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I am writing to provide the Scottish Government's response to the Economy, Energy and Tourism Committee's report on "Future Prospects for oil & gas in Scotland", published 19 January 2016.

The Scottish Government is acutely aware of the severe challenges facing the industry as a result of the low global oil price. However, there is no question that the oil and gas industry is, and will continue to be, a huge success story for Scotland.

The industry has fostered innovation, supported energy security and skilled employment, and generated significant economic value. The industry and its workforce are currently facing an extremely challenging outlook, but oil and gas can continue to make a significant contribution to the Scottish economy and our energy security for decades to come. This is evidenced through several substantial new or redeveloped fields like Clair, Quad 204, Culzean, Solan, ETAP, Laggan and Tormore and many others coming on stream now or in the near future. The industry is also making significant progress to increase efficiency and reduce costs, with positive outcomes in terms of increasing total production.

It is therefore crucial that we take every possible action to retain the expertise that the industry has built up over decades so that it remains flexible enough to capitalise on opportunities once the sector begins to rebound.

In this respect, I broadly welcome the findings of the EET Committee report. The key points in the report relating to the Scottish Government are noted below, followed by our response.

- 1. We support the aims and objectives of the Energy Jobs Taskforce which brings together industry, public sector and trade union representatives. We encourage it to continue to deliver its agreed action plan whilst ensuring that safety remains paramount.**

The Scottish Government will continue to do all that we can within our devolved powers to support those in the oil and gas industry or in its supply chain who are affected by the downturn.

In January 2015, the First Minister set up the Energy Jobs Taskforce Force (EJTF), which has already helped to support more than 2,500 individuals and 100 employers through the current downturn and will continue to support the industry to improve collaboration, co-operation and innovation. I am pleased that this Committee Report recognises the important work of the EJTF, which remains focussed on supporting those affected today but, at the same time, is looking to the future to lay foundations for a vibrant industry for decades to come.

The Taskforce has achieved a great deal since its inception in January 2015, including three large PACE events and addressing structural challenges in the industry. To that end, the First Minister has asked the EJTF to continue its work to support individuals and companies in the sector.

**2. We recognise the very challenging situation facing the oil and gas sector in Scotland brought about by the significant and sustained fall in the price of crude oil. Short term prospects, particularly for offshore workers, appear to be very difficult. However, we believe that with appropriate support from Governments, and enhanced collaboration, driven by the Oil and Gas Authority, a sustainable industry can emerge from this downturn.**

I firmly believe that the oil & gas sector has a very bright future and can continue to contribute significantly to both the Scottish and UK economies.

As well as the EJTF, the Scottish Government has announced further measures to support the oil and gas industry and individuals at risk of redundancy. We announced a new £12 million Transition Training Fund to provide financial support to individuals as they retrain or undertake new education to allow them to take on specialist roles in the oil and gas sector or elsewhere in the wider energy and manufacturing industries.

We also announced £12.5 million for oil and gas innovation & further business support. This includes £10 million of Scottish Enterprise funding to help firms reduce risks associated with carrying out Research & Development and access to specialist experts to help kick-start innovation projects. In addition, £2.5 million will be set aside for business resilience reviews, which provide targeted support from industry experts.

On 8 February, the Oil and Gas Industry Leadership Group published a refreshed oil and gas strategy. The refreshed strategy takes into account the difficulties facing the industry and offers a shared path for industry, governments and the Oil and Gas Authority to follow in working together to support the industry and its world class supply chain.

**We also recognise the challenge in assessing the wider impact on the Scottish economy and suggest that the Scottish Government and its enterprise agencies consider whether more work requires to be done to establish the extent of this.**

The Scottish Government continues to monitor the impact that low oil prices is having on the oil and gas industry and its wider supply chain. An updated analysis will be discussed at the next EJTF meeting, which will take place on 23 March 2016.

**We believe that it is vital for the Scottish economy that Governments, the industry and the trade unions continue to work ever more closely together in order to ensure that the objective of maximising economic recovery of oil and gas from the UKCS is fulfilled prior to the inevitable decommissioning phase of its life.**

I firmly agree with the Committee's conclusion that all stakeholders must work together to ensure we maximise economic recovery from the North Sea. The Scottish Government was supportive of Sir Ian Wood's 2014 review and its findings, notably the setting up of an arm's length regulator with wider powers to implement the Maximising Economic Recovery strategy. Within this context, the Scottish Government's primary aim is to ensure there is no premature cessation of production from the North Sea.

I have no doubt that delivery of the MER-UK strategy will see the industry and regulator working towards maximising economic recovery from the UKCS. However, the concept of MER-UK is firmly grounded in a tripartite approach between industry, government and the regulator and I strongly believe that HM Treasury has a key role to play in ensuring that the objectives of the Strategy are delivered. This was a key point I made in response to the DECC consultation on the MER-UK Strategy in January 2016.

By working together, we can support the industry through this difficult period and ensure it remains well placed to benefit from a future upturn in oil prices. The oil and gas sector has a long future ahead of it and the Scottish Government will do everything we can to secure that future.

However, it must be recognised that the key fiscal and regulatory levers remain with the UK Government.

In a letter to the Chancellor of the Exchequer on 12 February, the Deputy First Minister set out the urgent action the UK Government must take at the Spring Budget to support this critical industry and its highly skilled workforce. This includes urgent action to substantially reduce the overall tax burden in the industry, the removal of fiscal barriers to exploration and enhanced oil recovery, improved access to decommissioning tax relief and urgent consideration of non-fiscal support, such as government loan guarantees.

**FERGUS EWING**