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Supply Chain Champion

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Ms Claire Baker MSP
Economy and Fair Work Committee Convenor
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Ms Baker,

I am writing to you in my capacity as the Supply Chain Champion for the UK oil and gas industry to provide additional evidence to the Supply Chain Inquiry, currently being conducted by the Economy and Fair Work Committee.

The North Sea Transition Deal, signed in March last year committed industry and Government to appointing a Supply Chain Champion to represent the energy supply chain businesses which generate £27 billion a year and employ 92,000 people across the UK. These companies will deliver the clean and innovative energy technologies that will help move the UK towards a low carbon future. I was delighted to accept this role last year.

I have addressed the questions posed by the committee in its initial consultation below, and hope that you will find my answers useful.

Yours sincerely,



On behalf of Sian Lloyd-Rees
Supply Chain Champion UK Oil and Gas Sector

Introduction

The combination of COVID-19, the energy transition, technology & innovation and changing industry dynamics is fundamentally re-shaping the future of the UK's energy sector. With the UK's track record as a world class basin for oil and gas, and with ambitious targets to turn the UK into an offshore powerhouse, there is significant scope to create a new, leading net zero energy supply chain in Scotland.

The oil and gas industry is already in action to deliver key low-carbon projects across the UK. With over £170 billion projected to be invested on capital and operating activities in the UK offshore energy sector between 2021 and 2030 (including on oil and gas, offshore wind, carbon capture utilisation and storage (CCUS) and hydrogen), there will be many new opportunities for the UK offshore energy workforce. The Robert Gordon University (RGU) UK Offshore Energy Workforce Transferability Review highlights that around 200,000 skilled people are projected to be required in the UK offshore energy industry to ensure delivery of these activities in 2030.

People

There are persistent skills gaps in certain sectors. Why are these gaps persistent? What policies are needed to address these gaps? What could be done differently? AND There are also gaps in labour supply in certain sectors. What policies or actions are needed and over what timescale to address labour supply problems?

From the oil and gas industry's perspective, the skills gap is not as acute as it was a decade ago. Since that time, we have seen investment and production reduce and the subsequent contraction in the industry and the reduction in demand have meant that the skills gap is smaller than it was.

Scottish Government policy must provide stability and confidence for investors in the North Sea. To sustain a robust and resilient supply chain, and mitigate gaps in labour supply, it is vital that we maintain investor confidence and encourage an increased and sustainable level of activity. Continued support for the sector and its vital role in delivering the energy transition plays a key role in this.

We are, however, starting to see a digital skills gap emerging, from basic digital literacy through to data analytics. As a sector, we are investing heavily in innovation and digitalisation in areas such as remote operations. We anticipate that this gap will only continue to grow as the demand for digital skills increases across the economy.

The Sector will continue to play an important role in terms of helping to provide the UK with a secure energy supply, while also unlocking emerging low-carbon sectors. The North Sea Transition Deal (NSTD) commits the industry to map the skills required for the transition with an integrated People and Skills Plan. It is already clear that the skills the oil and gas industry has today are vital to delivering Net Zero.

The Robert Gordon University Energy Transition Institute is working with the OGUK NSTD team to model employment figures from now to 2035 in CCUS, green and blue hydrogen and electrification of offshore facilities. This work is expected to be finalised by the end of Q1 2022 and will complete the picture with figures already in the public domain for renewables. We already know it will take time for the carbon capture and storage and hydrogen industries to develop. It is vital that we have a **managed transition** to net zero so that the oil and gas industry can continue to help to provide energy security and ensure that the people who are in the workforce

today, and the young people who are looking at what opportunities are there for them in the future, can see what positive role and opportunities there will continue to be in a diversified energy industry.

Furthermore, we are prioritising work to align competence and training standards between energy sectors, i.e. renewables, oil and gas, CCUS, Hydrogen. This work, chaired by industry skills body OPITO, will reduce duplication of time and cost but, most importantly, reduce barriers to redeployment of people between energy sectors including the development of a 'skills passport,' which OGUK fully supports.

Places

What improvements are needed to Scotland's supply infrastructure? What should be prioritised and why? AND, How can Scotland's supply infrastructure be future-proofed in the face of changes to stockpiling and demands faced as our economy shifts to net zero? AND,

Products

What are the short and medium-term challenges in accessing markets to enable the raw materials needed to be imported? And in accessing markets for Scottish exports? AND,

Where are the emerging markets for Scottish products? What needs to happen to ensure Scottish businesses maximise these market opportunities? AND,

Are there sectors and products where Scotland relies on imports but there could be opportunities to grow a domestic supply chain? What are the barriers to doing so? AND,

How can small Scottish businesses be supported to win market share while also meeting fair work principles and other legislative requirements?

Scotland currently enjoys a unique national network of skills, resources and experience.

It is home to a world-class supply chain, which currently supports the long-established oil and gas industry, and is already actively involved in the emerging energy transition. It benefits from a comprehensive offshore and coastal infrastructure. It houses world renowned educational establishments and research facilities. It is an established locale for global innovation and change. Within the supply chain, 62 per cent of companies who responded to OGUK's 2021 Business Sentiment Survey reported that they provide goods and services which can help reduce their clients' carbon footprint. 82 per cent of supply companies also report that they plan to advance their diversification efforts over the next two years, as offshore renewables, CCUS, hydrogen and utilities are all identified as key new markets.

However, to develop an all-energy, local supply chain that can deliver decarbonisation at scale to meet the net-zero target, a systematic approach to transformation and capability development will be required. The RGU UK Offshore Energy Workforce Transferability Review highlights that the local supply chain can provide the skills, capabilities and expertise needed to deliver the outcomes identified in the NSTD - decarbonising traditional oil and gas production, providing sources of low carbon hydrogen and safely capturing, transporting and storing carbon.

This step-change in the role of the supply chain to drive decarbonisation at scale will require support from both the UK and Scottish governments, as indeed other overseas governments are very publicly supporting their supply

chains to compete for such exciting opportunities. Supporting the local supply chain at these early stages in the development of the energy markets and technologies of the future will be key to anchoring skills and quality jobs in Scotland and provide energy security and resilience in the face of global competition.

In working cooperatively to prioritize the supply chain's investments in new capabilities and technologies to deliver the energy transition, government and the industry can deliver six key outcomes:

(1) Create a globally competitive local energy supply chain, founded on its oil and gas heritage, building capability and securing Scotland's position as a global leader in a range of energy sectors including net zero solutions, services, and technologies.

(2) Stimulate and facilitate the supply chain to be the driving force of innovation, unlocking opportunities across the energy transition, bringing together the critical skills and capability to provide attractive and innovative industrial solutions winning net zero business domestically. This will leverage Scotland's capability to deliver net zero projects and secure supply chain diversification and export opportunities, where necessary underpinned by government and industry funds including export finance facilities.

(3) Be internationally recognised with industrial scale capability in Scotland for Low Carbon Industry, achieved through cross-sector co-ordination and collaboration to access the pipeline of net-zero project opportunities domestically and in international markets.

(4) Have dedicated sources of development funding to support supply chain companies pivoting into the new energy opportunities domestically and internationally. Enabling their businesses to work in low-carbon energy via supported incubator projects and economic development zones, investing in technology and accelerating technology development to market and bolstering Scotland's competitive advantage in a diversified all-energy supply chain.

(5) First mover technology advantage secured in Scotland, anchored by local content and technology commitments, with the local content targets appropriately with a local content target of 50% over the lifecycle of projects and 30% locally provided technology, sourced on an appropriately competitive basis. This would also address the local context of place, spend, and job creation.

(6) Greater profile of local energy supply chain capability domestically and internationally, carrying the world class reputation into oil field services and offshore and subsea engineering, supported by government and industry.

Enabling the transformation of Scotland's supply chain may be achieved by nurturing and enabling each of the following:

(1) Driving Innovation, Delivering Competitive Capability:

The supply chain should be assisted to be the driving force for innovation enabling them to lead the development of competitive low carbon solutions and deploy them at scale both in Scotland and internationally, making the most of the technology, innovation and expertise that has built the supply chain's current international reputation within the oil and gas sector. These are the companies that will emerge as the low carbon supply chain of the future.

To assist with this, the sector will identify opportunities where innovative business models could play a role, alongside existing supply chain models; identifying critical features of successful supply chain led innovation and address the barriers that may be holding such approaches back e.g. initial / early stages finance or proof of technology concepts.

(2) Anchoring Local Content and Capability in the Net-Zero Supply Chain, Developing a Scottish Low Carbon Supply

Chain of International Repute:

The oil and gas supply chain in Scotland already has the necessary expertise and proven capabilities to service the needs of the energy transition both at home and abroad, putting Scotland in a uniquely competitive position. This position must be leveraged to both enable Scotland to reach its net zero target and focus effort in the areas that are likely to generate the highest value for Scotland, securing future economic growth in a net-zero world. A strategic mapping of supply chain capability and capacity will identify where the local supply chain can realistically deliver energy transition and decommissioning projects, considering their competitive position both in relation to the domestic market and internationally.

(3) Providing a Pipeline of Opportunities to Deliver Industrial Scale Capability:

It is important that Scotland develops a pipeline of projects that will continue to push the boundaries in terms of technologies and cost reduction for the future and provide a base load of opportunities to sustain business throughout the transition. Furthermore, early market intelligence on forthcoming opportunities and technology needs is currently distributed in an unstructured manner, is fragmented and is often hard to access in a timely manner. Providing transparency and relevant detail of supply chain opportunities across all energy sectors to achieve 'first mover advantage' in key growth area. To anchor UK content in the net zero supply chain and deliver first mover advantage, the sector will develop visibility of supply chain opportunity by increasing the visibility of all energy supply chain opportunities. The sector will also benefit from maintaining and refining a forward view of global projects and leverage the supply chain review and capability mapping to determine opportunities for Scotland.

This forward view, which all energy transition projects should agree to support, should integrate information from other energy sectors such as renewables, focusing on alignment, collaboration, and integration opportunities.

(4) Build on Existing Opportunities:

The Scottish oil and gas supply chain is already well prepared to address the opportunities presented by CCS and Hydrogen, experience gained on the UK Continental Shelf offers a first mover technology advantage in the local market and an exciting future export potential.

Given the accumulated industrial experience, there is a recognised transferability of the skills used by the supply chain from their traditional oil and gas activities to the capabilities required by the Energy Transition. capabilities required by the Energy Transition.

(5) Promoting and Exporting Scotland's Supply Chain Net-Zero Services to the World:

The potential market size for net zero technologies both locally and globally is huge (the UK energy services sector is a major exporter of oilfield goods and services and is valued at £60 billion over the last five years prior to the pandemic), and Scotland is well positioned to demonstrate expertise that is world leading. By aligning efforts in this regard across Government departments and agencies and by keeping a clear view of a global project pipeline the chances of establishing Scotland as a global centre of excellence for these technologies is increased, increasing the number of export opportunities.

(6) Attract Inward Investment for Net-Zero:

Favourable economic policy and attractive import/export fiscal regimes will drive greater inward investment to Scotland, encouraging the growth of energy transition related supply chain activities and export.

(7) Incubate New Technology Development:

A set of key technologies will be instrumental in delivering energy security, jobs, economic growth while meeting net-zero targets in Scotland. The novelty of these technologies will present a risk to their commercial development. Simplifying the process for accessing R&D funding and proactively supporting SMEs and new entrants to navigate this will accelerate the rate at which technology cost reductions and innovations will be developed jumpstarting growth at all levels of the supply chain.

Conclusion

Scottish Government policy must provide stability and confidence for investors in the North Sea. Sustaining a robust and resilient supply chain relies on continued support for the sector and its vital role in terms of providing UK with secure energy supply, while also unlocking emerging low-carbon sectors. This support will ensure that the supply chain in Scotland continue to be global leaders in developing technologies and enable them to transition. It is vital that we have a managed transition to net zero so that the oil and gas industry can continue to contribute to energy security, and people who are in the workforce today, and the young people who are looking at what opportunities are there for them in the future, can be clear about the positive roles and opportunities that there will continue to be in a diversified energy industry.