

THE OIL AND GAS INDUSTRY
CONFERENCE

14 – 15 June 2016

Aberdeen Exhibition and Conference Centre

The UK Oil and Gas Industry – Open For Business



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Tuesday 14 June

Good morning everyone, and a very warm welcome to the Oil & Gas UK Conference 2016: *'UKCS - Open for Business'*.

We have over 450 people attending this conference - so a big thank you to all our members and to the many others who have come today: it's great to see you all.

We have a thoughtful agenda for you, with excellent speakers whom we hope you find insightful, stimulating and encouraging.

It's our aim that you leave our conference confident that as an industry, we are focused on the right areas, motivated to stay the course, and content that your money has been well spent!

To get us off to a really positive start, I am delighted that Keith Brown, the recently appointed (Scottish) Cabinet Secretary for the Economy, Jobs and Fair Work joins us this morning - along with Stephen Halliday from Wood Mackenzie and Nora Senior of the British Chambers of Commerce.

I very much look forward to introducing them to you in a few minutes.

We also have a short video with some key messages from Damian Hinds, the Exchequer Secretary to the Treasury, which we will share at the close of this session.

But let me, before I continue with some comments; thank our principle sponsor, PWC, for making this important event possible.

PWC has just published its latest report: '*A Sea Change –the future of North Sea oil and gas*' which has some hard hitting messages for our industry. However I hope you will agree, as you go through the next day and a half, that industry is already showing strong leadership and taking some ground breaking steps towards transitional change.

My thanks also to ABB our other key sponsor. Your support is very much appreciated.

Last week, we confirmed the latest fall in employment numbers - which certainly serve to reinforce the fact that this industry continues to go through really challenging times.

We estimate that by the end of 2016, employment will have reduced by 27%.

The number of jobs this industry supports will have fallen from its peak of 450,000 in 2014 to around 330,000.

Tough numbers, but **no surprise** given the fundamental drop in investment and activity levels:

- New investment has fallen to £1bn this year – only an 1/8th of the average over the last 5 years and insufficient to sustain current rates of production;
- Exploration and appraisal has all but stopped with only 13-19 wells expected to be drilled this year while development drilling is under significant pressure too.

And even though the oil price continues to edge up, we need it to rise further and remain there for a sustained period - to allow balance sheets to recover and build confidence and investment that will stimulate new activity.

Despite all this, we continue to be an industry that demonstrates resilience, determination and endurance, time after time after time.

Why is this? – Why, after all these years – and all the downturns that have previously challenged us?

Well, I believe it's because we all take pride in what we have achieved as an industry:

- The billions of barrels recovered to date and the contribution to the country's security of energy supply;
- The hundreds of billions of pounds of investment that has boosted our country's economy for over four decades;
- A supply chain with a world class reputation for innovation and quality
- The hundreds of thousands of skilled jobs that we continue to support;
- And the truly awe-inspiring engineering and technological advances we deliver.

We know we are an industrial success story.

We also know that there is more for us to do - and more for us to deliver.

It is this conviction that has kept us and will continue to keep us committed and focused.

This commitment has enabled us to react like few other sectors could have over the last 18 months when you think of the challenges that we have had to deal with.

Knowing that we can't control the oil price, we have shown leadership and focused our energies on areas we can influence...

...Improving our efficiency levels and reducing our cost base has seen us increase production and reduce our UOC by an incredible 40%;

Recognising that competition is outside this basin, has spurred us all on to deliver to levels I don't think we would have considered possible 18 months ago.

We are pleased with the progress that Oil & Gas UK's Efficiency Task Force is making.

Companies are sharing their good practices so that others can learn and working together to deliver positive outcomes...

When I stood here last year – I had only a couple of stories I could talk about – there are now over fifty great examples on our website of innovative thinking.

Such as Halliburton and their vending machine for items like PPE, tape and glue - rather than having to walk to the warehouse every time- these everyday items are easily and quickly available but still in a controlled and verifiable way.

Proserv - who encouraged the operator they were working with to be an early adopter for new water abrasive technology to safely improve the speed of plugging and abandoning wells – by 25%

BP - who worked with their contractors holding continuous improvement workshops to consider how best they could all work together to improve their pipeline painting schedule –safely and efficient reducing time taken by 40%

And Petrofac, Faeroe Petroleum and ENI who have been sharing logistics and accommodation – safely improving the efficiency of their operations overall.

We are seeing companies working together by their own efforts or through the task force on key projects such as inventory management and the standardization of subsea projects and you will hear more about all of these during the conference.

Encouraging early adopters and co-operation to improve competitiveness have been the buttons we have pressed to help unlock these areas. This is transformation in practice.

Who would have considered that possible 18 months ago?

Other things – in the past – have also felt out of our control...

We have long memories in this industry – and not always good ones - especially when it comes to Taxation

However, we appreciate the fresh approach and the willingness of the current Treasury players to support the industry and to listen to evidence-based proposals.

As a result, we have worked constructively with the HMT team, as well as the OGA, to deliver changes which, when coupled with the reductions in our cost base, make this basin one of the most fiscally competitive in the world.

Who would have considered that possible 18 months ago?

What other industry would have asked for more regulation – or better put – for a well-resourced and prioritized Authority who can strengthen the industry through regulation, challenge and support?

We did. And the Oil & Gas Authority is now up and running – prioritized and focused, encouraging collaborative behaviours, improving the licensing regime, supporting asset stewardship, gaining traction and making progress.

Who would have considered that possible 18 months ago?

And when it comes to people and safety, as an industry we do indeed have a strong safety culture and we have continued to ensure safe operations are at the heart of what we do.

However, we know that morale across the industry is very low and a real concern.

And so while we have made every effort to ensure we are a competitive basin that attracts investment and sustains jobs, we have also embraced the support of the Scottish Enterprise Energy Jobs task force and East Anglia's similar initiative - as well as additional help from the UK and Scottish governments to support our colleagues during these difficult times.

We know that our workforce engagement needs to improve and we are working more closely than ever with the Unions to understand the issues that matter to our people so we can resolve them together.

Who would have considered that possible 18 months ago?

We are very much an industry in action.

We are taking control.

It's important that we stay the course in each of these areas – improving cost & efficiency, ensuring a competitive fiscal regime, enabling appropriate regulation, sustaining safe operations and taking our people with us.

Because everyone that is involved in this industry - from Shetland to Southampton, on and offshore, are key to ensuring this industry manages its way through this downturn.

However there is one further intervention that we need a call to action on...and we all need to contribute where we can

...Short term activity stimulation for exploration and the development of new opportunities

Maximizing economic recovery means we need to recover more of what we have already found as well as find more

We need to kick-start activity in these vital areas to keep the hopper replenished and future production flowing strong.

Stimulating activity here is key to providing some immediate relief and support to the supply chain.

If we don't do something urgently, the current hiatus in exploration and appraisal that I referred to earlier, will become the norm, with the basin focusing mainly on production and decommissioning.

Our world class supply chain will disperse and relocate – as businesses take their focus elsewhere.

Oil & Gas UK is currently working closely with the Treasury and the Oil and Gas Authority looking to see what form such an intervention could take - and hope to make tangible and near term progress.

Ideas and support from across the industry are welcome as we all have a role to play.

As well as staying the course on the interventions we have made, we also need to look to the future...

As John F Kennedy once said: "change is the law of life" - adding that those who look only to the past or present are certain to miss the future...

...We owe it to ourselves and the next generation – some of whom are with us today from a variety of universities and they are very welcome.

We need to have a compelling and substantive picture of what we want the future to look like and then work towards it.

A picture of our industry that is meaningful in terms of the investment, production and jobs levels it supports, and clear about the Centres of Excellence we want and need to develop.

A vision that can ensure this industry has an enduring future - where the UK will be home to a leading global energy industry, powering the nation and exporting to the world.

This needs to be a vision shared by all our stakeholders and we are already working with the OGA who also have a passion for this and together we look forward to engaging more broadly as we develop this further.

Who would have thought, as we reflect on these challenging times, that we would now be coming together to focus on an enduring future?

Well, actually, I think probably many of us...

Because Ladies & Gentlemen as I said – we are indeed a resilient and determined industry with an instinct to survive like no other.

And this is why the UK Continental Shelf continues to be open for business!