

## Scottish Government's call for views on implementation of its Vision for Trade OGUK Response, 12 April 2021

OGUK is the leading representative organisation for the UK offshore oil and gas industry. Our membership includes over 400 organisations with an interest in the UK's upstream oil and gas and other energy sectors. As the champions of industry, we work to inform understanding with facts and evidence, engage on a range of key issues and support the broader value of this industry in a changing energy landscape. From exploration through to decommissioning and located across the length and breadth of the UK, our members are critical to safely providing security of energy supply, while supporting around 270,000 jobs and contributing billions of pounds to the economy each year.

The oil and gas industry is one of the UK's most successful export sectors, with Scottish Enterprise calculating the total international sales from the Scottish oil and gas supply chain as £10.9bn (£3.7bn in export sales and £7.2bn from international subsidiaries in 2018/19)<sup>1</sup>. Data gathered from a representative set of OGUK members in 2020 showed that 90% of companies were aiming to increase their international sales throughout 2020 and 2021. The data also estimated that 42% of companies generate more than half of their revenue from non-UK business operations and that only 10% have no non-UK revenue generation.

Many of our leading oil field goods and services companies, in particular SME companies, are very concerned about losing the support of SDI led and backed trade missions overseas and access to market intelligence from the global network of SDI officials. These companies are ideally placed to support the decarbonisation of supply and the energy transition in Scotland, the UK and overseas.

The offshore oil and gas sector possesses many of the technologies required to achieve Scotland's net zero ambitions, although at varying stages of maturity, cost-effectiveness, and scale. There is a very high degree of transferability from oil and gas into CCUS and hydrogen, as well as the renewables sector. The oil and gas sector has the skills and capacity to deliver green jobs and technologies, which could be undermined by the removal of export support.

OGUK facilitated two workshops with the Scottish Government's Trade Policy Division, to discuss the changes to support for fossil fuel exports. We appreciated the opportunity to work with the Scottish Government to clearly define the extent and practical application of the changes to this policy.

### **Based on member feedback our key requests are:**

- 1. Sustained Scottish Government overseas backing (funding and promotion) for all activities carried out in support of emissions reductions across the full decarbonisation spectrum;**
- 2. That all businesses, particularly SMEs, be given at least 12 months to adapt to the shift in policy.**

Our members are very concerned that any significant change in Scottish Government policy could undermine the oil and gas industry and its energy supply chain, both internationally and nationally, and potentially:

1. Undermine Scotland's climate leadership;
2. Compromise Scotland's current and future export capability;
3. Weaken an already fragile domestic supply chain; and
4. Damage our world-leading universities and skilled workforce.

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<sup>1</sup> <https://www.scottish-enterprise.com/media/3825/se-international-oil-gas-survey-2018-19.pdf>

### **Supporting information for OGUK requests:**

#### **Sustained Scottish Government overseas backing (funding and promotion) for all activities carried out in support of emissions reductions across the full decarbonisation spectrum;**

Government can play a vital role in boosting investor confidence if it shows clear support for the oil and gas industry's role in delivering cleaner energy. If the UK can demonstrate how a fair transition to net zero can be managed, protecting jobs and energy security it can be a global leader in the energy transition.

Our members have raised the potential reputational damage that this policy shift from the Scottish Government will have on companies who service the oil and gas sector, for example being barred from Scottish Delegations at trade events. They are concerned that this could jeopardise their ability to move into new sectors if they are seen as a "dirty industry". Our SME community is particularly concerned about this, but also by losing out to SMEs in other countries like China, Japan, the Netherlands, Brazil, and the Middle East where their export potential across all energy is being supported by their Governments.

It is really important that this policy shift is based on a clear understand of what constitutes the energy transition. Transition is a process, so we believe that the Scottish Government support should include projects across the full decarbonisation journey – from coal and open fires to oil and gas and then on to the new industries of the future. To refuse support to countries moving from coal to gas, for example, could hamper international decarbonisation efforts. In the UK between 1990 and 2000, GHG emissions from power stations fell by 20% (from 278.0 to 221.5MtCO<sub>2e</sub>). This was very largely due to coal-to-gas switching. In that decade coal use in the power sector fell by more than 40% (from 49.84 to 28.67Mtoe) while natural gas use grew by a similar absolute amount (from 0.56 to 27.91Mtoe).

This "support" often takes the form of advice, but also help to attend trade missions, international conferences and be included in the Team Scotland Pavilion to exhibit at significant events like Offshore Europe and OTC. It is critical that companies can still access this kind of support, to unlock new business opportunities across the full decarbonisation spectrum. SMEs, in particular, identify bureaucracy as a significant barrier to accessing Government support. We therefore request that any exemptions are easy to navigate with minimal "red tape" for those companies seeking support for qualifying projects.

#### **That all businesses, particularly SMEs, be given at least 12 months to adapt to the shift in policy.**

Due to the triple whammy of covid-19 and record low oil and gas prices in 2020, a significant amount of investment activity was deferred and capital projects were cancelled or postponed into 2021 and beyond. OGUK estimated this translated into a reduction of 20-30 percent of Capex and 10-20 percent of Opex spend in 2020. In April 2020 we predicted that if the current business conditions prevailed, around 30,000 jobs could be lost.

An OGUK member that is an SME delivering engineering services estimated that the impact of withdrawing Government support would reduce their potential market in one of the two overseas markets they work by around 50%.

Another OGUK member Fennex, is a new digital tech SME, with a team that has 20 years of oil and gas experience and is now looking to grow the business by taking innovative digital solutions including AI and Machine Learning (ML) from the oil and gas industry into CCS and the offshore wind industry in the UK and overseas. They have relied on Government support (specifically Scottish Enterprise and Scottish Development International promotional and business support) to increase their export footprint. They believe that withdrawing support right now could threaten the future of the whole business given the current business conditions.

Another SME member noted that many SMEs have secured private equity or other stakeholder support to implement a 3 to 5 year survival or growth strategy – very different to the Scottish Government’s proposed timeframe of months.

The SME community in particular is also already having to adapt to major changes in terms of the end of the Transition Period post Brexit, for example a changed Border Operating Model.

The effective immediate withdrawal of all Scottish Government export support for these companies overseas would be a significant blow and a managed transition is essential. The UK Government has announced a 12 month grace period for SMEs to adapt to their policy shift and we ask that the Scottish Government consider a similar, if not longer period.

If Scotland is to achieve a fair transition to net zero, changes must be managed, and time allowed for businesses to adapt. Otherwise, we risk losing the essential capabilities and expertise that we have in our domestic supply chain to underpin the new industries of CCS and hydrogen.

### **Potential impact of policy change on:**

#### **Climate leadership**

COP 26 will take place in Glasgow later this year, which is a once in a generation opportunity for both the UK and Scottish Governments to show the world how to manage a fair transition to net zero. OGUK has recently agreed a transformational North Sea Transition Deal with the UK Government, which we believe can be used by both governments to show how industry and Government can work together to achieve net zero.

A fair energy transition needs to be delivered with a transparent and managed process to ensure no unintended consequences. It is important that any changes and the timing support this principle. Using the North Sea as an example, we have an opportunity to demonstrate to the world how a fair transition can be managed. Namely protecting essential skills and capabilities in a mature oil and gas basin to underpin the future industries of CCS and hydrogen at home, providing clean energy and supporting hundreds of thousands of jobs in communities across Scotland, and the UK. Not only can these capabilities be exported, but the Scottish and UK Governments can also then demonstrate climate leadership by showing other basins how to decarbonise their supply and manage their own fair transitions.

The oil and gas industry will play a significant role in achieving both Scotland and the UK’s net zero targets and we hope that both Governments will showcase this partnership approach at COP 26.

We also note that an increasing number of UK-based companies involved in oil and gas activities overseas, are becoming integrated energy companies. Although their investment in oil and gas activities will diminish over time, this investment will continue at lower levels until they no longer require the revenues to fund their new low-carbon activities. We are concerned that if Government support for these oil and gas investments is taken away, it risks harming relationships with several governments that rely heavily on their oil and gas interests and will also make it much more difficult for these companies to invest in new low-carbon activities in these countries.

#### **Export Capability**

Other countries are still seeking to explore and produce their natural oil and gas resources, with Rystad estimating that global expenditure through all areas of the supply chain from oil and gas producers between 2021-25 could be up to \$5 trillion.

This overseas activity will not stop as a result of UK or Scottish policy change and indeed other nations continue to actively support their supply chains in servicing this activity, recognising as they do the benefits it brings to their supply chain and the economies that they contribute to.

For example, in Guyana at present GDP per person is around \$7,000, which the IMF estimate will increase to around \$18,000 per head by 2025 as they realise their significant oil and gas resources. A number of West African nations are using European operators and their supply chains, backed by their governments' support to develop West African oil and gas assets. The only limit on this support is a contractually mandated minimum percentage of local content. UK companies are well placed to support this type of activity efficiently and safely by using new technology also to deliver reduced emissions. There is no guarantee that non-UK suppliers that support this type of activity overseas will emphasise safe emissions reduction and the broader energy transition as their UK counterparts are focused on doing. Indeed, our members believe that our safety knowledge and practice is one of the main reasons UK companies are selected for work overseas. This safety practice is a core offering that the oil and gas sector will bring to new energy industries at home and overseas – it is itself an exportable capability.

### **A fragile supply chain**

Between 2015-19, UK OFS exports averaged almost £11.5bn (\$15.6bn) per year, which we estimate represents 1.55% of international spend (market share). If this market share remains constant, then UK OFS export revenue between 2021-25 could be some £60bn (\$77bn) in total – or £12bn per year.

The removal of export support could damage the competitiveness of Scottish exports at a time when international competition is increasing due to current market conditions.

Furthermore, our sector is being challenged by the “triple whammy” of COVID-19, and the dramatic crash in oil and gas prices. Our supply chain is particularly fragile given that as an industry we were just coming out of the previous downturn.

Thousands of jobs are likely to have been lost as a result of constrained operations and the £3bn of capital investment deferred from company plans in 2020 and 2021. The effects have been felt sharply in all parts of the sector and particularly severely in the supply chain. This is a challenging time for many in the oil and gas industry, with unemployment rates increasing, especially in regional hubs such as the north east of Scotland.

Scotland will need the expertise and capability of its domestic oil and gas supply chain to underpin the new industries of CCS and hydrogen to achieve its ambitious net zero targets, while protecting security of energy supply until such a time as oil and gas is no longer required (predicted to be after 2050). While recognising and supporting the Scottish Government's desire to promote the energy transition, we believe this needs careful management so as any policy shift towards overseas support does not irreparably damage the domestic supply chain.

### **Universities and skills**

Our universities are world-leading and attract talent from around the globe to study oil and gas and increasingly energy transition related degrees, often supported by government trade missions. We are concerned that withdrawing this support could undermine our universities' ability to attract international students on a sustained basis.

We also note the potential impact on our skilled workforce, itself an export of which Scotland should be very proud. We have highly skilled workers who study, train and develop on the UK Continental Shelf (UKCS) before

moving on to other international oil and gas hubs. One significant oil and gas services company, started in Scotland in the 1980s, now has an engineering and manufacturing management presence in over 25 cities across the world.

## Case studies

### **Oil and gas supply chain companies are already delivering world class decarbonisation technologies.**

Examples include **Wood** who has successfully broadened its business from a traditional oilfield services provider into an engineering and consultancy company operating across energy and the built environment. Wood is involved in over 30GW of solar projects and has supported 20 per cent of the total installed global wind capacity. Wood continues to offer world-class decarbonisation capabilities completing more than 130 CCS studies in the last 30 years and retains a market-leading position in hydrogen having installed over 120 hydrogen units globally. Wood have achieved this whilst continuing to support the oil and gas sector supporting the UK's energy needs.

**Ecosse IP** is a technology-based solutions company that has developed lifting technologies initially for the oil and gas sector but now being utilised in floating wind and salvage industries illustrating the important, transferable skills of the sector at all levels.

**Petrofac**, a global services company, also continue to demonstrate the relevance and transferability of these skills on the Acorn Project – Scotland's ambitious CCS and hydrogen programmes – where it is supporting the project team to establish the same best-practice project management and reporting tools that would be deployed on any major CAPEX project. Petrofac's support role on Acorn is one in a recent succession of exciting projects that demonstrate an active expansion of the group's new and renewable energy portfolio, which focuses on offshore wind, CCS, hydrogen and solar.

**Robert Gordon University (RGU)** is a leading Scottish University attracting talent from around the globe to study oil and gas as well as other energy sector focussed degrees e.g. MSc Solar Energy Systems and MBA Sustainability and Energy Transitions. The University also provides research and analysis as well as training and education programmes for governments and businesses in other oil and gas producing countries. Support provided by SDI assists RGU in making connections and attracting international business.

**Baker Hughes** has a broad, integrated suite of CCUS solutions and a decades-long track record in hydrogen. Its CCUS services include pre-FEED and FEED consultation and project design; capture and purification; fit-for-purpose CO2 compression technology; well design and construction for storage; and integrity, monitoring, and site stewardship services. Baker Hughes works on some of the largest offshore CCUS projects in the world, including the Snøhvit CCUS project in the North Sea and the Gorgon CCUS project in Australia, and more than two dozen CO2 sequestration projects onshore for enhanced oil recovery, power and industrial CCUS applications. One hundred and eighty Baker Hughes CO2 processing/compression systems are installed worldwide. In addition, Baker Hughes is investing in breakthrough technology to make carbon capture more flexible in lower cost, acquiring a CCUS start-up called Compact Carbon Capture in 2020 to incubate a significantly smaller, modular and less expensive capture process for offshore and industrial applications. Baker Hughes has provided hydrogen solutions since the 1960s. More than 2000 Baker Hughes hydrogen compressors are in service today, and Baker Hughes recently tested the world's first hydrogen blend turbine for gas networks. This work paves the way to implement the adoption of hydrogen blended with natural gas into current infrastructure, though our turbines have the capacity to burn up to 100% hydrogen.