gers/government-expenditure-and-revenue-scotland-2016-17/
its peak in 2014.² Moreover, Aberdeen area is estimated to lose a further 5,500 energy sector jobs by 2027 according to Skills Development Scotland.³

Following a joint report by the Department for Business, Innovation and Skills and the Department for Energy and Climate Change, Unite reiterated its calls for a summit of key industry figures and ministers from the Scottish and Westminster governments to produce an action plan to save the offshore oil and gas industry. The report failed to address the race to the bottom which we are seeing in pay, terms and conditions and safety, while tens of thousands of jobs continue to be cut.

**Decommissioning**

Decommissioning remains a key issue for the industry, requiring public support. Unite strongly believes that a coherent plan must be established to ensure as much of the work as possible is retained in Scotland – and the UK.

The Oil and Gas Authority is tasked with developing a plan and timetable for developing the infrastructure that will support decommissioning. According to DeCom NS (October 2014) forecasts indicate that the overall decommissioning expenditure in the North Sea could be between £1.1bn and £2.6bn per annum, and is estimated to reach over £17bn for the period between 2014 to 2022. The Financial Times in January 2017 also reported that oil companies are forecast to spend around £53bn from 2017 winding down North Sea operations.⁴

Scottish Enterprise further estimates that decommissioning activity in Scotland over the next 10 years could be valued at between £8.3 billion and £11.3 billion - supporting peak employment of 16,925 to 22,775 jobs.⁵ There will be over 150 decommissioning projects in the UKCS (UK Continental Shelf) by 2025. Over 1,200 wells are forecast to be plugged and abandoned over the next decade, representing close to 30% of the total number of wells on the UKCS that will eventually require decommissioning.⁶ In this context, Unite welcomes the Decommissioning Centre of Excellence which is tasked with addressing the current and future challenges of the industry. Yet, more strategic government action and regulation must be enacted to ensure that as much of the work as possible is undertaken in Scotland – and wider UK.

² [http://www.bbc.co.uk/news/uk-scotland-41122892](http://www.bbc.co.uk/news/uk-scotland-41122892)
⁴ [https://www.ft.com/content/9b1d17d0-d425-11e6-b06b-680c49b4b4c0](https://www.ft.com/content/9b1d17d0-d425-11e6-b06b-680c49b4b4c0)
⁶ Oil and Gas UK, Decommissioning Insight (2015).
Norway, for example, regulates its decommissioning sector through the Petroleum Act, ‘throughout all phases of petroleum activities, the industry is required to take environmental concerns into account and show consideration for other users of the sea.’ Under this Act, a plan for decommissioning must be submitted to the ministry between two and five years before the oil production licence expires. The plan consists of an impact assessment and plans for disposing installations, including costs and environmental consequences. The purpose of this Act is to employ only the ‘most skilled offshore workers’; to ensure no mistakes are made which could damage the environment and to prohibit disused offshore installations remaining in place with limited exceptions. Norway has created four facilities that have a permit for receiving and processing disused shelf facilities. It is estimated that there are more than 8,200 wells in the North Sea that are active or suspended and awaiting Plugging and Abandonment (P&A). The majority of these wells are located in the UKCS, which accounts for 61% of wells. Dismantling structures requires specialist equipment and is high value work in a competitive market. Land-based dismantling of topsides requires deep water port facilities such in Dundee or Nigg, but to secure this work upfront further investment is needed in facilities. The Lerwick Port Authority is investing around £30 million into extending its quays and developing deep-water berths. The Montrose Port Authority will also be investing £15 million to build on previous upgrades to the harbour to include more deep-water berths and heavy-lift pads.

Despite these substantial opportunities, Unite has deep concerns that Scotland does not have a coherent strategy to benefit from decommissioning. This can be illustrated by a Norwegian port which won a contract to decommission Maersk’s Janice Floating Production Unit after Scottish firms missed out on the decommissioning work following a tendering process.
The Oil and Gas Authority Report titled ‘Decommissioning Strategy’ published in June 2016 further stated there is a need for “a clear strategy and a delivery programme, with concerted effort and strong stakeholder commitment across the industry.” Unite supports this objective but we presently believe there is no ‘clear strategy’ for decommissioning in Scotland. This must be addressed and involve the trade unions directly. The aforementioned report highlighted that high decommissioning costs are “driven by a number of factors. For example, there is the immaturity of the decommissioning industry and a lack of direct experience by operators and the supply chain.”

As such, Unite believes that the Scottish and UK governments must intervene in order to explore the opportunities to leverage investment into the sector including state borrowing powers to offset a lack of investment by the private sector, to help address capacity issues and to proactively assist in reducing decommissioning costs. However, Unite wishes to reemphasise while it is correct that we initiate a National Decommissioning Strategy to plan for the future and to capture projected decommissioning works, we must ensure the focus remains on extracting up to 20bn barrels of oil and gas estimated in the UKCS to ensure the maximum economic recovery.14

Skills and Work Practices

About 10,000 new oil and gas roles are required it is estimated over the next 20 years to cope with the changing demands of the industry. The recent UKCS Workforce Dynamics Review by Opito (May 2018) stated that around 40,000 recruits are needed with a quarter of those roles currently not in existence.15 The UK government’s Oil and Gas workforce plan in July 2016 acknowledged:

There is also a risk that the UK’s highly-trained niche engineering and technical skilled workers, employed in areas such as research and development, migrate to other parts of the world where their skills are in demand.

Moreover, over 80,000 workers are likely to retire or leave the sector for other reasons by 2035 according to the OPITO report. Previous research also conducted by UK Commission for Employment and Skills' (UKCES) in March 2015 showed that the substantial shortage of

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14 https://www.ft.com/content/9b1d17d0-d425-11e6-b06b-680c49b4b4c0
15 http://www.bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-44067949
skills is the most important challenge currently facing the energy sector. Despite affecting all key occupations, the taskforce workplace report identified that this relates to “…predominantly engineers and technicians who are in limited supply despite high levels of demand.”

Unite notes that the UK government has divided UK industries into ‘high, medium or low priority’ categories for the forthcoming Brexit negotiations, with the steel, oil and gas sectors marked as ‘low’. This demonstrates the UK government’s failure to link the issues of Brexit and industrial strategy. Unite is clear that a proper industrial strategy is needed to deal with Brexit and develop the UK’s infrastructure and industrial base for the post-Brexit future.

In the context of Brexit, there is an urgent requirement for a coherent skills strategy to ensure the oil and gas industry responds to the challenges of the future. Unite believes this must include a targeted assessment of the impact of any work restrictions which in all probability will apply to the industry following the UK ending the freedom of movement of labour. This will potentially exacerbate the skills gaps and shortages already prevalent in the industry. For these aforementioned reasons, Unite strongly believes that full devolution of employment law, full control over skills and apprenticeships and linking it into our wider education system is critical. These issues must be addressed in a joined-up and strategically coherent manner through industrial sector forums to target and address key growth areas of our economy. As Murray and Roy (2016) have argued, with the transfer of these powers:

….comes the opportunity to deliver a much more coherent package of support for those out of work (and at threat from being out of work) which encompasses Scotland’s entire school education, higher & further education, training, skills, apprenticeship and enterprise policies.

Concomitant with the previous points is the growing precarious ‘contractual’ nature of those working in the industry. Unite representatives have identified an increasing trend of casualisation through non-permanent contracts. Companies are utilising agencies and bogus self-employed staff to operate on offshore units, which has clear health and safety implications.

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17 https://fraserofallander.org/2016/08/05/its-the-economy-scotland/
Unite welcomed the recent announcement by Shell that they plan a review of their offshore model including the current three weeks on three weeks off shift rotas, a pattern adopted by numerous employers in the North Sea. Unite has argued that spending three weeks at a time offshore, instead of two would have dire safety implications as well as implications for the general mental and physical health of workers. A report by Robert Gordon University confirms this. The report identifies workers on three-week, equal-time rotas were nearly twice as likely to experience ill health as those on two on two off shifts. This contributed to issues with relationships, mental and physical exhaustion, not being fully focused and issues with depression. The three on/three off rota pattern is now worked by 56% of the workforce offshore, compared with just 17% working the same pattern in 2007.

These issues when combined with the precarious nature of the industry are a further distraction that workers employed in such a hostile and dangerous industry should not be exposed to. Unite would like to see these three week shift rotas abolished. Unite believes that no one should be expected to work twenty one days in a row, working twelve hour shifts, being pushed to the limits of what is safe mentally and physically. There can only be one outcome if this level of pressure is sustained, one that can lead to mistakes and ultimately lead to a major incident.

Unite Action Points

1. For the OGA to ensure it fulfils its objective of ‘maximum economic recovery’ with an estimated 20bn barrels still to be extracted in the UKCS. The OGA in cooperation with the UK and Scottish governments must initiative strategic public stakes in the offshore sector including infrastructure investment (e.g. pipelines) through discussions with government, industry and trade unions to facilitate co-investment;

2. The UK and Scottish governments must use (new) borrowing powers and national investment banks to enact the strategic public stakes to support the sector in dialogue with the OGA;

3. Unite repeats its call for the full devolution of employment law, full control over skills and apprenticeships. An essential component of this strategic plan must be the creation of industrial sector forums to target and address key growth areas of our economy including oil and gas;

4. For the UK and Scottish governments in consultation with local authorities, industry and trade unions to initiate a comprehensive national decommissioning strategy and to bring forward legislation which supports the emergent industry to capture the opportunities the multi-billions pounds industry provides like Norway; and

5. Request the OGA to undertake further research to assess employment prospects, the skills gaps and shortages in the UKCS in the context of Brexit, the degree of transferability of skills to the emergent decommissioning sector over the medium term and the long term effects of unsustainable shift rotas.

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