



OFFSHORE COORDINATING GROUP

The crisis behind the crisis

Wednesday 22 April 2020

The OCG position on the offshore energy crisis

We are extremely concerned that, whilst there is without question a need to deal with the ongoing impact of the pandemic, the fact that the sector is in meltdown appears to be of little consequence? Currently there are 17 mobile drilling units (MODU's) in the Cromarty Firth, 5 sitting in Dundee and a couple in the Firth of Forth while others are heading for Norwegian, Dutch and Spanish ports. What we already know is that drilling contractors Valaris, Borr, Archer, KCA, Noble, Diamond and Transocean are all looking at redundancies. This accounts for something like 1,000 plus workers and it's almost certain other drilling contractors will be forced to go the same way. With those drillers go the well service companies, drilling fluids, wire line, tubulars, and a whole host of other supply chain companies. Most if not all of these have only recently started working again after the worst downturn in a generation and now they face being dumped, again!

In addition to this we are seeing significant numbers of engineering contractors preparing to make redundancies across the sector as the operators simply stop all activity. The count has just started with these, but already we are looking at several hundred and that number goes up each day. Our conservative estimates suggest we could be looking at upwards of 3,500 workers displaced by September 2020 and most of the drilling sector workers have been told it will be 2022 before there is any upturn in activity. Similarly the Subsea sector is seeing contracts ended and vessels are already being tied up.

We question whether the industry can be sustained with these dramatic fluctuations in activity driven by the major oil companies pulling the plug the moment things get tough. As a nation exploiting the remaining oil and gas reserves from a mature basin we cannot treat a highly skilled workforce as if it were a tap that can be turned on and off as and when needed. Neither can we hope to retain and develop the skills needed to achieve the much talked about 'Just transition' from oil and gas to renewables. There must be Government intervention now to halt this carnage. The Government Job Retention Scheme (Furlough) is very welcome and the principle of the Scheme is relatively sound. However it is a short term solution to provide protection against the current pandemic crisis. There is little expectation that a lifting of restrictions will cause a substantial recovery in oil and gas prices therefore we believe a more substantial medium term intervention is required. Fundamentally we believe that the best way to invest tax payers' future contributions is exactly that, to "invest" them and not simply use this money as an alternative to welfare state provisions. We are of the opinion that the supply chain is aligned across industry; aligned in the belief that unless we do something different then this downturn will certainly outlast any Government sponsored furlough scheme, but critically it will outlast many of the employers in the supply chain.

It is our belief that to enable us to sustain our industry in Scotland and the UK we need to think differently, as simply bunkering down and doing the same old things as before is not going to work. The supply chain cannot sustain any further cuts. The economy should not tolerate a business which cannot/will not adapt/learn. We see it as vital that we get the Government to invest in projects, not as operating partners but as equity partners, providing low cost loans to Operators. These loans could be based on project economics, i.e. the projects that were on the books for 2020/21 were based on an oil price of X\$ while the oil price is now at Y\$; therefore the Government could bridge the gap with an investment, rather than paying benefits through furlough and subsequently Universal Credit. Keep workers working, keep the economy going and growing. When oil prices are where they need to be for the project to be economical, the Government would take a return in proportion to the investment made.

We've heard a lot about a National Investment Bank and with the onset of the Covid-19 we have seen just how quickly the finances can be found to deal with a crisis. The offshore industry is in a crisis right now, an industrial crisis, which is hidden from view because of the health crisis. The health crisis will be resolved, but what is unfolding with the industry could cause irreparable damage in terms of government aspirations to exploit remaining resources and achieve the transition. Not only that, it will cause untold damage to the economy.

If the Government was prepared to pull the licences from those who are not prepared to take part in such a scheme we could quickly establish those committed to the sector and give the licences to those who will. Furthermore, Companies working in the sector should support the Fair Work agenda and commit to collective engagement with appropriate Trade Unions for collective bargaining purposes, as is the case on other continental shelves within the North Sea. This approach would allow the Supply Chain to keep working, we could keep training, we could continue to develop new talent and keep paying taxes to HMRC. We might have a chance of achieving a Just Transition and our climate change goals. The alternative is the Furlough scheme and welfare state that delivers nothing and further burdens the exchequer through loss of tax revenues whilst making the Vision 2035 objectives unsustainable. There are numerous models around the world where wells are drilled and capped during downturns until needed. The Middle Eastern National Oil Companies routinely build well stocks to enable them to flatten production curves, i.e. as one well declines they always have another to bring online. This is a longer term investment strategy than is traditional in the UK, but our market has now fundamentally changed, our economy is fundamentally changing and therefore it is time for a fundamental change in our industry, changes in how it is funded and how it is regulated.

In addition to the extensive supply chain to the offshore industry another substantial drop off in work has consequences within aviation. The helicopter operators are already running on extremely tight margins with several companies filing chapter 11 notices over the last year. A further reduction in offshore work is likely to lead to significant onshore losses amongst the support companies with skilled roles likely lost permanently overseas into other markets.

A contraction also risks national infrastructure assets. Sullom Voe is already in trouble following the loss of a contract to Sumburgh. Aberdeen Airport struggled significantly in the last downturn a reduction in flights would once again place the airport in a precarious position. Last time they recovered by attracting further passenger flights. This time the whole aviation industry expects that the current crisis will reduce passenger travel for the rest of the year with some predicting pre-crisis levels will never return. A reduction in offshore traffic would also have an impact on smaller airports. Wick is frequently used as a diversionary airport but is already at risk due to Loganair withdrawal. Sumburgh and Kirkwall both support the industry heavily and would suffer significant losses if there was a downturn in offshore work.

We as an industry have to commit to lowering the cost per barrel of North Sea Hydrocarbons. We have to remain competitive in a global market. This means we have to make a seismic shift in how the industry operates. No longer can the market rely on the boom bust cycle, it is just not sustainable for any in the supply chain, particularly in a global market where the need for Hydrocarbons will remain and actually increase in the medium term. Technology has to be embraced and inefficiencies need to be identified and removed. We will never get to be the energy transition leader/centre of excellence for decommissioning if the current workforce is lost. We need the ability to hire/develop/progress the workforce to take us into the next phase of energy production. A sustained downturn will make our industry less attractive to investors, it will be less attractive to the best and the brightest talent and it will have a severe impact on HMRC revenue streams in the future.

The oil majors have enjoyed a lengthy period of tax breaks. These breaks have delivered significant returns for each of them while the oil price hovered around 60-70\$ and they got production costs down to around a 20\$ average. Despite those substantial returns it appears to us that many are not committed to the UK, as all capital expenditure is being pulled, again! This has to stop; we need a different strategy, one which gives us as a society something back. As a society we have a vested interest in terms of jobs and the economy. Government investment now will ultimately bring returns on that investment, while bolstering an already failing economy and driving the Just Transition ambitions. This industry risks failing the UK energy objectives with another downturn and that cannot be allowed to happen.

Offshore Coordinating Group Trade Unions; Unite, GMB, RMT, Nautilus International, Balpa, Prospect.