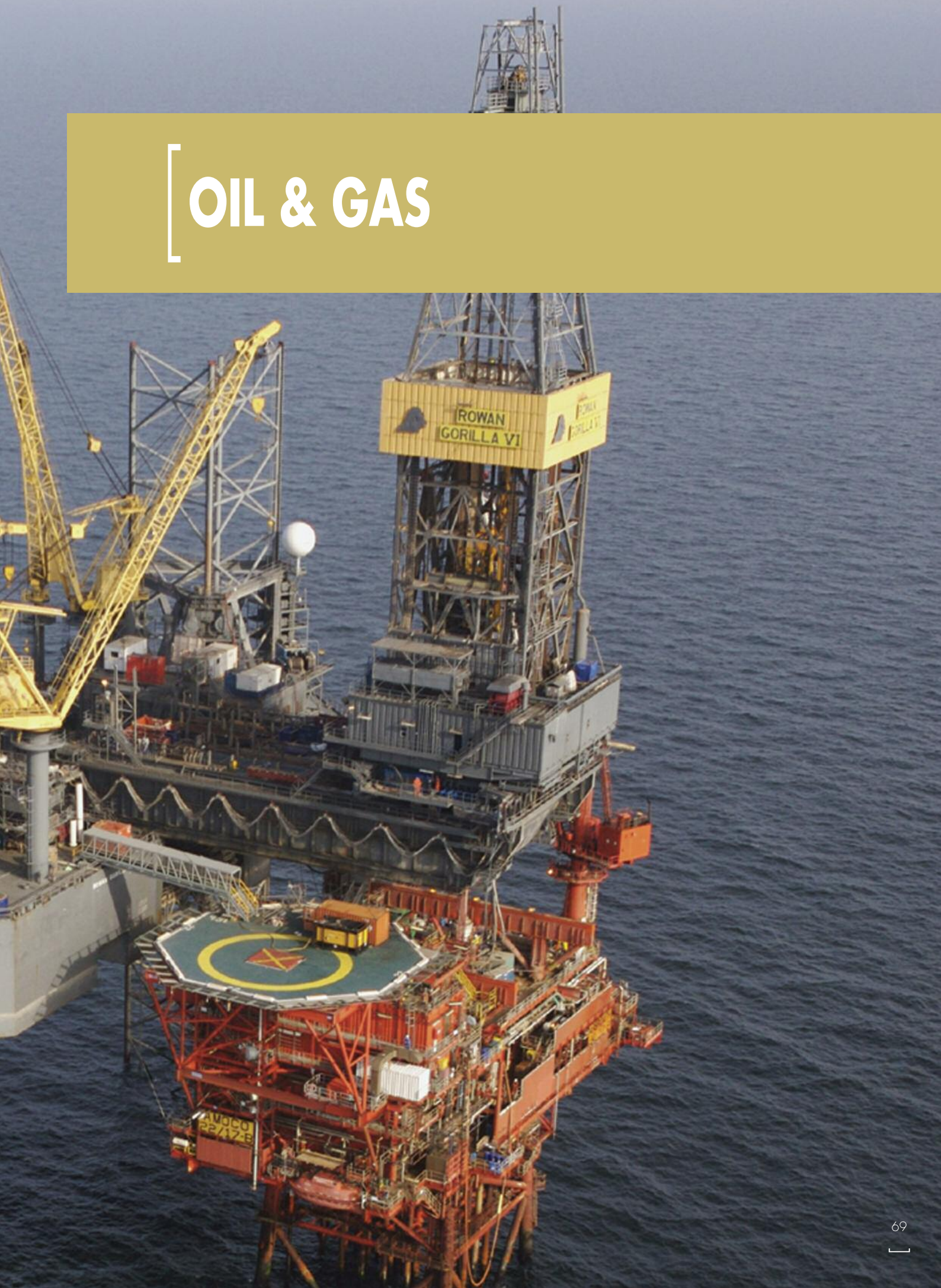


Hanging in the Balance



[OIL & GAS



UK Oil and Gas: Hanging in the Balance

Malcolm Webb, Chief Executive, Oil & Gas UK



The future of the UK's oil and gas industry is hanging in the balance. It supports hundreds of thousands of jobs in Scotland and across the UK, invests more than any other industrial sector and supplies the majority of the nation's energy needs. However, in the midst of a renaissance, earlier this year it was hit with a surprise tax increase which has damaged investor confidence and reduced the attractiveness of the province as a destination for capital. It is imperative that the industry and Government now work together to lessen the negative effects of the tax change and find a way to cure the chronic fiscal instability that the sector is faced with.



Malcolm Webb

The UK's oil and gas province is mature and a relatively costly place to operate. Despite this, Oil & Gas UK forecasted early in 2011 that its oil and gas company members had a new and growing confidence in the stability of the UK regime and as a result were investing £8bn this year and had plans to invest £40bn or more over the next five years in order to develop more of the UK's oil and gas reserves.

One impact of this increasing investment would have been a significant reduction of the production decline rate over the next five years. This was important because, at a time of economic difficulty and uncertainty over energy supply, higher UK oil and gas production would have meant greater tax revenues for the Government and less reliance on energy imports. It was also important because the oil and gas sector's role as the country's biggest industrial investor, largest corporate taxpayer and most significant source of energy security was seemingly assured. Moreover, but also very importantly, at a time of high and rising unemployment, tens of thousands of new jobs were due to be created in an industry which was helping lead the UK out of recession.

However, just as the renaissance gathered pace, in March the Government shocked the industry by announcing a new top tax rate of 81 per cent and a new lower limit of 62 per cent on UK oil and gas production. These higher rates of tax apply to oil and gas production for so long as the international price of oil is above \$75 per barrel. In fact, almost half of the UK's production is gas, which is currently fetching a price equivalent to \$58 per barrel and which has been trading within a range equivalent to \$55-60 per barrel for some time. The Government also announced that from 2012, companies' ability to claim tax relief for decommissioning would be capped at the old tax rates.

While investors are exposed to oil price volatility equally in all territories, successive and unexpected negative changes in our tax regime reduce the attractiveness of the UK and put it at a competitive disadvantage. This being the third major tax increase in a total of seven detrimental tax changes in nine years, the move has severely shaken investor confidence and has jeopardised the sustainable future of the UK continental shelf (UKCS).

Companies will continue with most of the projects to which they are contractually and commercially committed. However, unless mitigating measures are soon put in place, at least 25 projects, which account for investment worth £12bn and the creation of around 15,000 jobs, are unlikely to go ahead. In the next ten years alone, the investment earmarked for projects considered likely to go ahead has fallen by 30 per cent from £33bn to £23bn.

Lower capital investment in developing the UK's oil and gas reserves knocks through to production soon enough. Over the next 10 years, the rate at which production declines is likely to be 1.5 per cent a year higher than had been anticipated. The 25 projects now marginalised account for over a billion barrels of oil and gas, which equates to over a year's domestic supply. To fill that gap, energy imports worth £50bn will be required, increasing the cost of energy to the UK consumer, damaging the nation's security of energy supply and widening the trade gap.

The damage to projects' economic viability is not confined to new fields either. Worryingly, the tax change has shortened the lives of at least 20 producing fields by up to five years; the continued operation of these older fields, which are often located at infrastructure hubs, can be crucial as their removal can result in oil and gas nearby being left undeveloped. We therefore agree with Aberdeen University that in the longer term reserves of 2.25 billion barrels may be lost. In fact, we fear the number could be higher.

Ironically, the public finances which needed boosting in the 2011 Budget are likely to lose out in the long-term. Whilst we fully appreciate the financial difficulties which the Government faces, reserves left in the ground will not generate any tax revenues and we estimate that the newly marginalised projects will result in direct tax receipts of £15-20bn being foregone.

The negative impacts on the wider economy reinforce the need for the Government and industry to move ahead swiftly to find ways to rebuild investor confidence and to mitigate the effects of this unexpected tax change on future investment. Constructive discussions must now proceed on new field allowances and the resolution of decommissioning issues. Last, but certainly not least, we need to find a cure for the chronic fiscal instability of the UK regime. The country simply cannot afford to leave this matter unresolved.



Oil & Gas UK

6th Floor East Portland House

Bressenden Place

London SW1E 5BH

Tel: 020 7802 2400

Email: info@oilandgasuk.co.uk

www.oilandgasuk.co.uk

Quality Service

NECE is a young dynamic service company providing a proactive, productive and quality approach to the asset integrity market.



The NECE board of Bob Forbes, Andy Bruce and Andy James have an impressive and successful track record having been involved in a wide range of service related businesses for a combined total of 90 years. Andy James, Director of Operations, has been leading the delivery of NECE services since its establishment five years ago and is clearly focused on the continual improvement and development of the services provided.

The business has grown significantly in the past five years, providing a sound financial platform for additional development. Success has been attributed to the unique flexible approach that NECE has developed, offering consolidated services packages with multi-skilled engineers, resulting in cost effective solutions for the customer and adding value on each project undertaken.

NECE is a people company where experience, technical ability and personal competency is a core value within the business. The third party verified in-house quality systems and competence assurance programs are valuable tools for developing and maintaining the personnel as well as the business.

The structure of the organisation is also designed to accept new clientele, contracts and projects as part of the overall business growth plan. This includes a database of CVs, consultants, associates and agencies which provides rapid access to additional resources when required.

NECE provides cost effective monitoring solutions for assessing corrosion risk effectively and efficiently. This consolidated management approach is of particular benefit for adding value on new, mature and aging assets primarily but not exclusive to the oil and gas sector.

NECE offers unique solutions from review/design through to commissioning and data management. The service specializes in intrusive monitoring of corrosion, erosion, sand, bacteria, chemicals and oxygen all relating to the degradation of process systems and topsides pipe work.

As a service based company, NECE is an operator of all equipment and technology available on market, therefore providing and recommending "best fit for purpose" equipment to suit customer needs. This also ensures

compatibility of equipment and software throughout the asset.

Customer and employee feedback is fundamental when researching new initiatives and the NECE management team regularly seek this information as part of our overall service delivery.

Other benefits include:

- **Inhouse Multiskilled Teams**
Reduce offshore manpower requirements/smaller teams/ability to accommodate urgent projects and "short notice" shutdowns/increased productivity/less bed space required and cost savings on mobilization
- **Combined/Consolidated Service**
More integrity data obtained in one visit, therefore adding value. Logistics handling reduced/one focal point/combined scopes/cost effective solutions/combined strategies/reduced vendors
- **Continuity of People**
Dedicated in-house engineers/focus on customer delivery/wealth of asset experience
- **Quality of Reports**
Tailor made to the customer's requirements/data analysis/trending/strategic recommendations/site surveys/historical data/live registers
- **Independent/Non Bias service provider**
Provide "best fit for purpose" solutions/operate and service all equipment and systems available on the market/ensure continuity of offshore systems/large stock supplies/reduced lead times
- **Cost Effective solutions**
Constantly researching and investing new initiatives/client focused and driven/maintain high quality of service for repeat business



What do NECE provide?

- Intrusive monitoring solutions and strategies
- Specialist consultancy
- Supply, installation and commissioning of specialist equipment
- Comprehensive tailored reporting
- Surveys & audits
- Technical support/expertise
- Data management and interpretation
- Non bias solutions/Independent service provider
- Training and awareness sessions

Why NECE?

- Combined service
- Full suite of complementary intrusive monitoring techniques
- Maximised data acquisition at a reduced cost
- Improved time efficiency offshore
- Reduced number of vendors and visits – one focal point
- Combined technical reports and solutions
- Third party consultancy, audits and verification
- Multiskilled engineering teams



NECE
West Pitmillan Business Centre
Foveran
Ellon AB41 6AL
Tel: 01358 788116
www.neceltltd



QuEnSH Specialists Ltd – the 'ACE' Approach

QuEnSH Specialists Ltd is a leading consultancy provider of bespoke integrated solutions across a diverse range of disciplines, including quality control, occupational health and safety, environmental, training and competency, and emergency response. QuEnSH Specialists aim to provide assurance and business value to meet the needs of their dynamic client base.

At QuEnSH Specialists we assist our clients in the management of their QHSE obligations through the principles of

Acknowledgement, Communication and Engagement – ACE – a philosophy fundamental to the development of a solid workforce culture.

In a society where safety now has legal standing and we face an increasing compensation culture, we understand that clients need guidance and support they can trust. Regardless of their size or industry, in current economic climates organisations must be more resourceful and creative to achieve buy-in to QHSE values.

QuEnSH Specialists was established in 2005, and joined the ABZ Group in 2010. The company was founded on the principle of a multidiscipline approach to QHSE consultancy to meet

the needs of modern industry. At a time when existing consultancies were applying a 'one size fits all' approach to service provision, QuEnSH Specialists have continually strived to deliver dynamic and bespoke solutions.

The cornerstone to this approach are the ACE principles;

- **Acknowledgement**

QHSE is not the "be-all and end-all" - it is a supporting function to the activities that are revenue generating and should be there to help and not hinder. At QuEnSH Specialists we help our clients to prioritise risk and be pragmatic in their approach to control those risks.

- **Communication**

Workforces are wary of change, especially when the reason for it is

unclear. A strategised system of communication methods is important. At QuEnSH Specialists we assist our clients in finding efficient and appropriate communication strategies, and firmly believe in the importance of face-to-face discussion in relationship building.

- **Engagement**

We encourage our clients to involve all levels of their organisation. This enables more effective communication and allows all involved the option of participation. Equally as important is the feedback obtained as a result of this engagement process, which often provides the building blocks for constructive and effective change.

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[**QuEnSH Specialists Ltd**

West Pitmillan Business Centre

Foveran

Ellon AB41 6AL

Tel: 01358 788094

Email: donna@quenshspecialists.co.uk

www.quenshspecialists.co.uk