Annex B

INFORMATION IN SCOPE (PART A)

BRIEFING FOR THE FIRST MINISTER
BUSINESS MEETING WITH SINEAD LYNCH, CHAIR, SHELL UK

MONDAY 23 JANUARY 2017

Key message	• Significant potential still remains within the UKCS. Gary Haywood, INEOS views the North Sea as a "great opportunity" especially with the low oil price environment, Energy Voice, 29 Sept 16. • Decommissioning which presents a great economic opportunity for Scotland and our supply chain is already securing a significant amount of work.
What	Business meeting with Shell UK
Why	• [REDACT] • Gain perspective on outlook for industry; Shell's North Sea plans and opportunities for potential collaboration on decommissioning; and discuss implications and opportunities for Scotland.
Who	Sinead Lynch - Chair, Shell UK
Where	Shell Centre, 4 York Road, Lambeth, London, SE1 7NA
When	2.15-3.00pm
Likely themes	• Performance and outlook of the global oil & gas sector and prospects for the UKCS including Shell's future strategy and activities in the North Sea and implications for Scotland. • Decommissioning - opportunity to outline Scotland's Decommissioning Action Plan and understand Shell's plans. • Future skills provision and Scotland's approach to using the Apprenticeship Levy
Media	N/A
Supporting official	Lena Wilson - CEO, Scottish Enterprise [REDACT]
Attached documents	Annex A- Summary page Annex B- Company Profile and Performance and outlook for the industry Annex C- Decommissioning Discussion Annex D- Apprenticeship Levy Discussion Annex E- Oil & Gas FMQ Annex F- Attendee Profiles

ANNEX B

SUMMARY PAGE

PURPOSE

- [REDACT]
- Gain perspective on outlook for industry, Shell's North Sea plans, and opportunities for potential collaboration on decommissioning, and discuss implications and opportunities for Scotland.
- Opportunity to reaffirm Scottish Government's commitment to supporting O&G industry and to introduce the key themes from the Decommissioning Action Plan issued in December 2016.

KEY MESSAGES

- The North Sea still holds significant potential with up to **20 billion boe** remaining, but the industry highlights that further action is needed to encourage investment.
- We are under no illusions about the challenges facing the sector, but welcome the fact that the 2016 Economic Report shows that production increased in 2015 by **10.4%**, with a reduction in average operating costs by **45%** - reflecting the significant investment in recent years and the efforts by industry to reduce costs and increase efficiency.
- Significant potential still remain within the UKCS. Gary Haywood, INEOS views the North Sea as a "great opportunity" especially with the low oil price environment, Energy Voice, 29 Sept 16.
- Decommissioning which presents a great economic opportunity for Scotland and our supply chain is already securing a significant amount of work.
- Our Decommissioning Plan issued in December 2016 sets out a vision of how the Scottish supply chain can maximise the value that is obtained from the forecast spend of **£17.6 billion** on decommissioning between 2016 and 2025.

ANNEX B

COMPANY BACKGROUND

- As of 2014 Shell was the fourth largest company in the world, in terms of revenue, and one of the six oil and gas "super majors"- it is one of the largest companies listed on the London Stock Exchange.
- Shell employs approx **93,000** staff worldwide and c. **6,500** in the UK (of which **1,700** staff are based in Scotland, as well as a large number of contractors for which there are no official numbers).
- It has operations in over **90** countries and produces around **3.1m** boe per day. In 2015, Shell sold 6.4m barrels per day of oil products and **17.1m** tonnes of chemicals. In addition, it has refinery processing intake of **2.8m** barrels per day
- In the light of the current slowdown, Shell along with many other operators have announced cuts in planned capital expenditure – in the case of Shell reduction of **$15bn (£9.9bn)** globally – no breakdown is available for the UK sector.
- Shell's full year earnings dropped to **$3.8bn** in 2015 from **$19bn (£13bn)** in 2014 after it was affected by the recent collapse in oil prices.
- In November 2016 Shell announced the closure of its Finance Shared Service Centre in Glasgow with the loss of **380** jobs. [REDACT]

PERFORMANCE AND CURRENT OUTLOOK FOR THE INDUSTRY

The meeting provides an excellent opportunity for the First Minister to understand the implications on Shell's UK and North Sea activities and to hear at first hand about the main priorities for the O&G industry in upcoming negotiations.

- The industry continues to experience very challenging conditions although the oil price has risen slightly in recent months. The cost base of the sector has reduced significantly over the last few years in response to these challenges, although this has had a negative consequence for the supply chain which continues to experience job losses etc. Unit operating costs in 2016 were an estimated **$16** a barrel (**$21** in 2015). Production has risen in 2016 largely due to investment over the last few years in the UKCS (2016 production was an estimated **1.69m** barrels of oil and gas equivalent a day (2015 1.65).
- [REDACT]
- [REDACT]
- In the lead up to the EU referendum Shell boss Ben van Beurden was in support of the Remain campaign. After the result he further outlined the importance of the UK retaining free trade and movement of people. In a statement the company said that they would "work with the UK government and EU institutions on any implications" that the result would have for them.

ANNEX C

DECOMMISSIONING

STRATEGIC CONTEXT

- Shell is at the forefront of UK decommissioning – it is currently decommissioning the Brent Delta topsides, and has contracted this work to Hartlepool based firm Able UK. The decommissioning programme for the rest of the iconic Brent field – Alpha, Bravo and Charlie, is due to be submitted for a 60 day public consultation. [REDACT]
- [REDACT]
- [REDACT]
- [REDACT]
- It is forecast that there will be well over **125** decommissioning projects in the UKCS by 2025 (equating to **780** pipeplines/ **7130km** to be decommissioned, and **894,480** total tonnages to be brought onshore.)
- It's currently estimated that decommissioning activity in Scotland over the next 10 years could be valued at between **£8.3bn** and **£11.3bn** (GVA figures) - supporting peak employment of **16,925** to **22,775** jobs.

DECOMMISSIONING ACTION PLAN

- SE and HIE published a **Decommissioning Action Plan** in December 2016. The plan is designed to establish Scotland as an International Centre of Excellence for decommissioning. The plan is centred around 6 key objectives;
- **Information and stakeholders** - improve the information available to the supply chain, operators and other stakeholders to support decommissioning activity
- **Supply chain capability** - promote and develop decommissioning knowledge and capabilities of Scottish-based supply chain companies
- **Technology and innovation** - support development and deployment of technology and innovation contributing to cost-effective solutions
- **Competitive infrastructure** - encourage development of appropriate port and onshore yard infrastructure
- **Skills and training** - develop skills and training to achieve a flexible, safe and efficient workforce recognised for competency across the breadth of decommissioning activities
- **International opportunities** - identify and develop opportunities for international trade and potential inward investment

ISSUES TO NOTE

- [REDACT]
- [REDACT]

APPRENTICESHIP LEVY

- The Apprenticeship Levy is a new initiative of the UK Government raising funds direct from business, a policy which was decided **without consultation with the Scottish Government** or employers. It will apply from April 2017.
- While the Apprenticeship Levy will be a new tax on employers, its proceeds will largely be replacing existing apprenticeship funding in England of which Scotland will receive a proportionate share.
- **Employers in Scotland are set to benefit from a new £10 million skills fund, announced as part of the Scottish Government's response to the UK Government Apprenticeship Levy.**
- The fund will also be introduced in the Autumn 2017.
- The Scottish Government has committed to developing an approach that is more flexible and broader than is currently being proposed in England, to:
  - Continue to expand the number of Modern Apprenticeship opportunities as part of planned growth to **30,000** new starts each year by 2020.
  - Support measures to tackle structural unemployment issues
  - Continue to implement the Youth Employment Strategy
  - Establishment a new Flexible Workforce Development Fund
- Industry has backed plans to expand Foundation and Graduate Level apprenticeships. Foundation apprenticeships are a work-based learning opportunity for senior-phase secondary school pupils. Lasting two years, pupils typically begin their Foundation Apprenticeship in S5. Young people spend time out of school at college or with a local employer, and complete the Foundation Apprenticeship alongside their other subjects like National 5s and Highers. The apprenticeships are available in civil engineering, software development, and financial services. Graduate apprenticeships provide work based learning opportunities up to Master's degree level, providing a new way into degree-level study for individuals who are currently employed or wish to go straight into work.

ISSUES TO NOTE

- Whilst confident that we will be able to demonstrate support for the Apprenticeship family of activity, we should be alerted to the fact that many within the sector are unhappy at the lack of additional resource coming through the new Apprenticeship Levy. Many employers in the sector will already contribute to the Engineering Construction Industry Training Board (ECITB) levy at **1.5%** of their wage bill and the new Apprenticeship Levy will add a further **0.5%** on pay bills over £3m per annum. **This was raised as an issue at the last EJTF meeting and agreed it would be an agenda item discussion at the March meeting.**
- **Opportunity to understand Shell's plans for future skills provisions and acknowledge the considerable skills and education work Shell does with school and communities in Scotland.**

ANNEX E

OIL & GAS FMQ

<u>Scottish Enterprise published their Decommissioning Action Plan on 21 December 2016 – a key commitment within the Programme for Government, which outlines our commitment to the opportunities presented by decommissioning.</u>

- Decommissioning which presents a great economic opportunity for Scotland and our supply chain is already securing a significant amount of work
- The Plan sets out a vision of how the Scottish supply chain can maximise the value that is obtained from the forecast spend of £17.6 billion on decommissioning between 2016 and 2025.
- We have already invested in infrastructure to support decommissioning activity in Scotland. This is demonstrated through the **£2.4m public funding to develop the Dales Voe quay in Shetland**
- The latest Oil & Gas UK Decommissioning Insight (Oct 2016) found that a significant amount of work for both topside and substructure removal is yet to be carried out – of the 28 platforms with topsides forecast for removal in the central and northern North Sea during the period to 2025, 82% have not been contracted out
- FT report (9 January 2017) on decommissioning tax relief, based on Wood Mackenzie analysis (November 16), suggests the costs to the Government could be £24 billion, which "threaten to wipe out remaining oil and gas tax revenues".

<u>The Chancellor failed to introduce any new measures at the Autumn Statement to support the oil and gas sector.</u>

- No additional substantive measures were introduced and the Chancellor has chosen not to implement the strong package of support that the Scottish Government proposed for the North Sea industry which continues to be impacted by low oil prices.
- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.

<u>Oil & Gas UK published their Economic Report 2016 on 27 September, it highlights the challenging conditions in the industry, including a fall in total UK employment supported by the industry of 27% from a peak of 450,000 in 2014 to the current 330,000 jobs.</u>

- The UKCS is expected to generate a free cash flow deficit of £2.7 billion in 2016 - **an improvement from the £4.2 billion seen in 2015 due to a reduction in expenditure**.

It also points to the positive impact of efficiency measures, and highlights production increases:

- Average unit operating costs are expected to be around $16/boe, - driven by cost efficiencies and increases in production, with production increasing in 2015 by 10.4% with 602m boe produced (UKCS).

<u>Top Lines</u>

- The **North Sea still holds significant potential with up to 20 billion boe remaining,** but the industry highlights that further action is needed to encourage investment.
- We are under no illusions about the challenges facing the sector, but welcome the fact that the 2016 Economic Report shows that production increased in 2015 by 10.4%, **with a reduction in average operating costs by 45%** - reflecting the significant investment in recent years and the efforts by industry to reduce costs and increase efficiency.
- **The key economic and fiscal levers remain with the UK Government**. The Scottish Government remains committed to the oil and gas industry during these challenging times.
- The **Energy Jobs Taskforce (EJTF) is supporting Scotland's oil and gas sector** - bringing together key partners to maximise employment opportunities for those in the industry.

<u>The latest evidence from the OGUK Economic Report 2016 demonstrates both the significant opportunities and challenges, which still remain in the North Sea.</u>

- I heard first-hand from the OGUK Board, the efforts the industry is undertaking to improve efficiencies and lower costs - demonstrated by the 45% reduction in the cost of producing a barrel of oil since 2014.
- The report also highlights the continued downward trend in exploration and investment, with capital investment expected to fall to £9 billion in 2016, of which only £100 million is in new projects.
- **Significant potential still remain within the UKCS**. Gary Haywood, INEOS views the North Sea as a *"great opportunity"* especially with the low oil price environment, Energy Voice, 29 Sept 16.

<u>We launched a £12 million Transition Training Fund (TTF) to support individuals and help the sector retain talent on 1 February 2016</u>.

- The fund, currently in its 12th month, will **operate for three years**. Latest figures show **more than 1,300 people have had applications approved from the fund**.
- Training programmes procured by the TTF will also **create around 340 employment opportunities across Scotland**, with procurement of further training programmes planned.
- The TTF augments the work of the Energy Jobs Taskforce - already providing support through **PACE** and other measures such as the **Adopt an Apprentice initiative**.
- It is important that the TTF continues to address tangible economic opportunities, rather than simply offering speculative training - on this basis, the funding has already surpassed its initial aim of supporting over 1,000 participants each year.

<u>The Energy Jobs Taskforce (EJTF) remains focused 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</u>

- **The taskforce has met 12 times,** with the most recent meeting taking place on 8 December.
- The PACE programme has focused significant efforts in the North East – with **three large events in 2015 and direct redundancy support for over 2,500 people.**
- **A further employment & support event was held** on 22 June in Aberdeen, attended by 948 people.

  From March 2015 to April 2016, Scottish Enterprise has engaged directly with over 700 oil and gas companies via 29 events. These include workshops and programmes and 4 industry networking events.

<u>We have also provided a further £12.5 million to support innovation and business resilience</u>

- This includes £10 million of SE funding to **help firms reduce risks associated with carrying out research & development,** with around 70 innovation projects with a total project value of round £16 million having benefitted from £7 million of Scottish Government support so far.
- £2.5 million was set aside for **business resilience reviews,** providing targeted support from industry experts, with £1.1 million being invested so far.
- SE & HIE are providing practical assistance to the supply chain and have run **6 Resilience in Oil and Gas Events**, welcoming 217 delegates from 144 companies, to hear from experts on strategy, operations, finance and market resilience

<u>The key economic and fiscal levers remain with the UK Government, and further support is required</u>

- The Chancellor has provided no substantive measures to support to the oil and gas sector in the **Autumn Statement.**
- A letter on 12 November 2016 from the Cabinet Secretary for Finance and Constitution to the Chancellor contained **three specific asks ahead of the Autumn Statement**

- These proposals were focused around increasing activity in late-life assets to ensure their full potential is realised, protecting critical pieces of infrastructure, and driving forward much needed new investment in the North Sea. These asks were not addressed in the Autumn Statement
- The recent measures announced on 23 Nov do not address the short term challenges facing the industry.

<u>The Scottish Government has provided £125 million through the Aberdeen City Deal and a further £254 million of additional investment to help sustain Aberdeen as one of the world's leading cities for investment and business.</u>

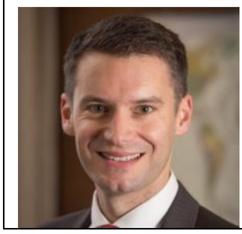
- On 21 November, the Scottish Government, UK Government, Aberdeen City Council, Aberdeenshire Council and Opportunity North East signed the Aberdeen City Region Deal. **The signing of the Aberdeen City Region Deal** and the release of funding allows the deal to move on to the delivery stage and make proposals a reality.
- The terms of the deal commit both the UK Government and Scottish Government to jointly investing up to £250m over the next decade.
- At the heart of the Aberdeen City deal is the Aberdeen **Oil & Gas Technology Centre.** This will be a new, world class centre to support innovation of the oil and gas industry in the North East, the rest of Scotland and across the whole of the UK.

<u>Maximising Economic Recovery from North Sea is consistent with SG Climate Change objectives</u>

- Oil & gas is forecast to remain a major part of the global energy mix for decades to come. It is important that Scotland continues to extract the maximum return from its mature basin, and avoids **substituting domestically sourced oil and gas for imports at no benefit to climate objectives.**
- Within this context, oil and gas – which currently **supplies around 90% of primary energy** – will continue to be an important part of Scotland's energy mix for the foreseeable future.
- Securing a viable future for Scotland's offshore industry, which maximises the return from remaining oil and gas reserves, remains the Scottish Government's policy. The expertise in the oil and gas sector will also prove invaluable for the engineering and innovation challenges posed by the low carbon transition.

ANNEX D

ATTENDEE PROFILES

<table>
<tr><td></td><td>Sinead Lynch - Chair, Shell UK
• Appointed in September 2016, succeeds Erik Bonino who was UK Chair from April 2014.
• Previously EVP Safety and Sustainability, responsible for the leadership and integration of BG Group’s Health, Safety & Asset Integrity, Security, Environment & Climate Change, Social Performance & Human Rights, Government & Policy Affairs and Communications disciplines.
• When proposed combination between Shell and BG Group was announced in April 2015, Sinead took on additional responsibility of heading the Integration Planning Team on the BG side and supported the ongoing transition of BG into Shell.
• Began career as a Geophysicist specialising in seismic processing and modelling before taking on roles in Exploration and Development Geophysics. Worked as an economist before moving into a series of senior Commercial and Business Development roles including international roles in Africa, Middle East and Asia.
• Sinead is married with two young sons.</td></tr>
<tr><td></td><td>Sean Winnett - Head of UK Government Relations
• In position since June 2015.
• Prior to this he worked with the Foreign and Commonwealth Office as Private Secretary to the Foreign Secretary for 2 years. He has also worked as a Senior Policy Advisor in the Cabinet office.
• Awarded an MBE in 2012 for his Diplomatic services.</td></tr>
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