

24 October 2022

The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
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SW1A 2HQ

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Dear Chancellor of the Exchequer,

On behalf of Offshore Energies UK (OEUK), I would like to congratulate you on your appointment as Chancellor of the Exchequer. OEUK is the leading trade body for the UK's integrating offshore energies industry. Our membership includes over 400 organisations with an interest in offshore oil, gas, carbon capture and storage, hydrogen, and wind. From operators to the supply chain and across the lifecycle from production to decommissioning, they are safely providing cleaner fuel, power, and products to the UK. Given the forthcoming budget on 31 October, OEUK would like to provide the following representation to HM Treasury.

OEUK recognises that action is required to stem the economic crisis and acknowledges the significant negative impact across the economy, and particularly for households and businesses if not managed appropriately. Our sector remains committed to being a responsible energy partner which will best be achieved through a fiscal and regulatory regime that allows us to invest long term to ensure we can deliver UK energy in as clean a way as possible. However, the ongoing uncertainty in the UK could lead to investment in key oil and gas projects not being delivered. For the industry to be sustained, investment by smaller independent companies is desperately required in addition to that of the established majors. Generating sufficient profits from existing assets is critical for companies to continue to progress opportunities and develop new fields needed to enhance security of supply.

We are also investing heavily in new energies and technologies in the UK. OEUK estimates the majority (53%) of oil and gas company spend will be in offshore wind, CCS Transport and Storage and Hydrogen for the remainder of the decade. For instance, our members are participating in investment worth around £28bn in Scotwind that could increase through supply chain development, but we need policy certainty to invest. Maximising the UK's domestic production will be key to long term price stability and accelerating the energy transition.

OEUK, on behalf of its members, requests HMT to adopt the following policy principles within the Budget and actively engage with the sector on them, namely the need to:

1. **Secure a sustainable and competitive fiscal regime** – To ensure the generation of billions of pounds of investment in UK offshore energy production, including projects identified in The Growth Plan 2022 that are nearing Final Investment Decisions. It is critical a sustainable and competitive fiscal regime be concluded within the timeframe of this parliament, providing a long-term framework and certainty for investors.
2. **Ensure energy policy is farsighted and deliverable** – Policy should promote long-term investment in all forms of offshore energy resources with a backdrop of fiscal and regulatory alignment. This should recognise the scale and longevity of private investment that will need to be attracted to secure the UK's energy future and deliver an affordable energy transition to a low carbon economy.

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3. **Maximise local content opportunities** – The UK economy could be transformed if we are able to make the most of UK content and benefit from the industrial growth and export opportunities it presents to transform our offshore energy supply chain.

The sector is proud to be a strong contributor to the UK economy, having paid over £400bn in tax to HM Treasury over the lifetime of the basin. The industry is making a significant contribution to the Exchequer this year through the energy price levy combined with the ring-fence corporation tax. Forecasts earlier in the year estimated the sector is on course to pay at least £7.8bn for 2022/23 in corporation tax and a further £7bn in the first 12 months of the energy profit levy. Depending on the market conditions, this figure could be significantly higher.

As reliable, responsible partners, our industry, and our workforce of 200,000 people, has supported successive governments to produce homegrown, secure energy to power the nation. As we transition our economy and scale new energies, this sector is committed to continuing to deliver this. However, the impact of significant negative fiscal and policy change will have on the market cannot be understated as can be demonstrated by considering the historical impact of such moves on the sector. We would welcome the opportunity to work with government on ensuring measures are fit-for-purpose to support energy security and accelerate net-zero.

It is vital that HM Treasury offers industry and investors fiscal predictability and regulatory certainty to secure investment in the UK in low carbon energy. In the race to net-zero in 2050, the UK must be seen as a globally competitive market able to attract inflows of capital to maximise our domestic resources and anchor our world leading supply chain in the UK. We need a long-term approach if we are to build a secure, affordable, low carbon energy market in the UK.

Yours sincerely



Deirdre Michie OBE
Chief Executive



Mr Richard Lochhead MSP

Minister for Just Transition and Fair Work

26 October 2022

OEUK and Minister Richard Lochhead MSP

Agenda slide

- 1 Welcome
- 2 OEUK Industry Overview and Update (pre read)
- 3 OEUK Forthcoming Events
- 4 OEUK/SG Industrial Relations
- 5 OEUK/SG Just Transition Policies
- 6 AOB

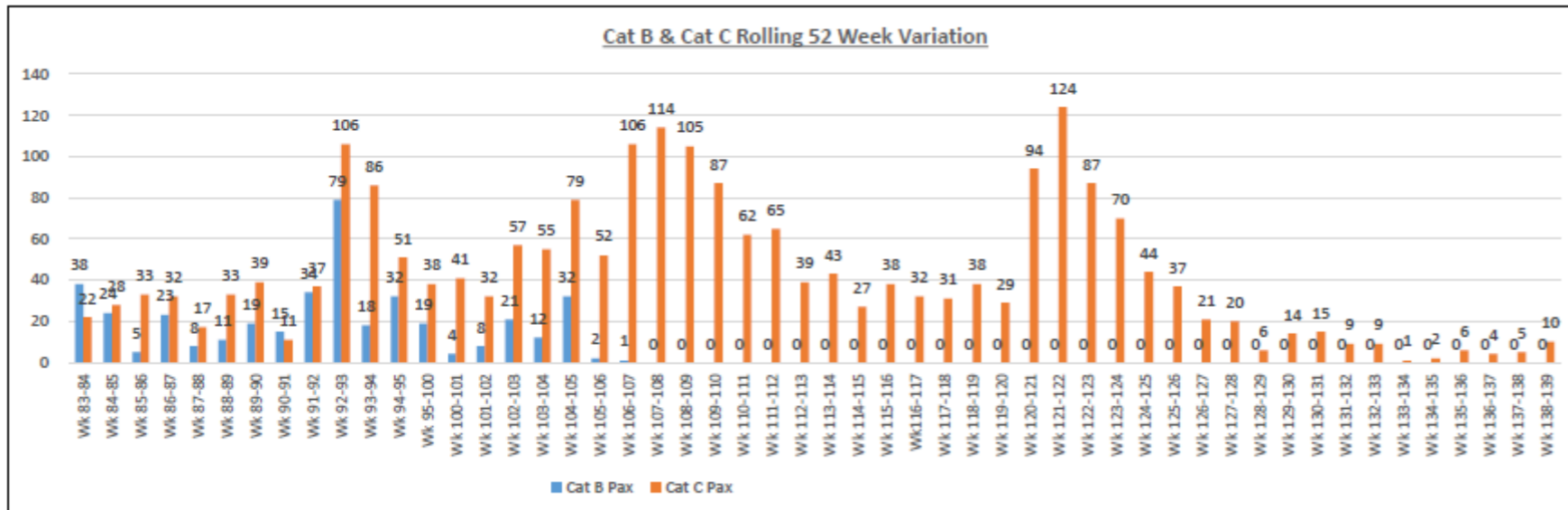
Personnel On Board

Update W/c 10.10

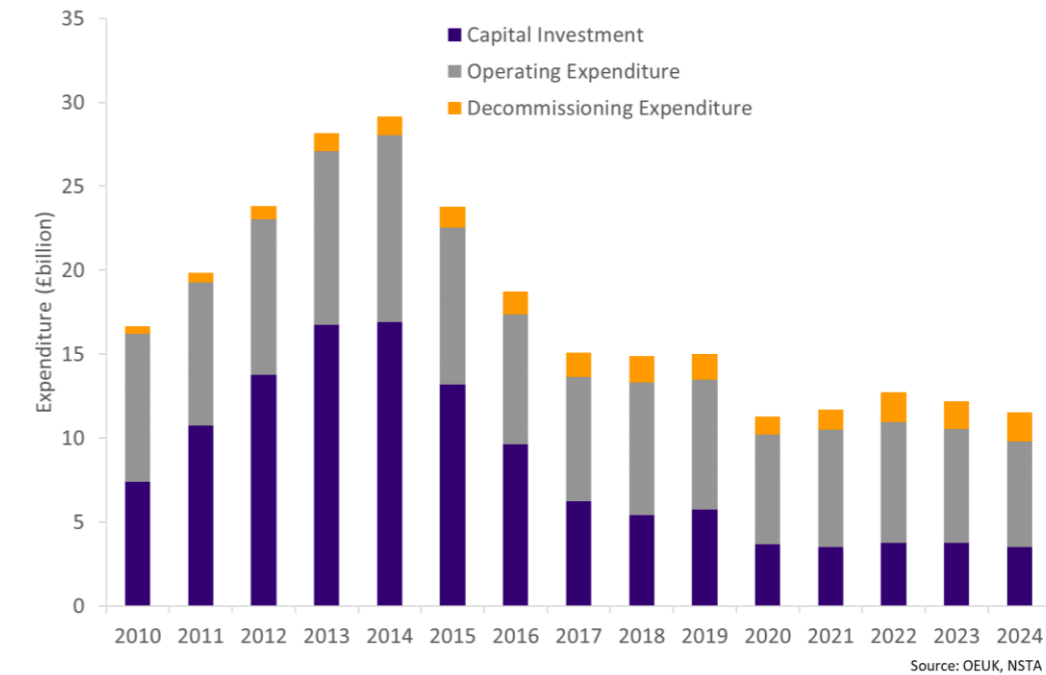
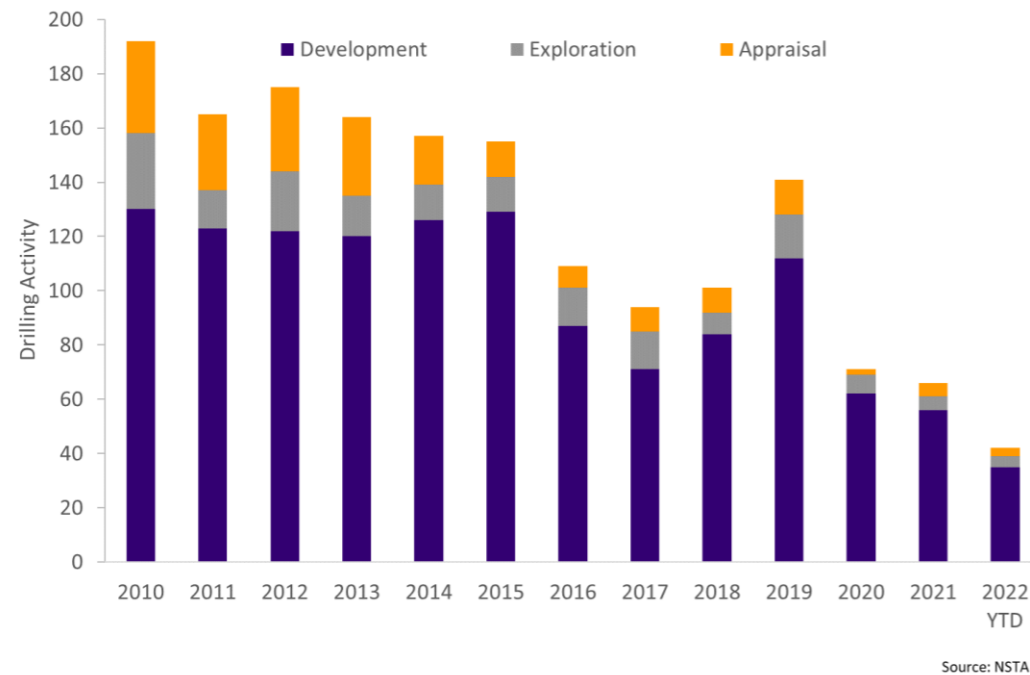
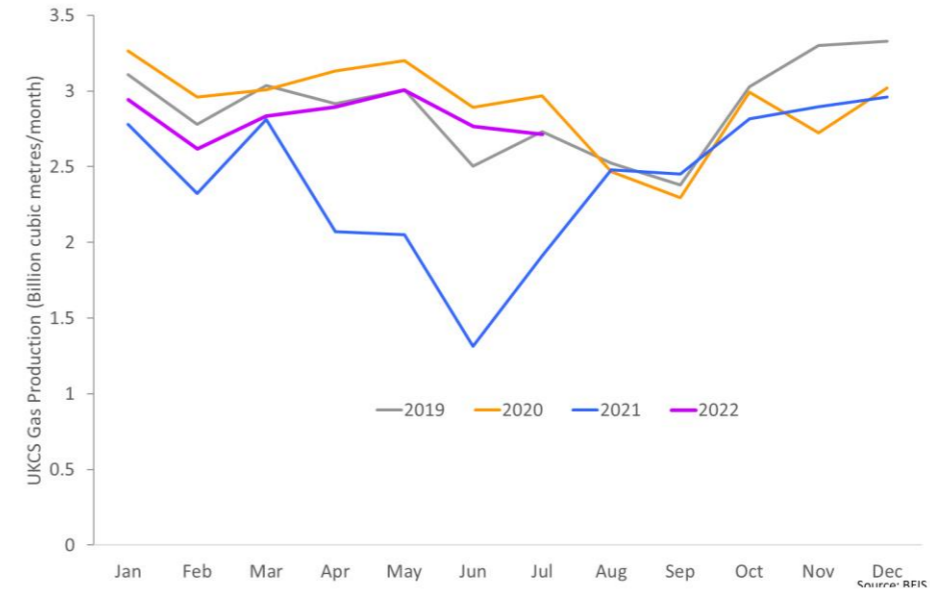
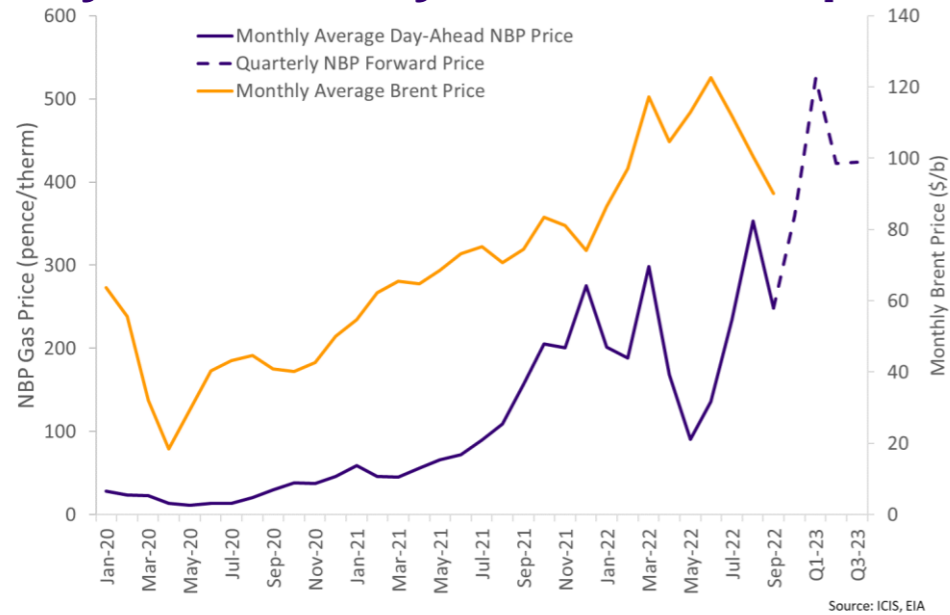


Covid - 19 Helicopter Passenger Movement Statistics Across All Helicopter Operations
From Week Commencing Monday 23 March 2020 to Sunday 23 October 2022

	Cat B Flts	Cat B Pax	Cat C Flts	Cat C Pax
East Irish Sea	17	39	10	14
Southern North Sea	101	274	237	336
Central North Sea	510	1799	1077	2093
Northern North Sea	75	297	263	622
West of Shetland	47	174	122	249
	Cat B Flts	Cat B Pax	Cat C Flts	Cat C Pax
Total Numbers	750	2583	1709	3314



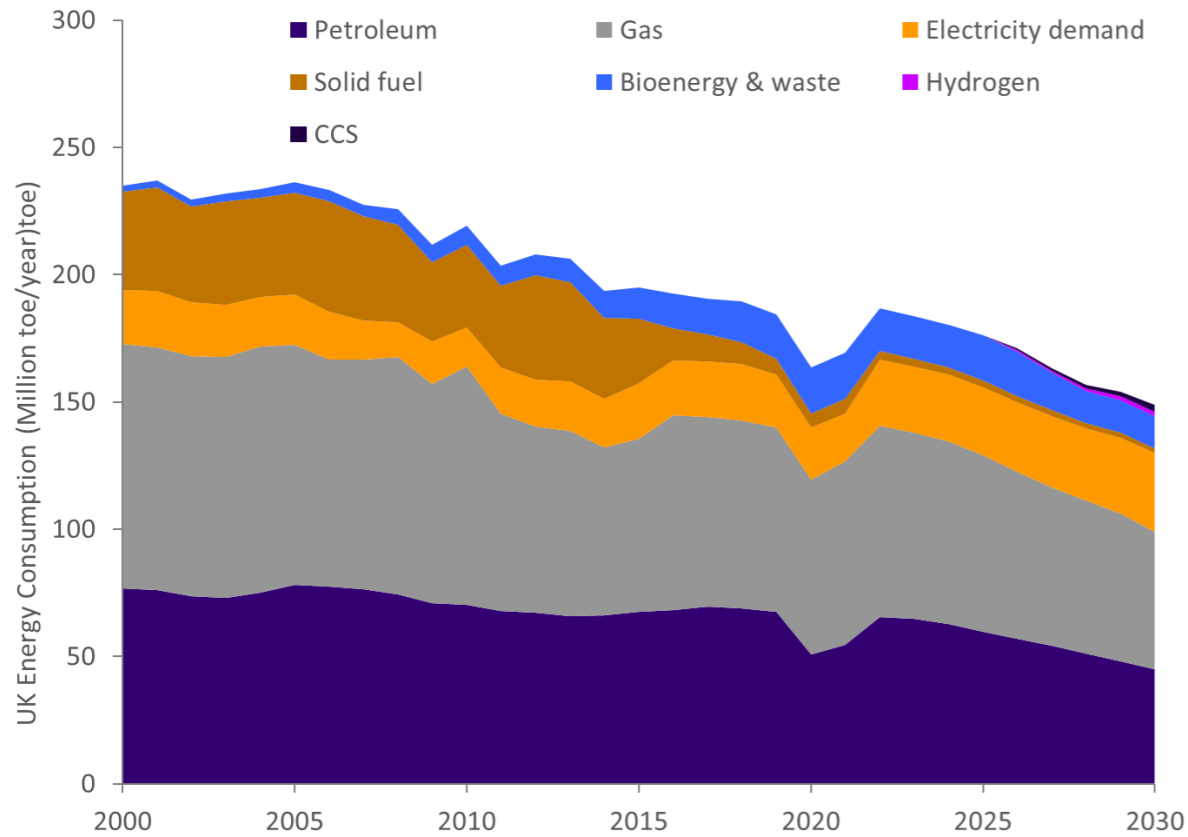
The sector is operating in a highly uncertain environment. Production has increased, but relatively low activity levels will impact on future output



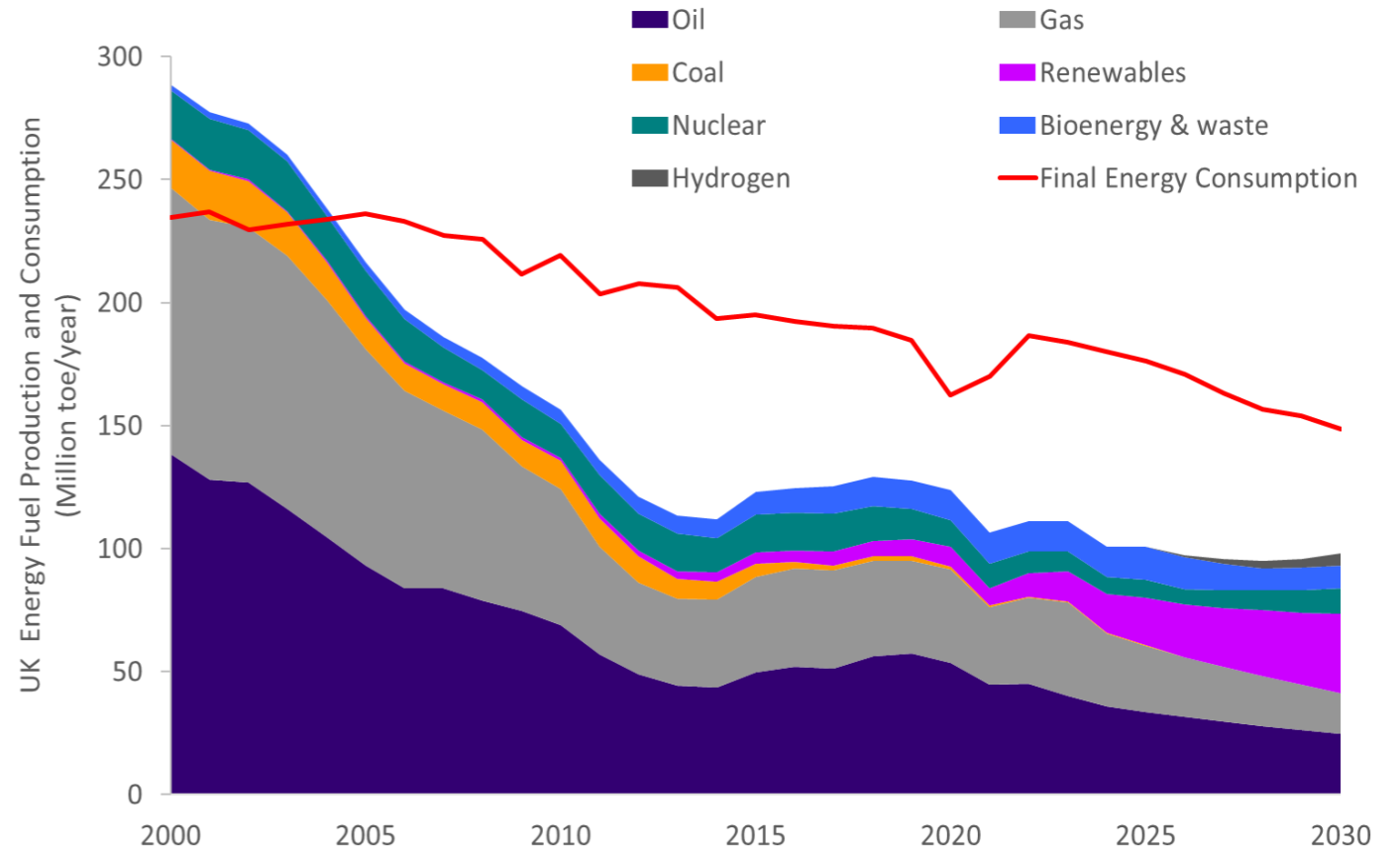
Demand and supply patterns are shifting – providing new opportunities for the sector

Oil and gas remain the largest energy sources into the 2030's, new sources expanding

UK energy demand & CCC balanced pathway outlook

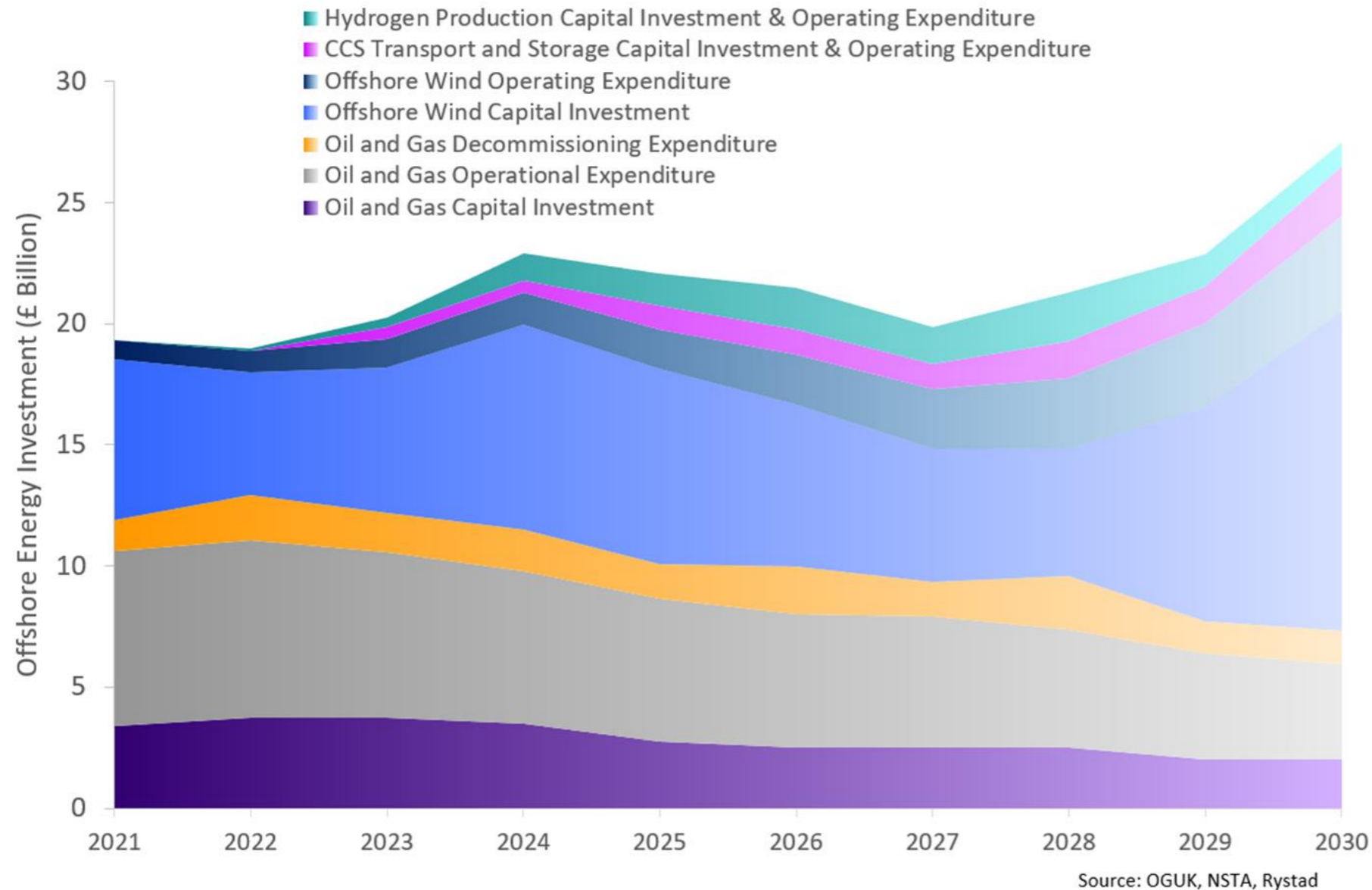


UK energy production & outlook



A transitioning investment outlook is driving a change in supply

Diversity of business models important to delivery



Delivery risks? :

Competitive investment conditions?

Supply chain constraints?

International competition?

Cost challenges?

Enduring political risk?

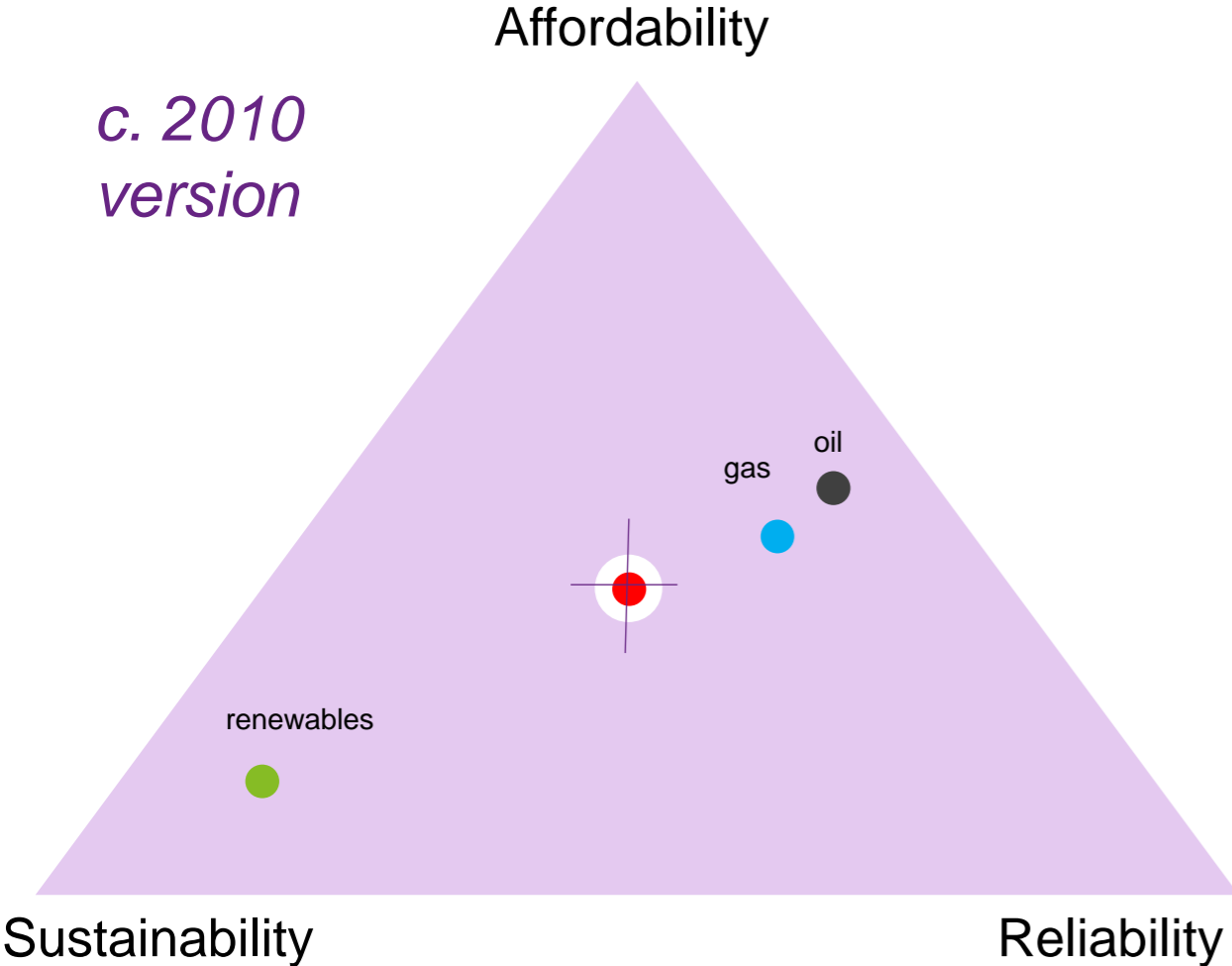
HSE?

Public sentiment?

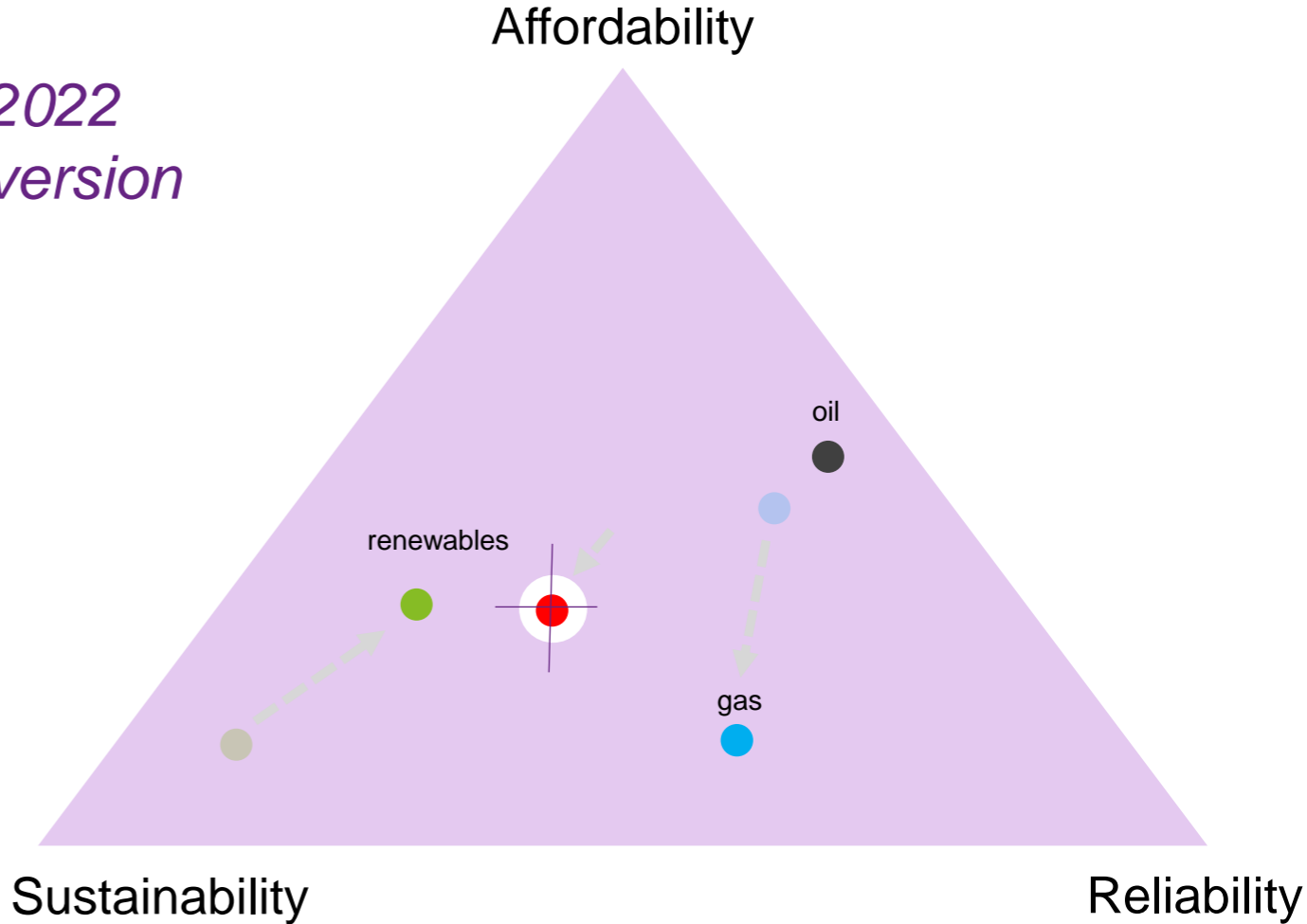
The classic Energy Trilemma has evolved over time as policy goals and technologies have changed

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*c. 2010
version*



*2022
version*



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MINISTER FOR JUST TRANSITION, EMPLOYMENT AND FAIR WORK

MEETING WITH OEUK

<i>Date and Time of Engagement</i>	Wednesday 26 October 2022 11:45 – 12:30
<i>Where</i>	Microsoft Teams
<i>Who</i>	Deirdre Michie, CEO, OEUK Mike Gaskill, External Affairs Manager, OEUK
<i>Key Purpose/ Message(s)</i>	Scotland's oil and gas industry has a key role to play in delivering our net zero future. I am delighted to join this important event and continue the discussion on how the sector and the ambitions of the North Sea Transition Deal are supporting our journey to net zero. I am committed to working with industry to achieve a just transition for our workforce, capitalising on existing skills and expertise to create many good, green jobs in the coming years and ensure Scotland's place as a global energy leader.
<i>Agenda</i>	<ol style="list-style-type: none">1. Welcome2. OEUK Industry Overview and Update (pre-read provided separately)3. OEUK Forthcoming Events4. OEUK/SG Industrial Relations5. OEUK/SG Just Transition Policies6. AOB
<i>Media</i>	N/A
<i>Official Support</i>	[REDACTED] Oil and Gas Policy [REDACTED], OCEA
<i>Briefing contents</i>	ANNEX A: Agenda & suggested lines to take ANNEX B: Top lines/Sensitivities ANNEX C: Summary of 'Ian Blackford' Paper

ANNEX A – AGENDA & SUGGESTED LINES TO TAKE

2. OEUK Industry Overview (pre read provided separately)

- The Scottish Government's position is clear that unlimited extraction of fossil fuels is not consistent with our climate obligations.
- This is why we have consistently called on the UK Government, to urgently re-assess all approved offshore oil and gas licenses where drilling has not yet commenced, against our climate commitments.
- We recognise that Oil and Gas continues to play an important role in our energy mix, and our economy.
- But we must focus on how to accelerate the development of new sources of energy, with associated new jobs so that we can move away from oil and gas more quickly, with a presumption as far as possible against new development.

3. OEUK Forthcoming Events (no SG attendance confirmed)

- CBI Business Dinner – 17 November 2022
- Offshore Decommissioning Conference – 21 November 2022
- OEUK Awards – 8 December 2022

Scottish Government Events

Issue:

OEUK have raised concerns regarding the number of Scottish Government events that have been held/planned. They have asked how these align with SG policy and what the outcomes of these will be. They have specifically mentioned the following events:

- Offshore Wind Supply Chain Summit – 22 August
- Hydrogen Supply Chain Event – 22 September
- Offshore Skills Event – 2 November

Offshore Wind Supply Chain Summit

- This event announced the result of the ScotWind clearing process. The Summit covered supply chain opportunities from all offshore wind projects in the pipeline in Scotland – not just ScotWind. The aim of the event was to build upon the Offshore Wind Collaborative Framework Charter, and use the agreed premise and components of the Charter to deliver a clear pathway to building a Scottish supply chain capable of delivering on ScotWind potential

Hydrogen Supply Chain Event

- The Scottish Hydrogen Supply Chain Event was announced by the First Minister at All Energy in May. The event was organised in line with commitments in the draft Hydrogen Action to build support for the Scottish Hydrogen Supply Chain.

Offshore Energy Skills Event

- On 2 November Cabinet Secretary for Net Zero, Energy and Transport will host an Offshore Energy Skills event. Minister for Green Skills will also be in attendance. The purpose of this event is to highlight and explore how the North Sea Transition Deal and Offshore Wind Sector Deal People and Skills Strategies are delivering a fair and just transition for the workforce.
- The Offshore Skills Event will bring together the offshore energy workforce and relevant stakeholders to share views and insights, encourage greater collaboration and pinpoint where further action is necessary.
- The event is in partnership with Skills Development Scotland, Energy Skills Alliance and Industry.

4. Industrial Relations

Background:

On 20 October over 300 drilling workers launched a 48 hour strike across North Sea installations in dispute over pay. The action was organised via Unite following rejection of a 5% pay offer earlier this year.

This follows a series of wildcat strikes earlier this year which were related to pay negotiations.

Further strike action is believed to be planned for 3-4 November, 17-18 November and 15-16 December, and Unite has warned that could escalate to “all-out strike action”.

OEUK have advised that further strike action could take place outside the Energy Services Agreement (ESA), an agreement between three unions and 14 companies designed to promote fairness for workers and stability for employers.

Alix Thom, workforce engagement manager with industry body Offshore Energies UK, said employers and unions were “working hard to address workforce concerns”.

“Workers in all sectors across the UK are feeling the impact of the cost of living crisis,” she said.

“However industrial action does not offer a solution, and is not helpful for our sector, which is doing all it can to attract the investment essential to protect jobs and to ensure national energy security.

Suggested lines to take:

Scottish Government Engagement with Unions

SG's approach to engagement with TUs / STUC more generally (including at ministerial level)

- The Scottish Government and the Scottish Trades Union Congress share a commitment to partnership working on strategic issues and in areas of common interest. The Scottish Government and the STUC have jointly produced this memorandum of understanding to reflect and underpin this [commitment](#).
- This document is based on a mutual understanding of the distinctive values and roles of each party and provides a framework for developing genuine partnership. It recognises, however, that from time to time some differences will inevitably arise. In such circumstances, each side will treat with respect the differing views expressed.
- The Scottish Government believes that we should respect workers across our economy and seek to negotiate fair resolutions to disputes, particularly at a time of soaring inflation.
- Maintaining a progressive approach to industrial relations - alongside ensuring workers have an effective voice, including through trades unions - is a priority for the Scottish Government. The Fair Work policy will continue to promote fairer work practices across the labour market in Scotland.
- The First Minister meets twice yearly with the STUC. These engagements offer the STUC General Council an opportunity for strategic discussion around economic recovery. The last one (25/10/2022) discussed the cost of living crisis, and how responses can be shaped to improve Fair Work outcomes

Any points on the TUC call for a more concerted approach to industrial activity?

- Scottish Government believes that we should respect workers across our economy; and we should seek to negotiate fair resolutions to disputes, particularly at a time of soaring inflation that has been exacerbated by the actions of the UK Government.

5. Just Transition Policies (including Just Transition Fund)

Issue:

Ian Blackford has issued invites to a roundtable event at Westminster on 2 November. The purpose of the meeting is to discuss the release of the SNP Westminster Group's Energy Report, "*The Economic Opportunity for Scotland from Renewable Energy & Green Technology*", authored by renowned economist David Skilling.

OEUK have advised that industry have raised concerns regarding mixed messages from SNP Westminster and SNP Scottish Government around position on oil and

gas. In particular they have mentioned a difference of messaging from SNP Energy Spokesperson at Westminster Stephen Flynn.

Further to this OEUK have raised concerns regarding the lack of engagement from Scottish Government particularly with reference to the launch of Independence papers.

With the continued discussion around Windfall Tax and awaiting the launch of the ESJTP from SG this has all culminated in a feeling of uncertainty across industry.

Suggested lines to take:

Oil and Gas

- The Scottish Government's position is clear that unlimited extraction of fossil fuels is not consistent with our climate obligations.
- This is why we have consistently called on the UK Government, to urgently re-assess all approved offshore oil and gas licenses where drilling has not yet commenced, against our climate commitments.
- We recognise that Oil and Gas continues to play an important role in our energy mix, and our economy.
- But we must focus on how to accelerate the development of new sources of energy, with associated new jobs so that we can move away from oil and gas more quickly, with a presumption as far as possible against new development.

A stronger economy with independence:

- This is the third paper in the Building a New Scotland series. It sets out proposals for the economy of an independent Scotland.
- The paper says that the SG plans to use the full powers of independence to build an inclusive, fair, wellbeing economy that works for everyone in Scotland.
- The paper sets out the SG view that the UK economy is not working for Scotland – it is delivering low productivity, stagnant wages, high inequality and high poverty rates.
- It suggests that the current UK Government is making major economic challenges – like inflation and the cost-of-living crisis – worse. Instability and uncertainty are increasing, and financial markets are questioning the UK Government's economic competence.
- The paper explains that Scotland's economy has huge potential - we have the skilled people, the dynamic businesses, and the natural resources to be just as successful as comparable independent European countries.

Windfall Tax

- The UK Government needs to use its powers and strengthen the windfall tax on excessive profits, rather than piling debt on ordinary people.
- A windfall tax should apply fairly to all companies benefiting from significantly higher profits. This would also ensure that Scottish industry does not carry a disproportionate burden of funding a UK-wide response.
- That is why we are calling on the UK Government to extend the windfall tax to all companies benefiting from significantly higher profits through the pandemic and energy crisis – as well as scrapping VAT on energy bills.

Just Transition Fund

Issue:

OEUK have advised that industry have concerns that the recent announcements regarding the successful bidders for the first round of the fund is not set in stone. Industry do not feel assured that there will not continue to be further announcements of the fund.

Suggested lines to take:

- The Just Transition Fund is a key commitment from the Bute House Agreement between Scottish Government and the Scottish Green Party; it is a fundamental aspect of the parties' joint approach to tackling the economic and environmental challenges Scotland faces. This government is committed to supporting the Fund through the lifetime of this parliament and beyond.
- Aberdeen is the oil and gas capital of Europe, we are committed to making it the net zero capital of the world. In Year 1, projects across the North East and Moray will receive a share of over £50 million to accelerate the energy transition and secure future jobs in the region.
- Funding allocation will increase from Year 2 onwards in order to keep pace with the region as it builds capacity and capability to engage with the transition to net zero.
- We are supporting 22 projects across a range of sectors with capital grants as announced by the First Minister on October 10. Additionally, we are also exploring options to support a number of additional projects with capital loan financing from the Year 1 allocation.
- In Year 1, the Minister for Just Transition engaged extensively across the North East and Moray to ensure the Fund truly reflected the regional priorities of those who live and work there. We are committed to continuing this engagement for future years and will prioritise listening to stakeholders on what they would like to see the Fund focus on going forward.
- In the coming months we will begin preparation for Year 2 of the Fund, building on Year 1 priorities combined with lessons learned to strengthen relationships with stakeholders in the region, expand the reach of the Fund and drive forward transformational change.

Net Zero Review

Issue:

On 29 September 2022 UKG launched the Review of Net Zero: call for evidence. The BEIS Secretary of State, Chris Skidmore (at that time) commissioned a review to ensure that delivering the net zero target does not place undue burdens on businesses or consumers. Consultation closes on 27 October and the review will report at the end of 2022.

OEUK would like to understand if Scottish Government will be engaging with this.

Suggested lines to take:

Scottish Government will be issuing a formal response to the consultation shortly.

ANNEX B – Top lines/Sensitivities

Oil and gas top lines

- The Scottish Government's position is clear that unlimited extraction of fossil fuels is not consistent with our climate obligations.
- This is why we have consistently called on the UK Government, to urgently re-assess all approved offshore oil and gas licenses where drilling has not yet commenced, against our climate commitments.
- We recognise that Oil and Gas continues to play an important role in our energy mix, and our economy.
- But we must focus on how to accelerate the development of new sources of energy, with associated new jobs so that we can move away from oil and gas more quickly, with a presumption as far as possible against new development.
- We are already investing in the sector's net zero transformation. In addition to our expanded, £75m Energy Transition Fund and £100m Green Jobs Fund, our £500m Just Transition Fund will support the north east and Moray to become one of Scotland's centres of excellence for the transition to a net zero economy.
- Scotland's first Just Transition Plan, being developed for a refreshed Energy Strategy, will set out how the economic and social impacts of transition will be managed.
- We are undertaking work to better understand Scotland's energy requirements as we transition to net zero, ensuring we support and protect our energy security and our highly skilled workforce whilst meeting our climate obligations.

CLIMATE COMPATIBILITY LICENSING CHECKPOINT

Unlimited fossil fuel extraction is not consistent with our climate obligations.

- The actions of UKG are reckless to believe that this approach is in anyway consistent with our climate obligations.
- We called on the UK Government for a four nations' discussions to agree on a final Climate Compatibility Checkpoint process which was ignored.
- The UKCCC said that any effective and credible climate compatibility checkpoint for oil and gas licensing must extend beyond new licensing rounds to also cover fields that are already consented but not yet in production.
- It is extremely disappointing that the Climate Compatibility Test proposed by the UK Government is limited to new exploration, and that the bar has been set so low in terms of the Test itself. It is a lightweight version of the Test consulted upon earlier this year.
- The Cabinet Secretary for Net Zero's response to the UK Government consultation in March made clear that any credible and effective package of conditionality tests must include both domestic and international dimensions - extending to at least all of the six tests outlined in the consultation document.
- Especially shocking is the failure of the Climate Compatibility Checkpoint to consider the impact of emissions associated with the use as well as the production of fossil fuels on the world's climate commitments made in Paris and reaffirmed in the Glasgow Climate Pact.

- Some form of test to capture “consumption” emissions (as was included as consultation test 5) and on the North Sea’s role in the global “production gap” identified by the UN (as was set out in consultation test 6) are essential for the checkpoint to have any credibility domestically and internationally.
- The lack of teeth in this Climate Compatibility Checkpoint demonstrates that the UK Government is not serious about the climate crisis.
- Dropping consultation test 4 indicates a lack of commitment to seize the opportunities a just transition to a net zero economy offers. Our oil and gas infrastructure and highly skilled workforce have long been at the forefront of energy innovation.

‘WINDFALL’ AND INVESTMENT ALLOWANCE TAX ANNOUNCEMENT

- The UK Government needs to use its powers and strengthen the windfall tax on excessive profits, rather than piling debt on ordinary people.
- A windfall tax should apply fairly to all companies benefiting from significantly higher profits. This would also ensure that Scottish industry does not carry a disproportionate burden of funding a UK-wide response.
- That is why we are calling on the UK Government to extend the windfall tax to all companies benefiting from significantly higher profits through the pandemic and energy crisis – as well as scrapping VAT on energy bills.
- By refusing to do so, the Prime Minister has put the cost of funding these measures on ordinary, working people instead of the companies forecast to make £170 billion of excess profits over the next two years.
- The levy does nothing to future-proof energy supplies and promote green energy.
- This only serves to encourage short-term investment in fossil fuels, rather than promoting long-term, sustainable solutions. That is clearly contrary to our climate objectives, and the commitments made at COP26.

JUST TRANSITION FUND

The Just Transition Fund is a transformative investment in the North East and Moray. We are committed to working closely with stakeholders to ensure the first £20m of the Fund helps accelerate the transition to a fairer, green economy.

- The Just Transition Fund is a ten year, £500m investment to support a fair transition to net zero and to diversify the regional economy, with £20m offered to projects this year, representing a total value of more than £50m over 4 years.
- The Fund will help finance organisations, businesses, communities and individuals to transition to net zero, creating jobs in low carbon industries and contributing to the region’s future prosperity.
- Over the last few months the Minister for Just Transition has engaged extensively across the North East and Moray, speaking to businesses, workers, trade unions, communities and local authorities to understand how we can best use this Fund to deliver on their vision for the region.

- This meaningful collaboration has enabled the Fund to truly reflect the regional priorities of the people who live and work there.
- The projects supported in the first year of the fund include:
 - a package of skills interventions including a digital offshore energy skills passport which empowers offshore workers to utilise their existing certification, and an advanced manufacturing skills hub;
 - innovative projects and approaches, including a social enterprise just transition fund, a digital innovation lab, and a supply chain pathway and challenge fund;
 - testing and promoting emerging technologies such as EV battery recycling technology, offshore green hydrogen, and decommissioning; and
 - empowering and investing in communities, with our participatory budgeting approach and through specific community projects in ecovillages, adaptation and local climate assemblies.
- This year, £19m was open for competitive bids via an application process which closed for proposals on 15 July. The remaining £1m was ring-fenced via participatory budgeting, whereby local communities will be able to influence and have a direct say on how money is spent in their local areas.

ANNEX C – Summary of ‘Ian Blackford’ Paper

Summary: The economic opportunity for Scotland from Renewable Energy & Green Technology

Renewable energy and clean hydrogen are both sectors which Scotland has the capacity to develop into world-leading industries, with the potential of becoming an exporter of renewable energy and hydrogen produced by renewables. Combined, these sectors have been estimated to potentially contribute £34 billion in Gross Value Added to the economy, and 385,000 jobs by 2050. It should be noted that, since a lot of the resources directed to these sectors will have been reallocated from other parts of the Scottish economy, the net economic contribution and job creation figures will be substantially lower.

Investing in green energy sectors could lead to wider economic benefits, by lowering the cost of electricity in the long-run. This could incentivise economically productive, energy-intensive businesses to invest in Scotland, and give businesses based in Scotland a competitive advantage by lowering their energy costs when producing goods and services. Global leadership in particular technologies, such as offshore wind or tidal stream power, could also lead to an exporting of intellectual property, technology and advisory services. However, there is a lot of uncertainty in these forecasts, and strategic choices will need to be made by the Scottish Government to maximise the economic benefits of developing these industries.

Challenges in realising this economic potential will include setting clear policy and targets, balancing the need to invest in a range of renewable and clean energy types while accepting that, as a small advanced economy, Scotland can only achieve international leadership in a selected number of areas. Certain technologies must be prioritised as a result. Additional challenges will include attracting sufficient private investment into these industries, growing the supply of labour that can enter these sectors' workforces and developing the infrastructure, such as grid capacity and ports, necessary to facilitate exports of clean energy.

Chapter 1: Assessing the Economic Value of Renewable Energy

The Fraser of Allander Institute have estimated that the renewable energy sector in Scotland generated £2.3 billion in Gross Value Added (GVA) and supported 23,000 jobs in 2019, on the basis of approximately 12 Giga Watts (GW) of capacity. By the late 2030s, Scotland could have approximately 54 GW of renewable energy capacity (26 GW offshore wind; 20.5 GW onshore wind; 7.5 GW from solar, hydro and tidal power collectively). With this capacity, the sector could contribute £10.5 billion in GVA (or 3.5% of GVA) and 75,000 jobs. By 2050, with a forecasted 84GW of renewable energy capacity, driven through the expansion of offshore wind, this could become £14.5 billion in GVA (3.4% of GVA – the sector's economic contribution is forecast to grow at the same rate as GVA as a whole), and 110,000 jobs. These estimates are less than the economic impact of Scotland's oil and gas industry, which currently contributes around 12% of Scotland's GVA.

Chapter 2: The Hydrogen Opportunity

Pursuing Scotland's potential for creating and exporting green hydrogen (hydrogen produced through renewable electricity) could result in a hydrogen sector that is larger than the economic contribution of oil and gas is today. By 2045-2050, the combined economic contribution of Scotland's renewable energy and hydrogen sectors is estimated to generate £34 billion in GVA and 385,000 jobs¹. This is over 15% of Scotland's total, present-day workforce. The report caveats these figures as being highly uncertain, and notes that maximising the economic value of hydrogen will depend on sharp reductions in the costs of producing green hydrogen. This report also argues that investing in blue hydrogen (fossil fuel-based hydrogen where carbon capture technology minimises the carbon emissions released in the production process) would be a poor use of resources, on the basis that it will have limited export potential for Scotland, make hydrogen producers dependent on international gas imports, and have little commercial viability as green hydrogen costs become more competitive.

Chapter 3: Capturing the Full Economic Value from Renewable Energy

Strong renewable energy and green hydrogen industries could provide additional economic benefits by providing low-cost electricity, increasing the competitiveness of Scottish firms in international markets, and incentivising investment of energy intensive businesses into Scotland. The establishment of leading renewable and green hydrogen sectors in Scotland could also lead to Scottish firms exporting advisory services and intellectual property (IP), in areas such as offshore and floating wind energy, or tidal stream energy.

Chapter 4: Constraints and Risks to Capturing Economic Value

Limits of the Scottish economy will constrain the scale to which renewable energy and green hydrogen production can be developed. The 385,000 job projections presented here amount to 15% of the present-day workforce, and are forecast to be 10% of the workforce by 2050. Securing the sufficient volume of suitably skilled labour will be difficult and require the reallocation of oil and gas workers, for example, as that industry declines, or an expansion in net migration flows into Scotland. Similarly, significant levels of capital investment will be required, from supporting supply-chains and production facilities to investing in infrastructure including the grid, ports and interconnectors. While large volumes of capital are being invested into these technologies globally, the amount needed to reach the estimated GVA and jobs figures in Scotland could be greater than 100% of Scotland's GVA, and Scotland is facing an increasingly competitive international market in attracting this capital.

There are significant risks to the successful realisation of Scotland's renewable energy and green hydrogen potential. Scotland is emerging as a world leader in floating offshore wind, after 60% of the successful bids in the recent ScotWind licensing round were based on this technology. However, Scotland will be the first country to deploy floating offshore wind at scale, and whether costs are successfully reduced will greatly affect the economic impact of this additional capacity. Tidal and wave power are similarly high in cost, despite having made substantial progress in the development of

¹ These figures are calculated by taking the Green Export Scenario of the Scottish Government's Scottish Hydrogen Assessment and adding the estimated GVA and jobs generated by the additional offshore wind capacity not identified in this publication.

these technologies in recent years. Input costs, such as labour costs and materials, for renewable electricity producers have also increased recently, with margins and share prices of these firms falling as a result.

Further policy issues limit how investable Scotland currently is for renewable energy production. Transmission costs through the grid are currently higher in Scotland than anywhere else in the UK. Meanwhile, offshore wind has only recently become eligible for Contracts for Difference (CfDs), which were hugely beneficial in incentivising renewable energy investment in the UK as a whole by allocating government money to renewable electricity producers. Wave and tidal power are still not eligible, and there is no distinction made between fixed and floating offshore wind, where the latter has increased risks, as noted above.

Chapter 5: Country Case Studies

This chapter looks at Denmark, the Netherlands, New Zealand and Norway as four case studies of countries comparable to Scotland. Denmark and the Netherlands are cited as examples where substantial policy alignment and investment have been made by their governments in the past and have resulted in greater economic benefits from renewable energy and green hydrogen. New investment, such as a public-private partnership creating two windfarm islands in Denmark, and the retrofitting and developing of new pipelines capable of transporting hydrogen in the Netherlands, is argued to be key to maximising the future economic benefits of these sectors.

While Norway is a leader in renewable energy generation, particularly using hydro power, political debate over the decommissioning of oil and gas fields has limited the aggressiveness of decarbonisation strategies. Unlike Denmark and the Netherlands, Norway does not have targets for hydrogen production. Instead of the substantial investment seen in those countries, Norway is currently developing a range of demonstration projects related to hydrogen, with the private sector leading these activities through their involvement in projects in the UK and elsewhere. Similarly, New Zealand is more of a consumer of green technology than a producer. While it has a high share of renewable electricity production relative to its gross consumption, this is a result of state-led investment from the 1970s. A lack of strategic emphasis on decarbonisation in recent years has left New Zealand with little of the economic benefits of clean energy compared to the other countries studied in this report.

Chapter 6: Thoughts on Implications for Scotland

For Scotland to realise the full economic potential of renewable energy and green hydrogen, the Scottish Government must set out a clear long-term, multi-decade strategy which will be supported by policy and investment. This must outline what Scotland will prioritise, facing choices between offshore wind and alternative renewable energy sources, or between exclusively focusing on green hydrogen or also considering blue hydrogen on a transitional basis. How these priorities will be supported, in terms of investment in infrastructure and increasing labour supply, and in the context of UK regulatory frameworks and policy, must also be determined.

OEUK Meeting with Minister for Just Transition, Employment and Fair Work
Microsoft Teams
Wednesday 26 October

Present: Mr Lochhead
Deirdre Michie, OEUK
Mike Gaskill, OEUK
Scottish Government Officials

- Mr Lochhead welcomed Deirdre to the call and invited her to run through pre-circulated presentation. OEUK highlighted that personnel numbers had returned to pre-pandemic levels.
- Any new projects brought forward will only be done so within emissions pathways that have already been committed to. Emissions have reduced by 20% since 2018, mainly through reduction in flaring and venting. Key to supporting reduction in emissions will be electrification.
- Ask for support from the sector in driving electrification forward. Regulatory barriers such as grid access are causing delays.
- Good work is being done but need to ensure that as the UKCS reduces emissions, need to meet NSTD targets and help reduce overall emissions. NSTA has been clear that emission levels from imports are higher than anything we produce.
- Industry are paying around £15bn in taxes with around 50% of that from Windfall.
- Mr Lochhead commented that in meetings with the supply chain it is clear lots of work ongoing in renewables but it seems to be difficult to measure.
- Deirdre advised that Capex and investment will be spent between now and 2030. The NSTF challenged for a Roadmap and this will be presented at the next meeting for the supply chain and identify where gaps are.
- Mr Lochhead asked why they believed there had been a decline in exploration and drilling
- OEUK believe this was a mixture of issues but primarily linked to covid. Over 50% of oil and gas spend is going into renewables.
- The Minister commented on the graph showing the energy sector but asked what was happening in the just transition. What was the size of the business in renewables.
- Deidre stated that commitment to local content is key. There are commitments to local content in the NSTD and in offshore wind.
- The Minister noted that there is a lot of international work. Lots of companies have no business in the UK sector yet there are lots of reported job losses.
- OEUK responded that we do need more clarity on that, RGU have undertaken work on skills gaps.
- Mr Lochhead has challenged RGU on this work. They have produced stats that are used in scenarios but in his constituency offshore workers are working for example in Nigeria, not the UK.
- Deirdre believes this is due to the downturn in 2015/16. Calculations they have undertaken have been based on spend as it is difficult to see where workers are based. Has always been a challenge to be specific locally.

- Deirdre updated on Industrial Action and that drillers are currently on strike. They are working carefully and hope that proposals will be accepted.
- There is a meeting in Westminster on 2 November. OEUK asked if there was a connect with Ian Blackford & Stephen Flynn, and any alignment they can speak to.
- Mr Lochhead advised that there will be similar themes in the ESJTP.
- OEUK asked if there was any update on publication & consultation
- Officials confirmed the ESJTP is still in draft and it is expected consultation will be 12wks but still to be confirmed.
- OEUK asked if the ESJTP will be Scotland focused or will it make connections with UK.
- Officials confirmed still in draft but there will be a chapter on assessment of UKG asks and where SG can step up. It will look at alignment of policies and synergies.
- Deirdre asked whether Scottish Government would be responding to the Net Zero Review.
- Mr Lochhead confirmed there will be a meeting with Chris Skidmore in parliament and they are engaged in the review. Need to ensure Acorn project is at forefront of people's minds.
- Mr Lochhead asked about the OEUK Decommissioning event in November
- Deirdre confirmed it will look at lifecycle and insight into other energies. Need to make sure lessons are learned on how to remove assets.