

Operators and Contractors – Joining Forces to Secure the Future

a report by

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April this year saw an exciting development for the UK offshore oil and gas industry. The companies in the UK's oil and gas supply chain stood alongside the operators and formed Oil & Gas UK, a single trade organisation capable of speaking on behalf of the whole industry.

This new organisation builds on the considerable industry representation experience developed over more than 30 years through the UK Offshore Operators' Association (UKOOA) and, since 2000, the Industry Leadership Team (ILT) in PILOT, which recently paved the way by bringing operators and contractors together in a regular industry forum. Oil & Gas UK is a powerful new voice for the industry, uniting operators and contractors in a common purpose: to take forward the business case for a safe, sustainable and profitable future for our industry.

There are several reasons why forming this pan-industry trade association is a logical move. In representing contractors as well as operators, Oil & Gas UK can draw attention to part of the oil and gas sector whose contribution traditionally has not been well-appreciated. The UK's rich endowment of oil and gas has secured this country a source of primary energy for four decades. Oil and gas extraction and associated activities currently support employment for almost half a million people. Since exploration began on the UK continental shelf (UKCS) in the 1960s, a total of £370 billion has been injected into the economy to find, develop and produce oil and gas reserves, and the Treasury has collected another £230 billion over the same period. Some 36 billion barrels of oil and gas have been produced, and up to an estimated 25 billion barrels remain to be recovered. The key to unlocking these benefits has been the technology and expertise provided by the UK's oil and gas supply chain.

The industry's engineering excellence has not only achieved great things in the North Sea, but has also made the UK a centre of global excellence in terms of offshore and subsea engineering. The innovative, world-class supply chain that has grown up learning lessons on the UKCS is today transferring its technology and expertise to provinces around the world, benefiting the UK's balance of trade to the tune of £4 billion a year. This is a tremendous

achievement and Oil & Gas UK is now in a better position to act as advocate for what is a very important part of the sector and to win it the acknowledgement the industry deserves.

As we move into a mature era in the North Sea, our conversations with Government will be crucial to our success in maximising the benefits from our indigenous resources in the UKCS. It is therefore essential that the industry speaks with a single voice on the key issues that affect it, presenting a clear and consistent message.

As a single pan-industry organisation, Oil & Gas UK is already actively engaged with Government in arguing the case for a fiscal regime that is appropriate for the next, mature phase of the province's development. If UKCS competitiveness is to be maintained in an

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environment of rising costs, falling discovery sizes and lower gas prices, there is an urgent need to reduce the tax burden on new developments and to resolve uncertainty around the taxation of older fields.

Another area of concern is regulation surrounding decommissioning activities. If new players are to be encouraged to invest in the UKCS, asset trading needs to be made swifter and less costly. The industry therefore needs the Government to provide certainty on the availability of decommissioning tax relief and enable securitisation to be provided on a post-tax basis. In September, Oil & Gas UK launched the Decommissioning Cost Provision Deed (DCPD), the new industry standard agreement for use by joint venture partners in UK offshore oil and gas assets to ensure appropriate provisions are in place to cover each company's share of future decommissioning costs. The industry welcomes the Government's commitment to encouraging its use and monitoring its effectiveness.

The industry has set the scene for real change by uniting in a new organisation, enabling a clear and consistent message to be presented to Government. Now, it is time for the next steps – the regulatory and fiscal reform that will ensure the UK continues to reap the economic and social rewards of its oil and gas industry, not just in terms of indigenous UK production of oil and gas, but also through the growth of the world-class UK supply chain operating both in this country and abroad. ■



Malcolm Webb is the Chief Executive of Oil & Gas UK. Prior to joining Oil & Gas UK – at the time called United Kingdom Offshore Operators Association (UKOOA) – in February 2004, he spent three years as Director General of the UK Petroleum Industry Association (UKPIA) representing the UK oil-refining and marketing sector. Since joining Oil & Gas UK, he has led the organisation through two major change programmes, enabling it to become the leading trade association for the UK

offshore oil and gas industry. Mr Webb is a member of PILOT and Chairman of the Offshore Petroleum Industry Training Organization (OPITO), the UK oil and gas industry's skills body, and of Common Data Access Limited.