

Industrial Strategy: government and industry in partnership



# UK Government Oil and Gas Sector Strategy

A Call for Industry's Views

December 2012

## Overview on Industrial Strategy

As part of its industrial strategy, the Secretary of State for Business, Innovation and Skills (BIS) announced that there will be, initially, ten sector strategies, of which oil and gas would be one. Industry's input is essential as BIS and the Department of Energy and Climate Change (DECC) develop this work in partnership with Oil & Gas UK.

Sector Strategies will be co-developed and implemented with industry to be durable and will:

- Be long-term in focus: developing a vision for the sector and what needs to happen from both government and business to get there.
- Be co-created with industry: committing both business and government to specific actions to maintain and develop long-term capabilities.
- Take a whole of government approach: looking across all of Government to identify barriers and levers which have the biggest impacts and align these to deliver growth.
- Engage across the totality of the sector: working with industry and identifying actions which benefit business across the whole supply chain whether they are large, medium or small.

Publication is expected in late March 2013.

## Oil & Gas

The value of the sector to the UK economy should not be underestimated. It currently provides just under half (49%) of the UK's total primary energy. Around 440,000 people are employed directly or indirectly by the sector. The production of oil and gas boosted the balance of payments by some £40 billion and the supply chain added another £6 billion in exports of goods and services.

The oil and gas sector strategy will look at how the UK can fully exploit growth opportunities for the wider economy through industry and government working more closely together. As a sector with further significant growth potential, both at home and abroad, the strategy will promote the impact of the oil and gas supply chain to the UK economy, building on the experience gained from more than four decades of North Sea experience. The strategy will encourage the sector to increase its penetration of the global oil and gas market and extend its capabilities to the benefit of related energy sectors. All this comes with the recognition that strong Exploration and Production activity on the UK Continental Shelf UK is a pre-requisite to sustain the competitive advantage of this sector.

The strategy will be action oriented, with explicit and specific pledges from government and business on what can be done to deliver the strategy. The strategy will include a full analysis of the sector including strengths, weaknesses and opportunities. It will focus on the upstream (exploration and production) side of the sector.

## Key areas of focus

The strategy is likely to focus on the following areas:

### ***a) Maintaining and improving the Supply Chain***

The strategy will look at what the UK can do to maintain and increase a strong supply chain in the UK. It will examine where the UK performs well globally and in which areas less well. The strategy will look at whether the supply chain code of practice and FPAL is set up to provide a sustainable base for the future development of the sector and identify links to other sectors. The strategy will deliver a long term analysis of the UKCS' supply chain. In addition to the industry databases forward work plan and project pathfinder, it will include actions that government and industry can take to improve the UK based supply chain.

#### *Questions*

- What are the areas where the UK oil and gas supply chain excels?
- Who are the major international competitors to the UK?
- What factors are restraining the development of the UK supply chain?
- Are there any areas where the UK industry is losing out to lower cost solutions elsewhere?
- How can we improve confidence and visibility of the supply chain in the UK?
- Where are the synergies with other sectors?
- What could government do to provide more information and support to the industry and in particular your sector?

### ***b) Exploiting international opportunities***

The sector has global revenues of \$4.3 trillion in 2011 (5% of global GDP) and UK businesses compete throughout the supply chain across the world. This work is led within Government by UK Trade and Investment (UKTI). Through UKTI, the strategy will look at whether developments in the UKCS are giving businesses a head start in overseas markets and which markets in particular. The strategy will form the basis of

a long term offer of support to industry. It will set out the major markets which UKTI and the industry should jointly target and the approaches which can generate business success. In addition the strategy will consider how to increase inward investment opportunities.

#### *Questions*

- What are the barriers to companies exploiting overseas opportunities?
- What more could government do to support the sector in this area?
- What markets should UK based supply chain companies focus on?

### **c) New Sectors**

A great deal of innovation already exists in the sector which is of relevance to emerging sectors in the global energy market e.g. skills and technology. This is often transferred to other sectors. As well as looking at how oil and gas expertise is helping the wider economy, the strategy will look specifically at new areas of work which may provide synergies and opportunities such as unconventional oil and gas, offshore wind and carbon capture & storage.

#### *Questions*

- What are the sectors which have synergies with the oil and gas supply chain?
- What can the sector teach such emerging market opportunities?
- What can government and industry do to promote knowledge transfer to new sectors?

### **d) Technology development and transfer**

As oil and gas in the UKCS becomes more challenging to produce the use of technology becomes even more important. The strategy will build on the work of PILOT (the joint government and UK oil and gas industry programme) and look at how government and industry can work together to ensure maximum recovery of hydrocarbons through new technologies. It will look at whether we can reduce the average time taken from proof of concept to market penetration in the UKCS and look at how additional reserves and recovery rates can be increased through the application of new techniques.

#### *Questions:*

- How can industry and government promote collaboration for example on drilling rigs, intervention vessels, frac boats, spare management and infrastructure ullage to share the risks and benefits, keep costs down and exploration activity up?

- What specifically can industry and government do to incentivise the development and implementation of new technology?
- How can industry share best practice e.g. in key technology areas (identification and delineation of additional reserves, enhanced oil recovery – particularly drainage and waterflood?)
- Are there other technology areas that will both boost UKCS exploration success and/or production with export potential?
- How can we encourage companies to take up HMRC credits for technology development?

The strategy will also look at access to capital and procurement.

### **e) Skills**

Skills continue to be a major issue for a number of sectors, including the oil and gas sector. Shortages are reported in project management, senior managerial and specialist engineering positions. The PILOT workforce resources group has been working closely with OPITO (the Oil and Gas skills body) and is focusing on three key areas:

- (i) Creating an industry gateway – a one stop shop for careers information and vacancies in the industry.
- (ii) How we encourage the broadening and increase in apprenticeships.
- (iii) Working with the Ministry of Defence to recruit ex military with the right skills into the sector.

### *Questions*

- How can industry work together to retain experienced mid-career engineers and retrain those looking for career changes from other industries for the benefit of the whole sector?
- How can we ensure we use the expertise and skill of the Oil and Gas Industry in building offshore wind, wave, tidal power and in making Carbon Capture and Storage a reality?
- What additional steps can government and industry take to address the skill gaps?

### ***f) Perception and promotion of the industry***

A softer, but still fundamental, issue is how the industry is perceived. This has a direct impact on attracting talent to the sector. The government will work closely with industry to identify what can be done to raise the profile of this key sector.

#### *Questions*

- What additional steps can government and industry take to promote the sector?

**Industries' views are very much welcomed particularly through January 2013 and can be fed in to either:**

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