

Oil & Gas UK Conference, Wednesday 15 June

Introduction

Good morning and thank you Deirdre for that kind introduction.

And congratulations on recently completing your first year in the job...

...you've done excellent work in representing the UK Oil and Gas industry ...

...and I, for one, have been hugely grateful for your efforts over the last year.

To state the obvious - your first 12 months have been anything but easy.

123,000 fewer people working in offshore oil and gas than two years ago speak to the human cost of the challenges currently facing the industry.

The challenges of coping with a significant and sustained fall in global oil prices.

A fall that has brought into even sharper focus the demands of operating in a mature basin...

...how to maximise recovery in a cost-effective way...

...how to decommission efficiently while capitalising on the opportunities it brings...

...and looking further ahead - how to build a sustainable, long-term future for the local supply chain and workforce in a post-North Sea environment.

Together, these challenges could - for a lesser industry - sometimes appear overwhelming.

But I know that your industry is made of sterner stuff.

Time and again you have shown a capacity to rise to the challenges confronting you.

Indeed the very existence and success of the UK's North Sea Oil and Gas industry is a triumph of ingenuity and resourcefulness over adversity.

From driving piles through boulder clay...

...to operating from platforms in the stormiest of seas and harshest of weather conditions...

...indeed it is no exaggeration to say that the achievement of extracting oil from the UK Continental Shelf is equivalent in technical terms to putting man on the moon.

And yet the early pioneers of the industry made it work.

In his superb book, "A History of Modern Britain", Andrew Marr describes the creation of the UK offshore industry as...

..."a modern epic of technical skill, bold finance, endurance and individual courage".

That epic is still being written...

...the North Sea has been the hatching ground for pioneering developments ...

...in areas as diverse as tension leg platforms, seismic mapping and risk assessment.

I have no doubt that a continuing spirit of innovation and collaboration will help you to overcome the current challenges.

And my very clear message to you today is this...

...you do not stand alone...

...you have the total commitment of the UK Government...

...for whom the future of oil and gas in the Britain is a top priority...

...the practical support of the Oil and Gas Authority and the Treasury...

...and the active engagement of the Scottish Government.

I can well imagine that it must often seem as if attention is focused elsewhere

A Scottish independence referendum...

...a UK General Election...

...Scottish Government elections...

...and next week the EU Referendum.

At times - particularly here in Scotland - it must have felt like one long political campaign.

However amidst all the sound and fury, we've been working hard to ensure you have the help you need...

...to weather the current storm...

...and to build a strong base for a long-term future.

So this morning I want to set out some of the results of this work...

...and explain how the UK Government...

...working in partnership with other public bodies and industry...

...will support the Oil and Gas sector and the people who work within it...

...both today and in the coming decades.

...maximising the remaining potential of the North Sea.

...exporting the skills and experience acquired in the North Sea to new markets...

...broadening the base of the North East of Scotland economy...

...all the key elements of building that bridge to the future.

Maximising Economic Recovery

Some have argued that the North Sea doesn't have much of a future...

...that oil and gas reserves have almost dried up.

We know this simply isn't the case.

The UK Continental Shelf is open for business and remains a hugely important asset for this country.

With potentially up to 20 billion barrels remaining...

...we will still be producing oil for decades to come.

However as the oil becomes more difficult and costly to extract new approaches are required.

I've seen first hand on my visits to companies here in the North East - Enquest, Bibby, Chevron and many more - the creative thinking that is being applied to improve the economics of operating in the North Sea.

While it's crucial that the sector seeks its own solutions, we see this very much as a team effort.

As a Government we know that there is much we can do to support additional extraction.

It's why we accepted the wise advice of Sir Ian Wood and created the Oil and Gas Authority.

And it's why we moved quickly to legislate last year...

...to make sure that this organisation has the powers it needs to maximise the potential of the UK Continental Shelf's resources...

...Working in partnership with industry.

The Energy Act became law in May...

Formally establishing the OGA as an independent regulator

...with powers to gather the information it needs...

...and the teeth where necessary to impose sanctions.

Everything I've seen and heard suggests that the OGA has hit the ground running and quickly established the respect and confidence of industry...

...and I particularly want to pay tribute to Andy Samuel and his team for the work they do.

But for this strategy to work in the long run...

...there must be financial incentives for operators to take on the challenges of acquiring increasingly hard-to-reach assets in the short run.

Greater efficiency will play a key part in this.

And industry has already made real progress in this area...

...with unit operating costs in the UK falling from \$30 to just over \$17 between 2015 and 2016.

However the Government recognises that the protracted low oil prices mean many businesses are still struggling.

That's why in the last two years the Chancellor has provided an extensive package of tax breaks worth £2.3 billion to the oil and gas industry...

...including effectively abolishing Petroleum Revenue Tax and halving the Supplementary Charge from 20% to 10%.

These changes are not just important in themselves...

...they are an important signal of the Government's continuing commitment...

...and, as such, crucial to improving sentiment around the North Sea.

Net revenues to the UK Government from the oil and gas sector fell to minus £24 million last year.

But the broad shoulders of the UK will bear the costs because we know that this is a price worth paying for a sector that remains a key part of our economy...

...that continues to employ many thousands of people in Scotland and the UK...

...and that has the potential to provide jobs and growth for many years to come.

And I know that constructive discussions are continuing between the UK Government and industry, including through the fiscal forum, to make sure the existing tax regime is fit for purpose...

We will relentlessly pursue other opportunities to ensure the industry has the support it needs...

... Because we, just like you, are in the business of seizing opportunities and making them work.

Exporting Expertise

Our focus though is not just about supporting offshore operations here and now.

It's also about supporting the oil and gas supply chain that has grown up to service the North Sea...

...but for whom a sustainable, long-term future will increasingly mean exporting to new overseas markets the expertise forged here in the North Sea.

This supply chain now accounts for a significant proportion of the UK economy with turnover at an estimated £30 to 40 billion and exports of £16 billion.

To put these numbers into perspective, the automobile industry contributes around £15 billion to the UK economy.

Marine and subsea alone are worth roughly £20 billion worldwide and the UK accounts for almost half of that....

...Making this a sector in which we are undoubtedly world leaders.

Industry experts know that the North Sea is a marker.

The difficulties created by the rough conditions offshore in the UK mean that if you can do it here...

...you can do it anywhere.

This has enabled the sector to win an unparalleled reputation for excellence in offshore.

We need to build on this.

This means helping firms based here in the UK to tap into new markets abroad.

The UK Government is playing a vital role in this.

Just two weeks ago the Secretary of State for Scotland was in Texas to promote the skills, expertise and innovation of North Sea Oil and Gas.

There he met key players from the industry, setting out what the UK can offer.

In February he was in Mozambique, a country that has the potential to be one of the world's largest producers of gas within a decade.

There, he joined forces with officers from Aberdeen City Council to drive forward closer relationships between Aberdeen and Pemba.

This partnership will use Aberdeen's experience to inform Pemba's development into an oil and gas hub.

By doing so it will open up opportunities in consulting, supply chain, logistics and training for British companies, particularly those based in Scotland.

Through UK Trade and Investment and initiatives such as the GREAT Campaign...

...the UK Government is working hard to build the links to ensure that when specialist expertise is needed, it is British businesses who receive the first calls.

And to emphasise the importance of oil and gas...

...we will soon be announcing an ambassador for the sector...

...who will have the specific remit of helping to open overseas markets for UK businesses.

A long-term future for the oil and gas sector

Boosting our exports further is the first step towards securing a long-term future for the oil and gas industry in the UK.

But we need to do more.

We need to anchor the sector in the UK, particularly here in the North East of Scotland.

The UK offers significant advantages to companies based here...

...including the lowest corporate tax regime in the G20.

We need to make sure that the North East remains a hub for the high-tech companies...

...who provide the offshore supply chain expertise that will continue to be in demand across the globe for many years to come.

In his role as chair of One North East, Sir Ian Wood has talked about establishing the North East of Scotland as...

...“a global centre of knowledge and excellence in offshore mature basin technology and decommissioning”.

We support that vision.

That’s why the UK Government is supporting the creation of an Oil and Gas Technology Centre right here in this city as part of the Aberdeen City Deal.

And it’s why we’ll soon be publishing an oil and gas workforce plan.

This will build on the work that has already been done by the Scottish Government and Local Enterprise Partnerships in England to align the skills that risk being lost from the North Sea...

...with the skills required in closely related sectors.

If we take the right steps now...

...we can do much to guarantee the future of the Oil and Gas industry in the UK beyond the next 20-30 years.

Diversification

We can't escape however the fact that oil and gas in the UK Continental Shelf is ultimately a finite resource.

The effect of the fall in oil prices on regional economies...

...particularly here in Aberdeen...

...but also across Scotland's onshore economy...

...has brought into sharp relief the potential consequences of a loss of oil revenue.

In planning for the future we must make sure that those areas most dependent on oil and gas...

...are in a position to diversify...

...to add - if you like - a few more strings to their bow...

...to continue to thrive without the revenues the North Sea currently provides.

I mentioned earlier that David Mundell recently visited Texas.

In Houston he found civic leaders upbeat about their prospects despite the fall in oil prices...

...because they successfully diversified early into other industries...

...so haven't been hit so hard.

We can learn from this.

And the Aberdeen City Deal can be a catalyst for creating a more diverse economy here in the North East.

In addition to the money pledged for an Oil and Gas Technology Centre...

...the UK Government has also committed funding to support the development of the region's growing pharmaceutical and agri-food industries.

We have also dedicated funds to support the expansion of Aberdeen Harbour.

We will increase investment in digital infrastructure, which will address the connectivity challenges of the whole region.

And we're not doing this alone.

The Scottish Government has a key role to play in supporting the development of Aberdeen - city and shire - as a thriving economic hub.

We're committed to working with the Scottish Government - which has extensive devolved powers now the Scotland Act is law - to deliver for the North East.

The two governments are contributing £250 million to the deal...

...£125 million from the UK Government...

...and £125 million from the Scottish Government...

...designed to leverage a further £500 million from the local authorities and £775 million from private sector investment.

All three tiers of Government have oil and gas at the top of their list of priorities and all three can bring different solutions to the challenges of diversification.

Yes, we have our political differences...

...but in the work that has been done so far...

...I've been impressed by the willingness of all parties to put these to one side for the good of the sector and those it employs.

Conclusion

I hope that today I've made clear the importance that the UK Government attaches to the Oil and Gas industry and the long-term future of the economies it supports.

We recognise the problems you are facing, both short term and long term, and we are determined to help you to address them.

We have introduced fiscal mechanisms to help you through the tough times created by the oil price downturn.

We have put in place measures, through the Oil and Gas Authority, to maximise extraction of existing reserves.

We have increased our help for supply chain industries by supporting steps to anchor expertise in the North East of Scotland and boost exports.

And we are working with the Scottish Government and local partners to help the North East to diversify its economy in the long term.

Each is a key pillar in the bridge we are building to the future.

The volatility in oil prices has made us acutely aware of the challenges faced by the oil and gas industry, to both Scotland and the UK as a whole.

I am confident that the sector will get through these turbulent times.

But it has been a wake-up call to us all

Because our purpose is to create a lasting legacy for an industry that has already made an indelible mark on the UK and this part of Scotland.

A future for offshore oil and gas in the UK that has many years to run.

A growing and sustainable economy here in the North East of Scotland.

That is the prize.

And now we all need to work hard together to earn it.

Thank you.