



Energy and Climate Change Committee

Oral evidence: [Maximising Economic Recovery of Oil and Gas](#), HC 989

Wednesday 11 May 2016

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Members present: **Angus Brendan MacNeil** (Chair), **Mr Alistair Carmichael**, **Glyn Davies**, **James Heappey**, **Antoinette Sandbach**, **Julian Sturdy**

Questions 1- 80

Witnesses: **Deirdre Michie**, Chief Executive, Oil & Gas UK, **Tommy Campbell**, Regional Organiser, Unite the Union, **Jake Molloy**, Regional Organiser, Offshore Energy Branch, RMT Union, and **Nunzia Florio**, Communications Director, UK Petroleum Industry Association, gave evidence.

Q1 Chair: Firstly, can I thank the witnesses for coming in? Please state your names and organisations for the record, starting on my left.

Tommy Campbell: Tommy Campbell, Unite Union and also chair of the Offshore Co-ordinating Group.

Nunzia Florio: Nunzia Florio, Communications Director, UK Petroleum Industry Association.

Deirdre Michie: Deirdre Michie, Oil and Gas UK, CEO.

Jake Molloy: Jake Molloy, Regional Organiser with RMT and vice-chair of the Offshore Co-ordinating Group.

Q2 Chair: Thank you very much. First, can you tell us, please, what are the headline impacts of the collapse of the oil price on the oil sector?

Deirdre Michie: First, can I first say thank you very much, Chair and Committee members for inviting us to talk about the oil and gas industry. We are going through particularly challenging times, given the drop in the oil price, which you are all very aware of. We continue to be challenged by that. We are, though, obviously very focused on seeing how we can turn that around. The industry is making some good interventions in terms of

improving its efficiency and reducing its costs. We are seeing production drop¹ for the first time in 15 years and we hope to see costs come down by about 40% towards the end of this year. We are very much looking to address some of the challenges we are facing, recognising that we cannot influence the oil price but focusing on the areas that we can influence. Having said that, we are concerned about the levels of exploration going forward and the drop in investment as a result of the drop in revenue. We also recognise there are issues around morale and safety in the industry and we are working with our colleagues in the unions to make sure that we continue to address that and ensure that we have a very strong safety culture in this industry, that we continue to focus on that, and that we are very thoughtful about it going forward.

Q3 Chair: Thank you. Would the trade unions like to add anything to those points?

Tommy Campbell: We welcome the opportunity to address you. The situation as far as we are concerned is one of crisis. There is a very clear crisis. I, and my colleagues, Jake Molloy and Stephen Boyd, STUC, have already addressed the Scottish Parliament on this particular issue. Our main concern about the crisis, of course, is the impact on the jobs—highly skilled jobs, I must add—and of course, as Deirdre has mentioned, the safety of the offshore workforce.

Deidre has mentioned the 40% reduction. That is a statement that needs to be illustrated. The impact of those cuts is upon the workforce. They have lost their jobs. Those who have remained have seen a significant change to their work rotas. They have moved from a two/two rota or a two-on and three-off rota, to a very strict three/three rota. For your benefit, that is 21 days in a row, 12 hours a day minimum, because sometimes workers are kept on the rig for reasons of weather and they cannot get off. I said this in the Scottish Parliament and I repeat it now. If you had a situation where emergency workers, paramedics, ambulance crews generally, firefighters, that their employers were saying we want to put them on 21-day rotas, working 12 hours every single day in a row, I think you would understand that there would be a safety issue there for the public. Nobody wants anybody responding and working when they are tired. We have flagged up our concerns. Because the workforce are between a rock and hard place, they have bought into these rotas but the feedback that we are getting is that they are reluctantly buying into it and there is already evidence coming back to us—anecdotally at the moment—that people are very, very tired; fatigued.

Q4 Chair: Over the border, in the Norwegian sector, they must have the same oil-price pressures. What are work patterns like there?

Tommy Campbell: Huge difference, particularly with the time off patterns. To the best of my knowledge, the move towards three/three has not happened there. There will be, I think, a move to do that. With the drive down, the race to the bottom, there is now movement in that direction in the Norwegian sector. We were there with our colleagues in the Norwegian trade unions just a few weeks ago and we see the emphasis in that direction, moving again to cuts; cuts in the wages, cuts in the jobs. So it is a crisis on both sides of the North Sea.

¹ Note from witness: This should read “we are seeing production rise for the first time in 15 years”.

As I emphasised, there is that crisis but we want to work based on the report. The Wood Group report emphasised that we want to move towards maximising economic recovery. As far as we are concerned, we agree with that approach but to maximise economic recovery you do have to involve the workforce and their unions genuinely and meaningfully. That is something we want to see happening.

Q5 Chair: Do you feel the unions and the workforce are not fully involved at the moment, then?

Tommy Campbell: Absolutely. We believe that there is talk of it but there is no genuine effort to do that. I will give you an example.

We meet regularly under the OCA agreement with the contractors and we have a situation where there is a drive to undercut, to move away from that agreement, pressure on the contractors because of the oil operators and the way they are operating and behaving. What we want to see, if we are want to move towards economic recovery, is a tripartite approach, the one that has been asked for. It is one that is a theme of the Wood Group report about people working together in partnership. The workforce is the most important aspect of the oil and gas industry because you do not produce anything without that workforce. All the unions represented by the Offshore Co-ordinating Group have collective agreements. We want those collective agreements respected. We want them to be the backbone of any level playing field when it comes to contracts being awarded. What we are witnessing is a race to the bottom with some companies indicating that they are coming out of the OCA agreement and if that happens for definite, then we will see a race to the bottom there as well and that agreement could come off its wheels. The origin of that agreement is one that was born from the industrial disputes of the 1990s. We are witnessing with grave concern a move towards industrial conflict in the North Sea sector right now. Some workers have had enough. They have kept their heads down. People have lost their jobs. Those that have stayed behind have reluctantly bought in to the changes but then some changes are just a wee push too far.

Chair: Thank you. Can I bring in Deirdre Michie again?

Deirdre Michie: Thank you. Can I respond to a couple of comments from Tommy, particularly around the rotas?

The three/three rotas have been introduced across the industry. The drilling community have been using rotas for many years and we consider them to be safe. Any management of change that is introduced into this industry is done through a robust risk assessment and a robust management of change process. There are guidelines that are followed to ensure that it is done in an appropriate way. We consider it to be a safe approach to managing rotas offshore.

In relation to the workforce engagement, I think we are making good progress in that space. We now meet regularly with the unions and have robust discussions around the various issues. We do need to do more in that space, absolutely. I do not disagree with that. I think a lot more can be done. We are currently developing a workforce engagement strategy and looking for input from colleagues like Jake and Tommy and look to see how we can get much more traction because I do recognise the workforce are an incredibly

important part of this industry and the future of this industry. So, we welcome that co-operation and support and we look to put tangible emphasis in place in that regard.

In relation to the OCA agreement, I agree it has brought a lot of stability to the industry over the years and we would be concerned to see companies pulling away from that agreement because it has been very helpful. Again, we will look to work with the companies and with the unions to see how we can improve that agreement. Obviously it is not for us to do but we have a role to play in informing and educating our members in that regard.

Q6 Chair: A final brief question from me before I move to Alistair Carmichael. Do you look to Norway for example as a model or a template as to how unions and companies interact?

Deirdre Michie: In relation to that, yes, I think we can absolutely take some learnings from them. I think they have good workforce engagement and I think we can take insights from that.

Q7 Mr Carmichael: Ian Wood predicts we are going to see the number of jobs in oil and gas in the UK fall by 320,000 this year. Does any one of you want to tell me he is wrong?

Deirdre Michie: Can I maybe step in there? Our activity survey last year identified that there had been a 15% contraction in the industry. So, we estimated there had been 65,000 jobs lost across the industry. That is in the operators, the contractors and—

Q8 Mr Carmichael: Is that direct jobs?

Deirdre Michie: No, that is across the industry. So, direct, indirect and induced; so, companies that are relying on the industry.

Since then—so that is towards the end of last year—we have seen more jobs coming through. We are currently reviewing those numbers and would expect to come out with a revised number in the next month or so. So, yes, we can expect that number to increase. What that number is, I am not in a position to say until we have concluded our review.

Q9 Mr Carmichael: If you are saying 65,000 and he says 320,000, that is a factor of five.

Deirdre Michie: I am not going to speculate.

Mr Carmichael: Nor would we expect you to.

Deirdre Michie: We will come back on that.

Q10 Mr Carmichael: There are deemed to be substantial job losses in any event.

Deirdre Michie: We are continuing to see job losses. We saw job losses coming through from last year and, given where the industry is, the challenges it faces, I think we can expect to continue to see job losses through this year.

Q11 Mr Carmichael: Both of the unions have been saying that this reduction in the number of people working in the industry is going to have an impact on health and safety. Can I ask

the union representatives first of all, what is your evidence for that? What direct evidence are we seeing of that? What are your specific concerns?

Jake Molloy: Specifically in relation to the rota change, that has had a consequence of a 20% reduction in manning levels on production platforms, manning levels that are still required to maintain the infrastructure, to ensure sustainability, and to achieve the Government's goal of maximising economic recovery. They are being asked to do an additional 300 hours a year, with 20% fewer people.

Deirdre has alluded to this process of ensuring that it is risk assessed, using the model of drilling. I think that is fundamentally flawed because a drilling unit by its very nature tends to be two decks. The requirements placed upon drilling workers compared to those working on production platforms are completely different. It is completely different in its nature; in the way that you operate and the way you move around an installation. I do not think any real and meaningful risk assessment has been done. The Offshore Co-ordinating Group commissioned a study to look at it. We believe there is reason for concern, but more than that, they have increased the workload of those that remain and those that remain continue to work as we were just talking about, under a threat of redundancy. Moreover, many of them have been moved from long-term employment into short-term, zero-hour contracts, with sham self-employment provisions put in place. That cannot be the way to run a major-accident-hazard industry like offshore oil and gas. It cannot. I say that because we have done it before and the outcome of that was seen in the '80s.

Q12 Mr Carmichael: Deirdre, you are telling us that this is all done by risk assessment. Jake here is telling us that there is no real and meaningful risk assessment. Who holds the ring here? What is the HSE for example saying about this?

Deirdre Michie: The HSE are part of that. We adhere to guidelines, so I would obviously challenge Jake in this assertion there.

I hear what he says about the drilling and the differences but it is tried and tested and we have learnt lessons from that. Anything that is changed in this industry does go through robust risk assessments and must adhere to HSE guidelines.

Q13 Mr Carmichael: Is that something that is actively monitored by the HSE itself? I see one head nodding and one head shaking.

Jake Molloy: No, it is not.

Q14 Mr Carmichael: What more do you think the HSE should be doing in this space?

Jake Molloy: We need to introduce an auditing system. We need to review the impact this is having on the workforce. We have had a recent tragedy, which has flagged all of this up again. We have a disengaged, demoralised workforce out there right now living, I would say, in a culture of fear. I think there is more than enough evidence to support that.

We talk about workforce engagement; I don't see workforce engagement as meeting regularly with Oil and Gas UK. I welcome the opportunity to sit down with Oil and Gas UK and discuss these issues but workforce engagement is engaging that workforce on those installations and looking at how they feel about the situation they find themselves in. That has not been done in any meaningful way.

As regards risk assessments, I would point to two operators—I won't name them unless you ask me to—who applied this change in the space of six weeks. No risk assessment. No analysis. No consultation. It was applied and it was imposed unilaterally without any form of risk assessment.

Q15 Mr Carmichael: I think it would help the Committee if you did name them. It is up to you of course.

Jake Molloy: Apache Corporation and Marathon Oil did this in the space of six weeks. Six weeks it took them from start to finish. Done. No risk assessment. No analysis. No health monitoring systems. Nothing.

Q16 Antoinette Sandbach: With the pressure of the oil price, is there not a choice that unless there are greater efficiencies in the industry there will be a larger number of closures and you therefore need to see where those efficiencies can be made? I am not suggesting that should be done in an unsafe way but where do the unions see those opportunities to keep those fields viable and producing?

Tommy Campbell: We had a discussion last week with the OCA contractors for two days where we were looking at the future. I said at the start, there is a crisis. That is the reason we believe there should be a UK summit organised, bringing all the parties together—local government, Scottish Government, UK Government, the oil operators.

Q17 Antoinette Sandbach: Sorry, but I asked a very specific question and I would be very grateful if you answered that question, which was around where you see the opportunities for efficiencies.

Tommy Campbell: Through the collective agreements. We want to engage properly with the contractors. The way we can do that is if the oil operators start supporting the collective agreements and not working behind the scenes to undermine them because that is exactly what they are doing. That is the fact of life here. Their drive to the costs is at the expense of the workforce and sadly—we hope that it is not going to be just the loss of jobs—potentially, as Jake is rightly pointing out, we are looking at major safety issues. The evidence, sadly, comes later when there is a major incident offshore, when somebody identifies that the reason it happened was that the workforce was tired and fatigued.

Deirdre Michie: I think there is good workforce engagement happening. We have examples from companies that are going offshore. There is a great example of one company that is using marginal improvements, has thoroughly engaged their workforce in that regard and increased productivity as a result. We are seeing great examples of that. On our Oil and Gas website we have 50 efficiency stories, where absolutely the workforce is part of those efficiencies that are being put in place. When we talk about workforce engagement, what we do need to do is reinforce to the workforce why we have to do what we are doing. They get it. They absolutely get it.

Q18 Chair: I have seen Jake nod his head there as well.

Jake Molloy: Yes, there are examples of good practice out there. I think Deirdre is alluding to Nexen, who reduced the cost by over 20% through workforce engagement. I absolutely commend the company for what they did. But what they have not done is cut

pay. They have not extended hours by 300 hours a year. They have not moved to three and three. They have engaged their workforce in a meaningful way and achieved those savings. Others are not doing that. That is the point. Others are unilaterally imposing change and reducing contracts and imposing limited-company contracts on their staff as we speak.

Chair: Alistair, do you want to follow up on this before I move to Glyn?

Q19 Mr Carmichael: I think we have just about covered that. Let me just wrap it up with one very general question.

This is based on my own experience of dealing recently with Amerada on behalf of a constituent. It was all about his terms and conditions. Do you share my perception that the downturn in the industry has precipitated a change in attitude from a lot of the companies themselves? Essentially Amerada's attitude was, "Frankly, you have to stick with us. Lucky to have a job. You should not worry about the terms and conditions and whether we pay travel from Shetland or not". Is that fair comment?

Jake Molloy: That is what I am saying. Tommy alluded to Norway and Denmark. Pay is not being cut; terms and conditions are not being changed in Norway and Denmark. They are still working two weeks on, four weeks off and they are still operating at a lower cost base. There are efficiencies to be made—to come back to the earlier question—by proper management of the operation; proper and meaningful collaboration among contractors and operators. But if you talk to the contractors, who invariably only talk to you in the lift on their way out of the building, they say to you that is not happening.

Deirdre Michie: Can I respond to that? I think what the industry is focused on is ensuring that it is competitive for the future. Costs had inflated. It was a hot market. That is what is being addressed and it is having to be addressed across the piece, both in terms of work practices, efficiencies, and an addressing of terms and conditions. It is only in that way—we have to have a comprehensive approach—we will ensure we are competitive for the future and we continue to sustain an industry and the hundreds of thousands of skilled jobs that this industry still contributes to and supports.

Mr Carmichael: I am sorry. Just before I get sued by Amerada—I said Amerada there—I had brain freeze for a moment: it was Maersk Oil I was dealing with.

Q20 Glyn Davies: We are also looking at the wider implications of the downturn in activity in the North Sea. That is what our inquiry is about. I want to ask about the impact on the downstream industries; on refineries. I suppose that is a question more for the petroleum industry here. Can you run through one or two simple, basic things for us?

What proportion of oil that is refined in the UK comes from the North Sea; from the UK continental shelf?

Nunzia Florio: First, just in terms of the figures: UK refineries in 2015 used approximately 52% of crude oil from the North Sea as feedstock for the production. Of that, 40% was from Norway and 20% from the UK CS. Of the rest, approximately 6% was from Russia; 4% from the Middle East and imports of crude oil from the African region

have increased greatly in the past 10 years or so and have gone from a mere 4% to 26% last year. This is our mix in general in terms of refineries.

In terms of the wider impact of the challenges from upstream to downstream, as a general background the industry, the oil business, has changed quite dramatically in the past 15 years or so. It used to be very heavily dominated by integrated oil companies operating in all segments of the business from upstream product production to the marketing of fuel products. Now it is a much more diverse sector, particularly with the emergence of specialised independents operating in different segments of the industry. Of our membership alone, the majority do not have upstream interests for instance and those who have, they might have perhaps split their upstream interests and their downstream interests.

To go back to the wider impact of oil prices and the downstream linkages, crude oil is but one of the many costs that make up the manufacturing slate. In terms of our downstream industry, I think the greatest challenge now is certainly the severe burden of legislation that we face here in the UK and in the rest of the EU, compared with competitors in the rest of the world. This challenge is certainly shared within the wider manufacturing sector in the UK. We are seeing the challenges facing the steel industry and other energy-intensive industries in the UK, so this is where we see our biggest challenge now and going forward. If I may expand, I could—

Q21 Glyn Davies: Can I go back to the original point? You tell us you use oil from different parts of the world.

Nunzia Florio: Yes.

Glyn Davies: If the North Sea production goes down, access from the North Sea goes down, can you just carry on by importing the crude oil from other parts of the world? Is that a trend? Is that something that is likely to carry on?

Nunzia Florio: Crude oil is widely traded in open and transparent markets, so in theory, yes. In terms of upstream production reducing, that will have a specific impact on emergency oil stocks. The UK has an obligation with the International Energy Agency and the EU requiring emergency stocks and refiners are for instance obligated to keep those emergency stocks.

As the UK is an oil-producing country we can hold lower stocks. Instead of 90 days of net daily imports, we only have to hold 67.5 days of inland daily consumption. Obviously when we expect production from the North Sea to decline in the next 15 years, that will bring us to having to hold the 90 days of net daily imports. That will obviously have a massive cost impact on industry, which has been estimated for downstream at between 2 and 4 billion in the next 15 years.

Q22 Glyn Davies: A simple question—the number of refineries we have is reduced, some have closed—what impact does the current position have on refineries, on the prospects for refineries?

Nunzia Florio: In terms of the refineries, yes we have had a dramatic decrease in refining capacity. We have had three refineries close since 2009 alone, the last the Murco Milford

Haven refinery in 2014 in Wales. Obviously that has had a massive impact on jobs, the economy, growth, our security of supply as well.

In terms of specific security of supply in the UK, we are now in a position where we require great imports of jet and diesel fuel to maintain the supply/demand balance. According to the International Energy Agency, imports of product—so jet fuel, petrol, whatever it is—at over 45% carries a high energy-security risk. At the moment in the UK, owing to refinery closure and capacity reductions, we import over 50% of our diesel, mostly from Russia, and 60% of our jet fuel, mostly from the Middle East.

Q23 Glyn Davies: We could talk about this issue for quite a long time.

Nunzia Florio: Yes.

Glyn Davies: I want to bring Tommy and Jake in on this point as well. The implications of UK and EU legislation on the industry: what do you want to see change; what can the UK Government do about the legislation that is coming and is affecting the industry?

Nunzia Florio: Yes. As a background, I think it would be interesting to note that the European Commission has undertaken a study to look at the cumulative impact of legislation on an industry versus global competitors. This fitness check, this analysis, was published in December last year. It was a retrospective exercise. It analysed legislation between 2000 and 2012 and that particular cumulative burden of legislation alone was concluded to be responsible for up to 25% net loss of competitiveness of our sector versus global competitors. So we do have this fitness check in place. The fitness check does not quantify but points to legislation that is soon to come on stream for industry, which will add to that severe disadvantage.

In terms of the European Commission, the aim now is to have this fitness check as a living document and refer to these issues in policy design. What we ask of the UK Government is the recognition of these severe challenges, the challenge of cumulative legislation here in the United Kingdom and EU legislation and be mindful of those issues once legislation is under development.

Jake Molloy: Yes. I am concerned to hear the suggestion that we need to reduce legislation in some way in order to make us competitive. We would argue the opposite should be the case for legislation in every aspect of operation from health and safety through environment and employment legislation. I say that because if we remove employment legislation for example, we see the scenario that we see currently in the supply chain where we have virtually no seafarers left working in the UK sector. We are exploiting poor foreign nationals from the Philippines on not living-wage conditions, not minimum-wage conditions but on slave-labour conditions of £3 an hour. That is what happens when you remove legislation.

Q24 Glyn Davies: Can you just take that on one step further? I know exactly what you are saying, but should the British Government in some way stop that? Is there something you think the Government should do to deal with it that our Committee might recommend and support in Government?

Jake Molloy: The objective of the EU legislation, which we have just applied last year, the offshore directive, is to set a standard for the world. That is a standard that was derived

from the events in the Gulf of Mexico in 2010. We now have the US Chemical Safety Board, who have just now completed their analysis of the 2010 event and have said that more legislation, more rigorous legislation, more workforce involvement, is required to ensure that type of disaster does not occur. But if we reduce legislation, are we going to see what we are seeing off the coast of Africa right now? There are rigs burning off the coast of Africa right now, off Nigeria, where we do not have legislation to the standard that we enjoy here in the UK and across Europe.

Deirdre Michie: I don't think anybody is arguing for inappropriate legislation. What we are arguing for is fit-for-purpose legislation. That is one of the reasons we welcome the introduction of the regulator, the OGA, and want to work with the OGA and DECC in ensuring that we have fit-for-purpose legislation that is simplified where it can be. For example in licensing regime, we are seeing good work by the OGA to rationalise that area and make it more effective and easier to work. That is what we asking for and I think that was the point you were making, Nunzia.

Nunzia Florio: Absolutely. In terms of the particular legislation that we are looking at, that is mostly to do with industrial emissions, the EU ETS and those wider issues.

Q25 Julian Sturdy: We talked about reduced numbers of refineries. I am trying to get a picture, going forward. You talked about the fact that we are now importing 50% of our diesel from Russia; 60% of our jet fuel from the Middle East. Where is that going to go in the next 10 to 15 years? Where would you predict that to go in the next 10 to 15 years?

Nunzia Florio: We undertook a little analysis, taking the International Energy Agency's model of short-term management of security, and were the UK to lose three more refineries, we would be at the point of importing 80% of each of those products, which would put us at even more risk and widely expose us to the international market for those products for which we are already at high risk.

Q26 Julian Sturdy: That is if we were to lose three more refineries. At the moment we are not saying that they are under threat at the moment.

Nunzia Florio: On the contrary, there is a real and imminent threat. Our refineries operate globally and if we do not have a level playing field in policy terms—I am afraid that obviously competitiveness has already been eroded—going forward, if we are not mindful, we will not be able to compete further.

Q27 Julian Sturdy: You talk about a level playing field. I understand that. So could you give me a brief synopsis of what is happening across Europe as well? Obviously if we are talking about a level playing field, what you have said is the same legislation is affecting Europe now. It is not just the UK.

Nunzia Florio: Here in the UK we have some specific disadvantages compared to our European counterparts.

Q28 Chair: An example that was given to me was if you remove refined product from a refinery to the Thames you pay tax when it leaves the refinery but if you move it from France to the Thames you do not pay tax until it leaves the bond on the Thames, so giving

continental refineries an advantage over UK refineries. Is that a situation you recognise and understand?

Nunzia Florio: Absolutely. Importers would have an advantage. This is one of the issues that we have in the UK. They would be able to import product, duty suspended—

Q29 Chair: Is that a situation cleared by the UK Government?

Nunzia Florio: Yes. It is. If we were to ship product from a refinery to another UK location first we would be liable for duty in the ETS as soon as the product leaves the refinery. However, there are so-called duty losses, hydrocarbon losses, on a ship voyage during loading and on unloading you will have some hydrocarbon losses. But we are charged for the whole of the hydrocarbon, without the losses, when the product leaves the refinery

Q30 Julian Sturdy: Can you tell me the position in Europe, then? In this context, is Europe less of a threat to the UK, from what you are saying, to fuel security? The refineries there are obviously, from what you have just said, in a better state than the UK refineries.

Nunzia Florio: It is a very complex one.

Julian Sturdy: Just very briefly.

Nunzia Florio: We have some shared challenges is all I can say, but our UK refineries, given a level playing field, are some of the most complex and efficient in Europe so we would like our refineries to obviously continue being productive.

Q31 Julian Sturdy: That level playing field across Europe would give the UK refineries that opportunity.

Nunzia Florio: Also the rest of the world. Yes.

Q32 Mr Carmichael: Picking up on that point before we move on: the coalition Government under the now Defence Secretary commissioned a refining review, the big capacity review, which was to then inform a strategy. Whatever happened to that?

Nunzia Florio: Yes. We did indeed have an industry midstream oil task force, which completed its work in March. During this work DECC for instance undertook a study on resilience, a black swan study, and the conclusion was that indeed our refineries do improve the resilience of the UK. At the moment we are still engaging with the Department of Energy and Climate Change to see how best to move forward in terms of competitiveness and legislation.

Q33 Mr Carmichael: Moving on to something that hopefully will be slightly less a subject of contention. Looking at exploration rates, currently very low—at an all-time low really—what would you say are the consequences of this low rate of expectation? What do you think there needs to be done and by whom to turn it round? Deirdre, I guess you would be the obvious go-to person.

Deirdre Michie: Thank you. As I said, we have seen exploration drop to an all-time low. In 2015 we saw around almost 30 exploration and appraisal wells, in 2016 planning for almost 20, but we have only drilled one so far this year. So, obviously we are producing

six times more than we are needing, so that is not sustainable for an industry going forward in terms of exploration.

There has been some very good work done by the OGA in terms of looking to improve the licensing regime. We were appreciative of the monies that were given by Government for seismic activity and obviously that was—

Q34 Mr Carmichael: That was what, £20 million or something?

Deirdre Michie: £20 million, yes, and that was in frontiers that have not been particularly explored so that will be helpful.

I think the issue that we face, though, at the moment is that if we do not make an additional thoughtful intervention by the end of this decade—only four years away—we will see production starting to be impacted quite significantly. So, one of the things we want to do is get together with the OGA, with the Treasury, to see what short-term activity can be stimulated in this space because obviously that will have impacts for the supply chain and for helping to generate jobs in the short term, and hopefully stimulate exploration that will then go on to become production and development.

Q35 Mr Carmichael: Talk me through this. You are talking about an industry here that deals in billions more than millions. You have £20 million of taxpayers' money going into seismic. Why is that necessary and why does it make such a difference?

Deirdre Michie: In the longer term it will make a difference because it is generating information that industry can go and look at and then can see whether there are opportunities to go after. If you think about it, it is basically because the revenues have gone out of this industry so companies are very strapped; they are looking to spend their money on continuing to operate and produce and the opportunity to explore is obviously something that goes down the priority list.

Q36 Mr Carmichael: You touched there on the OGA target; 60 exploration appraisal wells by 2021. You said you have drilled one so far this year. How achievable is that? What do you think the industry needs to be doing in order to get to that target?

Deirdre Michie: I think it is a real challenge and I think that is why we do need to do a bit of a rain-check to see what else we need to do in this space and that is where the thinking needs to go next.

Q37 Chair: Generally, panel, the continental shelf has some of the highest operating costs in the world. What progress has been made in improving efficiency? What progress can be made in improving efficiency? In particular, we will be looking at the unions as well here because we have to be mindful of all aspects of that question.

Deirdre Michie: If I can take that first, I hope others will join in.

As I said in the earlier introduction, Chair, we have as an industry made great inroads in terms of improving our efficiency and reducing our costs. I used the figure of 40% reduction. We did see an inflated industry as when we saw the high oil price but even when the oil price was in the \$110s, industry was looking to address its performance, we

saw companies looking to improve their efficiency and reduce their costs, and we are seeing that coming through. As an industry we are now also looking to come together to see where we can work together and we set up a task force ourselves, which was looking to see how we can address certain areas—standardisation; business processes, culture—and we are starting to get some traction, which is quite exciting in terms of inventory management—

Q38 Chair: This is the efficiency task force?

Deirdre Michie: —that is right—inventory management; looking at standardising in terms of sub-sea development. So, we think if we can get a bit of traction in that area we can absolutely really improve the efficiency of the basin going forward.

If I could just maybe then let Tommy in on this one, I think the whole piece about this, the success of this, is absolutely about the workforce being part of this. The efficiency stories that we can point to and demonstrate are as a result of the workforce supporting it. We could not have done it. This is not something that you can just get management saying this is going to happen. It absolutely has to be delivered with and by the workforce and that is what we are seeing.

Q39 Chair: The same question to the unions—maybe Tommy first—but if you could maybe illustrate it with any knowledge you might have from Norway as well as to what is maybe happening differently there.

Tommy Campbell: I think it is good to compare with what is happening in Norway. There is a whole culture difference. I keep thinking about the Wood report and the theme that emanated from it, which was one of, as we would say in Ireland, you need to catch yourself on. He was saying to the industry, “Look there needs to be a bit more co-operation”.

Now there is an industry here. There are 20 or 30 years at least and if we start working together on these efficiencies then I think it is appropriate that you do have regulation and you do have intervention by the state and that is where the OGA role is, to pull it together. That is why we keep touting and arguing the case for a UK summit because there is this talk. The question was raised about upstream/downstream but you know there is another aspect of the downstream connected to oil and gas industry. The line is about maximising economic recovery and it should not just be for the recovery of the oil industry, which is a huge, major part of our economy, it is the wide spread of outside the oil industry itself. Up in Aberdeen at the moment, it is suffering really badly, as are other towns where there is predominance of offshore workers. The companies that are connected, who don’t work offshore but are in the supply chain, are all suffering, all the way down to the frontline of the small suppliers, the taxi drivers, the small shop, the catering, the hotels. All these are affected. That is why we want to get round the table in meaningful way and say let’s plan and regulate properly because the workers have already made significant contributions to those savings. People have lost their jobs and those that have stayed have suffered cuts to their terms and conditions. They have improved upon the time that they are spending offshore by an extra 300 hours; significant savings on the helicopter operations as well. We also know that if there is meaningful engagement, as Jake says, directly with the

workforce on these platforms and rigs, there can be other savings brought into play as well. But it all has to be for proper maximising the economic recovery, not doing it to maximise the profits of the oil operators.

Q40 Chair: I think you have made a couple of calls for this UK summit. Deirdre, did you see any value in that call?

Deirdre Michie: Would you like to say more about that, Tommy, in terms of the UK summit?

Tommy Campbell: Yes. If we have all the players coming around the table for that open discussion, as we have in a micro sense with the OCA contractors last week, we want to plan for the future, not for next year, but as has already been mentioned, 2020 and beyond, so that we do not come into these busts that have happened over the two years without any planning for it. Because the other thing that is going to have to be planned for, which will be probably beyond our lifetime, is the fact that there will not be an oil industry in the North Sea at some stage, so the decommissioning has to be planned for as well.

The point was made earlier, why should we be managing our own economy to end up in a situation that the people who live inside the UK do not benefit from that? We could end with the Government intervening to make sure certain things are happening, with taxpayer support, and the people who benefit from that are not the people who are living and residing and working in the UK. I just think that would be utter nonsense.

Q41 Chair: Jake, are you supportive of this?

Jake Molloy: Yes. I am a wee bit frustrated, I am sorry, with the term “efficiency” because the workforce have been banging on about efficiency for years, standardisation and simplification. We are getting there now, but the resistance—and I said this to Ian Wood when he produced his review—to the concept of collaboration historically has been that they cannot and will not collaborate in any way, shape or form.

Q42 Chair: This is different in Norway, I understand. An example I was given was the UK have decided the model was a competition model, competing on absolutely almost every component and product. You could have a situation where I think the example that was given was a pump would fail and you would have to go to Texas for another pump, whereas in the Norwegian sector, if a pump failed, they would helicopter to the next platform, because they had gone for standardisation as opposed to competition. Are you saying that is cultural over many, many years, that people can’t break?

Jake Molloy: You will be hearing from the OGA shortly. I think they will tell you that as well, that there are elements of this industry—

Chair: It might not be the OGA that gave me that example.

Jake Molloy: Absolutely. I think there is a big difference as well between us and Norway, and one word, Statoil, sums it up. But as regards even collaboration now, I am working hard with the Step Change in Safety group, Oil & Gas UK, and a good committee to bring about the standardisation and simplification of risk assessment and observation systems. Those things are meaningful to workers on the ground, and even now, as we are moving

to try to put that into the public domain and the industry, there is pushback. That does not bode well, I would suggest, for the idea, the concept, that we are going to achieve this collaboration and achieve ultimately the industry's goal of maximising economic recovery. I think Andy Samuel and the OGA have a tough job ahead of them and I will support them where we can, because efficiency is absolutely fundamental to what we want to achieve, because we must maximise economic recovery to sustain employment. We are all on the same page in that respect.

Chair: Thank you. Before I take in James Heappey, I will go back to Deirdre Michie. I think you wanted to say something.

Deirdre Michie: Yes, thank you very much. I think we are seeing improvement in collaboration and co-operation. I have talked about the Efficiency Task Force and where we are seeing companies come together. We have done a survey that we will be presenting shortly, where we are able to present evidence that shows that people think co-operation and collaboration is improving in the industry, so we will be able to demonstrate that. Yes, of course there is more to be done, absolutely.

But I think the other point to make, Chair, is if you think about how this industry has become the success that it has, it is because it has co-operated. If you think about all those joint operating agreements where companies have come together to put out the amazing infrastructure we have, the amazing assets we put in place, that was achieved through co-operation and collaboration. Now, the point is it was to get a competitive edge, absolutely, and I think that is what we need to do as we go forward. We need to focus on the competitive piece to demonstrate that, because that is what will make this industry sustain itself in the longer term. We can compete and be competitive by co-operating and I think that is the link we need to be driving forward throughout the industry.

Chair: Thank you. Alistair Carmichael has made a good case for a brief question and I am wanting a brief answer from it.

Q43 Mr Carmichael: Who is going to be at the summit, Jake and Tommy, who is not already in the room?

Tommy Campbell: The major oil operators. We want local government, because we have an opportunity with City Deal, for example. So you would have local government representatives, Scottish Government, UK Government, the oil operators, oil contractors and the trade unions.

Chair: Just briefly on this point.

Deirdre Michie: Yes, briefly. So I think the interventions that industry is making are—and we have to stay the course on them—the cost and efficiency, the tax changes, the OGA coming and we have to think about how we can stimulate activity in the job sector.

Q44 Chair: Do you subscribe to Tommy's idea of this summit?

Deirdre Michie: I think that we stay the course on that, and I think we do start to look ahead to what the industry needs to do to go forward.

Chair: But do you subscribe to Tommy's idea on the summit?

Deirdre Michie: I think we have a forum in terms of the MER day, where we can have those conversations.

Chair: But do you subscribe to Tommy's model on the summit?

Deirdre Michie: I think we need to think about it. I do not want it to be a talking shop. I think if it can be constructive and there is a specific agenda, then yes. If it is a talking shop, no.

Q45 James Heappey: The questions I was going to ask on collaboration have been loosely answered already. I was going to ask to what extent do you think the industry culture has shifted to embrace the collaboration approach? I think the industry seems to be sort of getting it at a pace. The OGA said in November the industry was struggling to make the shift. That is probably true in parts, not true in others. I am just going to ask one question, which is what could be done to accelerate progress towards collaborative working across the industry?

Chair: A good question.

Jake Molloy: The others are not going to thank me for making the point, but I am going to make it again, because I keep making it every time. What would help, what would address Tommy's issues, is if the club to which all of the oil companies are signed up to, Oil & Gas UK, were bound by rules. Deirdre will no doubt tell you that she cannot mandate what her member companies do. That to me is a failing. If you are going to sign up and commit to maximising economic recovery, you should be bound by rules, you should be in the room and signing up to that. A lot of these oil companies are not doing that. They are saying it, but they are not doing it, and Deirdre cannot hold their heels to the fire. OGA will have to try and we are stoking that.

James Heappey: That is very good, opening a tin of worms, as it were, to wrap up the session.

Deirdre Michie: Jake is right; I certainly do not agree with him. We are not a golf club and we cannot mandate our members, and in the same way as you do not mandate your members, Jake. What we can do is we can encourage them and get them to show leadership in that space. Also the other thing to remember is that we cannot move into that space, because that is where you get into competition law issues, so we would not move into that and it would be inappropriate. I think we need to show leadership and we need to show a commitment to doing the right thing. I think that is what we will do.

Chair: As I am bringing this panel soon to a close, I will take in Antoinette. No, you do not want in, Antoinette. Tommy, do you want to add anything to that?

Tommy Campbell: Very quickly, I said this last week at the OCA meeting. I have a background as a union official in local government. We went into situations with all the compulsory competitive tendering, with contract bids, based on a level playing field of TUPE applying, legislation applying, rates of pay applying and all the rest of it and business was delivered in that sector. I still think the same thing can be done. That is why we need all the players in that room, and I can assure you with people like myself and Jake and other unions present, it will not be a talking shop, because we want to get to the proper drive that came from that Wood group. We want to see maximum economic recovery,

because the people who will benefit from that are the people who are working in that industry at the end of the day. There is plenty of profits going around. The oil operators have plenty of money in their biscuit tin. All we want is for it to be shared back down the line so that businesses in the supply chain are healthy, and if they are healthy, the workforce is healthy too and wealthy in one respect as well, so everybody benefits.

Chair: Panel, can I thank you all for coming in this morning? It has been a civilised but robust exchange of views and we have not seen that very often with panels in front of us, but we do appreciate your frankness, not just with us, but with each other. It was useful, thank you.

Examination of Witnesses

Witnesses: **Dr Andy Samuel**, Chief Executive, Oil and Gas Authority, and **Sir Patrick Brown**, Chairman, Oil and Gas Authority, gave evidence.

Q46 Chair: Can I ask the witnesses to introduce themselves, please, for the sake of the record?

Sir Patrick Brown: Yes, I am Patrick Brown. I am the Chair of the Oil and Gas Authority.

Dr Samuel: Good morning. I am Andy Samuel. I am the Chief Executive of the Oil and Gas Authority.

Q47 Chair: I understand one of you would like to give a short opening, and we would appreciate that, and indeed any comments on the previous panel too.

Sir Patrick Brown: Can I just say thank you for again inviting Dr Samuel and me to this Committee. There have been a number of developments over the last six months since we talked, oil price fluctuations of course, publication of our corporate plan, publication of the MER UK strategy and the near completion of the OGA itself. What has become clear to me as the chair of the board is the remit of the OGA was highly appropriate as oil prices declined, so our messages of collaboration, innovation, determined action to reduce costs did not fall on deaf ears.

The remit, in my view, remains just as important as the oil price rises, because high efficiency performance and lower cost will always be essential if we are to help ensure a long life for this basin. In the face of the prospect of serious trouble because of the oil price, there has been, in my view, a very good action inside Government, cross-Government, to focus on the issue. This was welcome to the OGA, since obviously if operators cannot sustain their licences the OGA will have a role to play and we need to be clear on what can and cannot be done.

We look forward to transforming the OGA into a Government company and thank Parliament for the Act, which finished last night. A company is of course a necessary step to emphasise our independent role. I would like to conclude by saying that, in my view, Dr Samuel, supported by staff from very different backgrounds working together, has made

remarkable progress, both in setting up the OGA and at the same time pursuing its unusual remit, and it is going to be another interesting year.

Q48 Chair: It seems we are living through a lot of interesting years at the moment. Since we saw you last year—last November, in fact—the OGA has published a corporate plan on maximising economic recovery for the UK. Now, will you give us a quick update and the headline points in each of these development areas?

Dr Samuel: Sure. Our corporate plan is a very aggressive five-year plan. We felt that it was time to really challenge ourselves and industry to shift to much more sustainable and higher performance levels, so we have some very demanding key performance indicators in all the key areas, from exploration all the way through to decommissioning.

We also have in there a requirement on ourselves, collaborating with industry, to publish what we call the sector strategies that Sir Ian Wood called for. We have just come out with our decommissioning strategy and are working on that with industry. A very good reception, and we will publish the decommissioning plan in Q2. We have stewardship, exploration and other strategies being developed. Very good engagement with industry, who are welcoming this.

In parallel, we have finalised the MER UK strategy, which is a game changer. I think when we met in November, I was a little bit concerned about how we were going to get that over the line, because we want to bring industry with us, but we did not want to lose the important teeth that that strategy holds. We worked that very well and we will be issuing guidance now on exactly how we will implement that strategy. But that does have transformational properties to it, so looking forward to getting into that. We have continued, I believe, a very good collaboration with the Treasury.

I think most people were very pleased with the two budgets, particularly the last one, the permanent reduction of PRT, a massive reduction of SCT, an important impact on decommissioning tax measures and a further £20 million, in addition to the first £20 million that Deirdre talked about, for further geophysical studies, along with some other quite welcome measures. So there has been a lot of progress since November, but the context remains probably more challenging than ever, so no one is resting on their laurels.

Q49 Chair: You are looking for co-operation among companies in the North Sea and to share and to learn. To what extent then do you, as a body, internationally do what you look to companies to do, and share and learn from counterparts in Norway or wherever?

Dr Samuel: Increasingly quite a lot. I was in the States last week and I met with the head of the Brazilian regulator at OTC. I went to Washington and met with BOEM, who are the offshore US regulator, and I met with the Nova Scotia regulator, so that was all just last week.

Q50 Chair: Are you finding ideas there that can be transplanted into this?

Dr Samuel: Yes. It is quite interesting. I do not want to appear to suggest that we have the answers, but increasingly people are looking at what we are doing, because this is a global problem. I find that we learned a lot particularly from the Norwegians and others on the earlier phases of exploration, how to stimulate activity. On the more mature basin aspects, people are very, very interested in what we are doing, and a couple of the regulators I met

last week were frankly envious, because what we do have is this kind of fresh policy that is fit for purpose that some of them do not have. We have a Treasury who we can work very closely with and we have a clear plan and very good cross-party political support. So while we can be very harsh on ourselves, and this is a global crisis, I think every now and again we should step back and say, “Isn’t it great that Sir Ian was listened to, the Government, cross-party support got behind it and we moved at great pace?”

I do not want to name them, but a couple of the regulators are incredibly frustrated. Without going into details, one of them is being forced to come down very hard on industry around the risk of decommissioning liabilities, which is something that the Government here has pretty much covered. You can imagine that this a bad time for that regulator to come down on their clients, potentially forcing them into administration. So they are being forced to do something that they know is not good for maximising recovery, whereas what I would say is we look at things in the whole and we have very good cross-ministry and cross-Whitehall discussions, because these are tricky times and one has to look very carefully at what you are doing.

Q51 Chair: Before I move to Antoinette and then on to James, Tommy Campbell of Unite the union suggested a summit, a collaborative approach. What view do you have on what Tommy was calling for in the earlier panel?

Dr Samuel: I am sitting down with Tommy and four of his union colleagues next week and one of the things—

Chair: But specifically on Tommy’s call on the—

Dr Samuel: I want to hear a bit more. Very open to the idea. We think we are a listening regulator. I think as Deirdre put forward, we would want to make sure it does not duplicate other fora we have. Next week we have the Oil and Gas Day, which the unions are represented and the senior operators, service companies, Ministers, so I would like to understand what beyond that Tommy is looking for.

Q52 Chair: Thank you. Could you keep the Committee updated as to what the outcome of your meeting with Tommy is?

Dr Samuel: Absolutely.

Q53 Antoinette Sandbach: There was a suggestion from Unite that there was quite a lot of money sloshing around in the industry. I saw your response to that from the seated position. Could you perhaps explain your response to that suggestion?

Dr Samuel: I was over in Houston last week drumming up support for further investment in the UK, meeting the chief execs of some of the major North American investors and private equity banks, a whole range of investors. Some companies have posted record-breaking losses for Q1 and they are very interested in what we are doing in the UK, but they are fighting for survival. This is a transformational change for the whole industry, so I do not think we can overestimate the degree of the global impact of this. I think HIS published on Monday that exploration discovery rates are at a 60-year low, and I was told by numerous analysts that North American drilling is the lowest it has ever been since 1940, when records began. The job losses in the UK are horrific; in North America they

are kind of magnitudes greater. So these are very difficult times and I think it is brilliant that we have a better story to tell.

Where I agree with Tommy though is people are still caught in the kind of tyranny of the quarterly investor calls and updates and they are finding it very hard to think even about next year. It is just the reality that we are in. On a positive, we did come across some investors, there is money and there are banks who are continuing to support and they were very grateful when they heard the better story than their perceptions would have told them prior to us meeting with them. So I think there is a way forward, but I would not underestimate how difficult it is.

Q54 James Heappey: Last time we saw you, you told us that it would not be a pretty picture if oil remained at \$50. The OBR's forecast is going to average about \$45 between 2015 and 2020. Presumably from a maximised recovery perspective, things are getting ugly.

Dr Samuel: We are seeing some really good progress in a number of areas. Investment certainly is key and I can talk more about that, but there is a lot beyond that we can do and are doing. In terms of stewardship, we are seeing production efficiency going up, which is very material, it has gone up by about 8%, so if we can continue that trend, that is very important. While last year there was not an awful lot of exploration drilling, discovery rates were at 60%, which was the highest it has been for many years, in fact higher than Norway; more was discovered.

Q55 James Heappey: So on exploration, your corporate plan sets some very challenging targets, including 60 exploration and appraisal wells by 2021. What assumptions did you make about oil prices over the next five years when you were setting those targets and then of course does that mean that they need to be revised?

Dr Samuel: I think the point we make is that we need to be competitive, irrespective of oil prices, because we cannot control what we cannot control, hence the drive for sustainable efficiency. It is interesting, the Australians have just put AUD\$100 million—US\$75 million—in a similar scheme to increase the understanding of the basic geology. We believe there are riches out there waiting to be discovered, but we are behind in terms of just promoting the prospectivity, understanding it, so if we can get that in place it will kind of generate the activities. So that is where are using the Government funding that we have. But those targets are deliberately stretching and they are put on industry, we cannot deliver them obviously on our own, but they were socialised with the exploration group, with the cross-industry group, and everyone believes that is about the right level to sustain an industry.

Q56 James Heappey: I am going to ask another question, and sort of ask you to revise, because it just seems slightly odd—not odd, but difficult to accept—that some quite bold commitments within the strategy, or aspirations within the strategy, are relatively unaffected by a very different oil price. The Wood review impact assessment made a central estimate of net revenues of 32.8 billion from an additional 3 to 4 billion barrels of oil equivalent, but this was based on \$94 per barrel. Do you think that estimate is still reasonable, given what has happened to oil prices?

Dr Samuel: I believe the 3 to 4 billion extra barrels that Sir Ian cited is still achievable over a five-year period. It is a lot harder with the lower price, but I have to be committed

to that and we track progress towards that and we have seen 30 interventions that we have made, some small, some quite large, that start kind of accumulating towards that total. We have line of sight to others, some quite large sanctions that could make bigger inroads, but it is very difficult. I think the problem with oil price is it fluctuates so quickly, so I do not want to de-commit on a target right now and then find oil goes back up \$70 in six months' time, which it could.

Q57 Mr Carmichael: Can I get your view on the question of efficiency and infrastructure, and you probably heard exchanges earlier that you might characterise as being everybody is in favour of efficiency until it is their job, their sector or their company that is affected. You have a 30% OPEX reduction target by the end of 2018. What progress are you making towards that?

Dr Samuel: I think that target will be achieved well before then. In fact, I am certain of it.

Q58 Mr Carmichael: But you are going to see reductions of that scale collaboratively, are you?

Dr Samuel: That was from the kind of 2014 benchmark, and I think operating costs per barrel were at \$29. They are now at \$21, and I think they will be close to \$15 by the end of this year, so the industry will have gone well beyond that target. The challenge that we put out to them is how much of that is sustainable, and that is the real key thing that we need to achieve. I think some of it is, but I think there is still a bit further to go.

Q59 Mr Carmichael: Of course you heard the unions on the question of safety as a consequence of efficiency savings. Do you have anything to say on that?

Dr Samuel: I think it would be wrong to not be concerned. This is a time of great change. I am always worried particularly about the human factors. People offshore have to be distracted when they are worried about their jobs in the future. I have seen that before, so the more engagement that operators can do the better at times like this. Obviously the tragedy in Norway is a further seismic blow to the industry. I would not underestimate the massive concern, quite rightly, because of that.

What I would say is on the process safety side, asset integrity, we now have a strong link with Oil & Gas UK, who monitor that through the Asset Stewardship Board. We do not want to duplicate the work, but we have said that we need to share a strong interest in that. I also have regular meetings with Richard Judge and my team meet with his team from the HSE, so that we are very joined up. I think I said last time we have a memorandum of understanding. It is their job obviously to regulate the safety, but we share a very strong interest in that. A good safe business will absolutely help us maximise recovery and that is the right thing.

Q60 Mr Carmichael: Do you have formal interaction in Oil & Gas UK's Efficiency Task Force?

Dr Samuel: Yes. I meet with them every two months, absolutely routinely. Angela Seeney from my team will probably be joining the group, because there is quite a lot of activity there and we are anxious to make sure that it is joined up. I will give a couple of examples. Since we last met, and with great Government support, we have made huge inroads on technology with the £180 million funding through the City Region Deal for the Oil & Gas

Technology Centre, which I am on the board and Sir Ian is the chair. So that is up and running. We have agreed the first four key things, which are around late life asset integrity, drilling wells at half the cost, developing the huge opportunity of the small pools and decommissioning. I would argue all of those are around sustainable transformational efficient operations, so we just need to make sure that everything is joined up, and I know Deirdre and the unions and I are all on the same page here. We have to have a more focused, prioritised hit list. I still worry that there is, if anything, too much activity and we need to make sure we are doing the right activity that is going to lead to sustainable improvement.

Q61 Mr Carmichael: Just to pick up what you were saying to us in November on the subject of infrastructure and maintenance in particular, at that point you were particularly concerned about the impact that low oil prices would have on maintenance in the longer term. Is that still worrying you?

Dr Samuel: It is, it is. Like I say, I think companies are struggling with their cash flow. I have no evidence of any cutbacks of anything. I am hearing that the safety critical maintenance log is decreasing, which would be very welcome, but I think it is something we all need to keep a very close eye on.

Q62 Mr Carmichael: Last time you told us you would maybe have another look at this in a year's time or so. Do you have any further plans on that front?

Dr Samuel: Yes. Like I say, the Asset Stewardship Board is teaming up with Oil & Gas UK to not duplicate, but just make sure that we have line of sight. For example, I believe it is in July the safety critical maintenance data are going to be published. They may well show a reduction. We just need to check that it is not a kind of rearranging of categories. I would like to see that it has been real work offshore.

Q63 Mr Carmichael: That is published by whom?

Dr Samuel: I think Oil & Gas UK.

Q64 Chair: Thank you very much, Alistair. When you came to see us in November, you talked about companies struggling to make the shift to collaborative working. I think it was from yourselves that I first heard the idea that the mantra of the UK, which has maybe been breached over the last number of decades, of competition being king is counterproductive in the North Sea, and you gave examples—I think it was you—of Norway collaborating. That follows from the example I gave earlier. I am guessing from the nodding that I heard those examples from you. What changes are you seeing towards this collaborative working and are there improvements there since even last November, when you last spoke to us?

Dr Samuel: There are certainly a greater number of what I would call success stories, which are, if you like, the proof points for me, and I commend OGUK, I think they are doing a good job now collating those, as are we. So there are 60 bona fide stories, and I think many of those would not have happened without the kind of interventions that have been made. I am not sure we have reached the tipping point yet where it will be sustainable, because the other force that goes in the other direction is that as companies are struggling for survival, legal and commercial behaviours, particularly around trying to get

a greater share of a smaller value pie, kind of accentuate some of the old behaviours. That is understandable; some companies are in a difficult situation.

Q65 Chair: You find that counterproductive to the maximum economic return then?

Dr Samuel: I do, yes. What we are doing is intervening in a large number of cases, particularly to try to help people see the bigger picture, that people need to see the value of collaboration. But the other thing we are doing as part of the Scottish Energy Jobs Taskforce and as part of the values and principles workstream that we have done, myself, Trevor Garlick, Deirdre, John Pearson from Amec Foster Wheeler, are reconvening a whole day workshop to look at this exact topic. Particularly we are going to try a technique of ramping up what I call dissatisfaction and trying to get at one of the almost psychological behavioural issues that is stopping people from doing the right thing. We are using some methods from Professor Kegan from Harvard, which are tried and tested. But this is difficult work to really help people change almost their mindsets, but it is what is required, I think, to make the sustainable transformation. So we will see how we get on with that. It is going to be a very different type of conversation. The unions are going to be well-represented, along with some of the frontline from the workforce.

Q66 Chair: You mentioned psychological there. I find this psychologically and economically interesting, because as I was saying, the thrust of argument in the UK has always been about competition, but you are saying that competition is counterproductive. It is almost like a rabble, I suppose, to an organised army. What sort of powers are you using to force this change?

Dr Samuel: Competition is good, healthy competition.

Chair: That is a refining on the earlier statement.

Dr Samuel: No, we like healthy competition, and in fact we have to obviously, like everyone else, pay regard to competition law, which we take very seriously. But there is plenty of scope within that for healthy collaboration. That is what Sir Ian called for. Sorry, what was the question beyond that?

Q67 Chair: Just what powers are you using to enforce that?

Dr Samuel: Yes. We have direct powers with the operators. With the larger system it is influencing, because the service sector are not covered under the Infrastructure Act, so they are not one of the parties bound by the MER UK strategy. I think that is right, but it does mean that sometimes people ask us to do things that we are, frankly, not empowered to do. So there is still frustration we hear from the service sector, and I have sympathy with this, that they are not quite seeing the operators behave how they would like. They expect us to use powers to solve that. We do not have them, but what we do do absolutely is feed that back to the operators, highlight the opportunities that we think they are missing. I have to say, I think the operators are very good at listening, and we have seen many cases where that has led to better relationships. But we think there is more to do. I think they admit there is more to do themselves, and that is part of what we are going to explore in this workshop next week.

Q68 Chair: You mentioned earlier there has been 60 changes. I will not ask you to go through them just now, but it is a fascinating area of interplay between psychology, economics, competition and probably a number of other things. Would you be willing to share with the Committee, by writing to us later, just maybe all 60 examples, if that is possible—certainly fascinating areas—for further sharing of what is happening and what can happen?

Dr Samuel: Very happy to do that. I have copies of our corporate plan, which it sounds like most of you have seen, but also our latest OGA overview, which I will leave at the end of this, but beyond that, we will write to give a flavour of the kind of interventions we have been making and further opportunities we see.

Chair: We might see 60 bullet points, who knows. Alistair Carmichael.

Q69 Mr Carmichael: Can I take you on to the question of the Health and Safety Executive and your memorandum of understanding with them? You have a remit, very clear, maximum economic recovery. The HSE has its statutory duties, maintenance of safe systems or safe places of work. You can see that there could be potentially a contradiction between the two. How do you balance these and how does the memorandum of understanding work?

Dr Samuel: The MOU covers five key areas and the first is just to ensure that we understand each other's roles, which kind of alludes to it; the second is then that we align mutual objectives, where appropriate; the third is that we plan and co-operate collectively where appropriate; the fourth is that we can share data, which is in everyone's interests and minimises the burden on industry. Then we are also looking at whether we should jointly communicate and show up at events. I have never seen a conflict between safety and good operations; I really haven't. In fact, safety leadership is often the key to good leadership, the kind of things that the unions are talking about, which I fully support. The workforce engagement leads to far safer operations and it leads to far more efficient operations.

Q70 Mr Carmichael: So your work can inform and kind of influence the work of the HSE, but come the day when the HSE says, "No, that is an unsafe practice" or, "That is a step too far" that is it, they have primacy in that still?

Dr Samuel: Absolutely, and we would fully support them. Interestingly, I had this conversation with the head of the Brazilian regulator, who has both the role that I have, but also the safety role, and she shut in half the Brazil production on a safety point and it was probably the best thing she ever did. She had a call from the Prime Minister, but it was the right thing to do and it led to a more sustainable, safe operation down the line. So again, no discord.

Mr Carmichael: It is what in the civil service they call brave, I think.

Dr Samuel: It was brave.

Q71 Mr Carmichael: This follows on very naturally from what you were saying there about the importance of maintaining safety and the standards in relation to the longer term, and you heard there from Jake Molloy and Tommy Campbell about the concerns of the merchant

shipping that is associated with the oil and gas industry. You heard them talking about the Filipino crews working on levels of pay below the minimum wage. I hear from my own constituents, a number of whom work in that sector themselves, concerns about the way in which the English language requirements for officers, for example, are got around. Trade unions have expressed a view that you should have power to set up a policeman on standards. Is that an area where you be interested in extending your remit?

Sir Patrick Brown: No.

Q72 Mr Carmichael: Who should do it then, because if you do not, clearly what is happening at the moment in the North Sea has to be unacceptable?

Sir Patrick Brown: If it is marine, of course it is the Department of Transport and Mr McLoughlin. There are, however, international treaties about marine operations and I do recall from my own background that sometimes the UK Government finds it impossible to act, which is not satisfactory and, unless things have changed since those days, it may still be the same.

Q73 Mr Carmichael: But this is an integral part of the work of the industry in the North Sea. You are talking about standby vessels, you are talking safety vessels, you are talking about supply boats. You cannot divorce that from the workings of this industry.

Sir Patrick Brown: I do not disagree with you.

Q74 Mr Carmichael: Surely they cannot accept a different standard of employment practice and a different standard of safety regulation than applies to the rest of the industry?

Sir Patrick Brown: I do not disagree with you. I am just saying that for the Oil and Gas Authority, it is well outside our remit.

Q75 Chair: It might be outside your remit, but do you see it having any impact at all on areas that are within your remit? If there is a change of seafarers' practices, change of wages, would this not be impacting? We are talking about collaboration has been a huge part. Surely the seafarers would be integral in collaborating between what is specifically working and what isn't.

Mr Carmichael: Let us put it another way: you are about talking about mass production in all things, we know that. Andy has told us in fact it is going even further than that. Is there not an opportunity here for the industry, for the operators, to say, "There is a part of our OPEX going on the money that we are paying to shipping companies and it is just shipping it off balance sheet"?

Sir Patrick Brown: There is clearly an opportunity for the operators, if they see it as a valuable step, to get together. They after all procure the shipping.

Q76 Mr Carmichael: So the holistic regulation doesn't extend to shipping interests? Does that not look a bit like a gap in your set-up?

Sir Patrick Brown: I do not think so, because we do not have powers to direct, only to influence.

Q77 Mr Carmichael: That takes me neatly on to my final question, and it is some of what we have heard from the unions about their view that you should be given powers to prevent oil and gas companies from demanding cuts from contractors that they term as having a direct detrimental impact on jobs and safety. That again would be brave, in civil service terms. Do you see that as being something that you should be getting involved in?

Sir Patrick Brown: No. It is asking us to take a policy position that is not one, I think, for a regulator.

Q78 Mr Carmichael: So ultimately, if you do not have direct powers, these are still obviously a number of aims that you would want to achieve. How do you achieve them?

Dr Samuel: One very interesting area is decommissioning, because it is a bit newer, a bit of a fresh start in some ways. So what we are trying to do with our strategy is set from the outset a culture that is quite different that I think can then start to feed back into when we start new major projects. What we have with the Energy Bill though is the power to scrutinise operators' plans on decommissioning, because quite rightly the Treasury was very anxious to make sure that it was done very efficiently. So we have a team now that will be able to go in, and we have started it with operators, working with them to look at their plans. One of the core planks of our strategy is strategic contracting. We think the transformational aspect is operators working in a very different way with the service sector, so we are promoting that. I would say the operators are very open to this, they can see the value, so we are hoping, if you like, to start changing the culture to a more collaborative one.

Another key aspect of this that I think is of interest also is to make sure legitimately that there is a level playing field for UK jobs in this space. Some of my team have been up to the Shetlands and looking at Dales Voe and other opportunities; we are speaking to Dundee. How do we best influence this with operators? Getting involved early. If we wait until the last minute and they have done a lot of work and come up with some plan and we say, "That is the wrong plan" that is just frustrating for everyone. So what we are doing is we are working in partnership with them early on, and where we see the good practices from one operator, we transfer it to another, and that is welcome all round. We are trying to do a lot here. We are starting to do that, even though it is perhaps less of an official remit, but we still think it is very important for new developments, so we are working very closely with operators to understand what are they doing to really make sure that they are maximising value, working as best as possible with the service sector.

I have to commend the cross-party group that is doing some very valuable work in this space as well. There has been a couple of very good meetings this year already. The first one looked at some of the issues in the past around UK projects, both those done in the UK and those done overseas. One of the key messages of course is that don't just assume that taking it to South Korea ends up with a good result; it often does not. So we do want the level playing field. The second meeting, then we brought in the fabricators and got very good ministerial support to challenge what we are doing to sustain these skills and fight for the future. We are doing a lot in this space, but it is more in the influence role. What I would say is where we get in early, industry are listening and we are getting good results.

Q79 Chair: Thank you. Two aspects that have been identified there are contractors and the shipping area and you seemed not to take a full approach there, a full holistic approach, and you seem unwilling to tackle the cultural shift of a race to the bottom, which we have certainly seen in seafarers. There are issues around contractors and you do not want to extend your tentacles in there at all. The maximum economic return is indeed seen for the industry, but surely the maximum economic return has to be for seafarers as well. If you are laying off seafarers and taking on cheaper seafarers, that is hardly a maximum economic return to communities all over the UK, where these seafarers are from. Isn't it a dereliction by the OGA not to get involved with that?

Dr Samuel: One of the things we have been very open about, and a risk that we see, is what we call mission creep, and the chair and I agreed early on that we would have a headcount limit. We have done well in most areas. We are still struggling to attract in some areas, we still do not pay enough, but in most areas we have attracted the workforce we need, so we are about at about 160. We will not go much beyond that. The team are incredibly stretched, they are working harder than they have ever worked, and I think we currently have taken on too much, so I am worried about how we will sustain quality delivery just to deliver what we have in the corporate plan, which, as I think we have already reflected, is a very demanding plan.

So my concern is taking on more, but I am very happy—and we can think about doing this together—meeting with fellow Departments and raising issues. That is certainly within our remit and we have done an awful lot of that. I am on the inter-ministerial group, but below that we have the cross-Whitehall group and we do pick up these conversations with BIS and other Departments. Very happy to get a bit more evidence. I will pick it up with Tommy and Jake when I meet with them again next week, get the detail, and then I will—

Q80 Chair: I think it is something, with respect, that is almost a strategy by the Oil and Gas Authority, that of see no evil, hear no evil in these particular areas that Alistair Carmichael raised. That will be disappointing to many people working in the oil and gas sector, that the Authority chooses not to look into certain areas.

Dr Samuel: I think we have to stick to our remit. Our remit is set out in the Infrastructure Act and it certainly doesn't cover the service sector or offshore marine, but like I say, we are happy to pick it up—and we do a lot of this—to represent the industry's interests across Government, but we cannot do the work of other Government Departments.

Mr Carmichael: As it happens, I am with the Minister for Shipping for a meeting to discuss some of this soon, so I think you can expect a call.

Chair: Thank you very much for coming in. I don't think there are any further questions, are there? Okay, panel, thank you for your time and hopefully we will see you at some point again in the future. Good luck in maximising economic return and let us hope it is a maximum economic return for all those involved in the sector. Thank you.