BRIEFING FOR THE FIRST MINISTER

MEETING WITH EQUINOR

Wednesday 10th August 2022

Key message	• 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. • 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.
What	Meeting with Equinor who published on 4th August: • Economic analysis on their Rosebank Oil Field Project • The Environmental Statement on Rosebank Field – now subject to a formal public consultation.
Why	Equinor have asked for a call with the First Minister to provide an update on the progress of their Rosebank Field which will be shortly due for Final Investment Decision by the company.
Who	• Anders Opedal, President and CEO, Equinor • David Cairns, Vice President Political and Public Affairs – Global CCOM PPAG, • Jose Frey-Martinez, Chief of Staff, Equinor
Where	Virtual meeting – Microsoft Teams
When	Wednesday 10th August, at 15:30
Likely themes	Oil and Gas, and offshore licensing
Media	N/A
Supporting official	**[REDACTED]**
Attached documents	Annex A - Meeting Summary Annex B – Scotland's oil and gas statistics Annex C – Equinor Background Annex D – Rosebank Field Annex E - Biographies

<u>On 4 August Equinor published economic analysis for its Rosebank project – which setting out the following metrics:</u>

- Expected investment of £8.1bn over the life of the multi-million-barrel field – with more than three-quarters of which (78%) will be spent in the UK.
    - Around £4.1bn of which will be spent developing the field, alongside £3.6bn in OPEX, with decommissioning costs estimated around £400mn.
- At peak, Rosebank is expected to employ up to 1,600 direct, full-time equivalent (FTE) jobs, nearly 1,200 of which will be UK-based.
- Estimated GVA amounts to some £24.1 billion over the field's life – or £2.1 billion annually at its peak – equivalent to 1% of the Scottish GDP, according to analysis prepared by Wood Mackenzie and Shetland-based Voar Energy on behalf of the operator.
- Fewer workers will be needed once operational in 2026, Equinor anticipates the need for nearly 300 FTE roles over its 25-year life, 90% of which it says are likely to be UK-based.
- Equinor have also published their Environmental Statement on the field (now out for formal public consultation) with a Final Investment Decision on the project expected in Q1 of 2023.
- Approval from the Offshore Petroleum Regulator for Environment and Decommissioning (OPRED) is needed before the project can move to the next stage.

Equinor requested a supportive statement from SG on the back of this announcement but this was not something we were in a position to provide. The following was shared with them on 08 August:

Scottish Government's headline position:

> 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.

Q&A: If asked specifically about the plans to electrify the Rosebank field:

> 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.
>
> The UK Government has failed to set out a clear policy position on climate checkpoints. As such, there is no context to consider the emissions impacts of any development. However, we welcome Equinor's plans to electrify production on the Rosebank Field, reducing emissions from production, which would be an important consideration in the climate compatibility assessment.

Q&A: If asked about SG engagement with Equinor:

> Equinor is an important partner in Scotland's energy transition.

In recent years we have welcomed Equinor's investment into Scotland in Hywind Scotland, the world's first floating offshore wind farm and Equinor's partnership with SSE to produce power with carbon capture and storage in Peterhead.

We will continue to work with Equinor to maximise investment across all parts of the energy supply chain to deliver jobs in Scotland.

SG OCEA Analysis states:

- The UK overall production is currently 1.5 million barrels per day and Rosebank's expected average additional production is across its (24 years) lifetime will be roughly around 2.8% of UK production**. Equinor's figures above focuses solely on the peak production of the field over 4 years resulting in their estimate that Rosebank could account for around 8% of the UK's oil production.**

<u>On 5 August Campaign group Uplift claimed that investing in the field means that Equinor will pay £834m less in tax to the UKG under the Energy Profits Levy (EPL) .</u>

- Greenpeace UK have also said: "*We will fight Rosebank every step of the way, and urge the government to crack on with quick, cheap solutions that will actually help in the cost-of-living crisis and the climate emergency - renewables, home insulation and heat pumps.*"
- Greenpeace has already have brought a legal challenge with the Scottish Courts against the North Sea Transition Authority (industry regulator) over the planned Shell Jackdaw development in the North Sea.

<u>Decarbonisation of the Rosebank Field</u>

- Platform electrification is a vital part of cutting emissions in the North Sea and reaching net zero and is a core component of the industry and UKG agreed North Sea Transition Deal.
- Within the NSTD, the oil and gas industry has committed to reduce offshore emissions by 50% in 2030, set on a 2018 baseline.
- Officials understand that Equinor hopes to lower the operational emissions of the project by adapting the FPSO for electrification, using power either from the onshore grid or directly from renewables schemes – with one option potentially being a dedicated floating wind scheme.
- On 4 August Arne Gurtner, senior vice president for UK and Ireland offshore at Equinor stated that Rosebank will be *'one of the most energy efficient production units on the continental shelf – it will already be that without electrification, but we are also committed to bringing electrification forward,"* but that the operator *"has not yet decided on the solution yet…"*

<u>The UK Government has failed to set out a clear policy position on climate checkpoints [the UKG consultation closed on 28 February with an announcement on the Checkpoint expected in early Autumn).</u>

- As such, there is no context to consider the emissions impacts of any development. However, we welcome Equinor's plans to electrify production on the Rosebank Field, reducing emissions from production, which would be an important consideration in the climate compatibility assessment.
- Equinor is an important partner in Scotland's energy transition.
- Scottish Government have previously welcomed Equinor's investment into Scotland in Hywind Scotland, the world's first floating offshore wind farm and Equinor's partnership with SSE to produce power with carbon capture and storage in Peterhead.

- We will continue to work with Equinor to maximise investment across all parts of the energy supply chain to deliver jobs in Scotland.
- **Potential sensitivity:** It is unclear at this stage if Equinor will be submitting a bid into the Innovation and Targeted Oil and Gas (INTOG) decarbonisation leasing round which was opened **today** by Crown Estate Scotland. If this is mentioned, please advise that due to the decision making process, Ministers are unable to discuss individual INTOG projects at this time.

Equinor downplayed the impact of UKGs recently enacted Energy Profits Levy (EPL) and its associated investment incentives – on the company's plans for the field.

- Mr Gurtner stated *"The project has matured all along from when we first came into the license as operator. We have used somewhat more time to optimise the concept, both commercially but also towards a more low-carbon solution which fits which fits to our own Equinor strategy." "The EPL is a very, very important boundary condition which we have been following very closely, but it hasn't directly influenced the project maturation in this phase."*

'WINDFALL' AND INVESTMENT ALLOWANCE TAX ANNOUNCEMENT

While the fiscal regime is reserved to Westminster, I've made clear that I support a windfall tax. But I also made the point that there are companies beyond the Oil & Gas sector making large profits right now.

- 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.

Oil and Gas Production

- In 2019, 93.5% of Scotland's primary energy (encompassing all of Scotland's indigenous production and imports) was oil and gas (62.2% oil, 29.5% gas and 2.5% petroleum products).
- In 2019, Scotland produced an estimated 54.0 million tonnes of oil equivalent (mtoe) of crude oil and natural gas liquids (NGLs) (equivalent to 628 TWh). Scotland accounts for 95.2% of total UK crude oil and NGLs production.
- Scotland produced 23.2 mtoe of natural gas in 2018 (equivalent to 270 TWh), although this has dropped for each of the last three years. It accounts for 62.1% of total UK gas production.
- Oil and gas make up 76.5% of all Scottish consumption. In 2018/19, the approximate sales value of oil and gas produced in Scotland is estimated to have been £25 billion.
- The oil and gas sector on average supports up to 40% of all Scottish jobs directly and across the supply chain. It is expected to generate £16 billion in GVA, supporting 82,000 jobs in 2021.

Reserves

- The North Sea Transition Authority (NSTA) estimate for proven and estimated UK reserves as at end 2020, is over 11 billion barrels of oil equivalent, of which 4.4 billion had been sanctioned.
- The NSTA estimates without the development and discovery of new fields, the current reserves would sustain domestic production from the UKCS to 2030. However, with development production could be sustained for another 20 years.

Emissions from UKCS

- In 2019, 19.2 MtCO2e GHGs were emitted from upstream oil and gas operations. Emissions from activities in the Scottish zone of the North Sea provides an indicative estimate of around 15.4 MtCO2e (80%).

Imports and Exports

- Of all of Scotland's primary energy generated via oil and gas, more than four fifths (81.1%) of it was exported in 2019, with only about a tenth (11.5%) domestically consumed.
- Turnover of Scottish offshore oil and gas exports stands at £24.5 billion in 2018, of which £16.0 billion is exported to the rest of the UK and £8.4 billion exported to the rest of the world.
- The proportion of imports in total Scottish oil and gas has risen from 3% in 1998 to 21% in 2019. The proportion of total Scottish Oil and Gas that is exported has remained relatively stable at 88% in 1998 to 81.1% in 2019.
- Domestic production has a lower carbon intensity than a number of potential import substitutes. The NSTA have estimated gas extracted from the UKCS has an average emission intensity of 22 kgCO2e/boe; whereas imported LNG has a significantly higher average intensity of 59 kgCO2e/boe.

Background

- Equinor is a Norwegian multinational energy and petrochemicals company with worldwide revenues of $90.92 billion USD. With nearly 21,126 people employed worldwide in 2021 and approximately 650 employees in the UK.
- They produced on average 2,079 Million barrels of oil equivalent (boe) per day.
- The company is vertically integrated – i.e. it is active in exploration, production, refining, distribution, petrochemicals and trading. Equinor is present in around 30 countries around the world, operating in North and South America, Africa, Asia, Europe - and Norway.
- Equinor have three British onstream projects; Mariner, Utgard and Barnacle. Mariner production began in 2019, with over £6 Billion of investment supporting an estimated 700 jobs.
- Equinor every year typically supplies 20-22 Billion cubic metres of natural gas to the UK which covers over 25 % of UK gas demand. Their Yorkshire storage facility provides around 11% of the UK's storage capacity.

UKCS Operations

[**REDACTED**}

Recent Developments

- 16th June 2022 – Equinor and Centrica's latest agreement to deliver additional supplies to the UK adds around 1 billion cubic meters (bcm) per year to Equinor's existing, bilateral contract with Centrica and brings the total volume under the contract above 10 bcm per year.

Equinors Energy Transition

- They have an ambition to power 5 Million UK homes by their UK wind farms by 2030.
- Equinor operate three UK offshore wind farms; Dudgeon and Sheringham Shoal, and Hywind Scotland, off the coast of Peterhead, Scotland.
- Hywind Scotland's five turbines came online in 2017 and with 30 MW capacity they can generate enough electricity to power around 36,000 Scottish homes.
- Dogger Bank will be completed in 2026. The 3.6GW project will be capable of providing around 5 million UK homes with renewable electricity, creating around 200 jobs.
- The North Sea region will play a key contribution in Equinor's global ambition to increase its renewables capacity to 12 – 16GW by 2035, around 30 times what it is today.
- In Aberdeenshire in Scotland, they are collaborating with SSE Thermal to develop Peterhead Carbon Capture Power Station which is expected to start operations by 2027.

Rosebank Oil Field

The Rosebank field is located in the Faroe-Shetland Channel, 125 kilometres from the closest UK coast on Shetland. The field is the largest pre-Field In Development (FID) project in the UK. [**REDACTED**]

The field is owned by Equinor (40%), Suncor Energy (40%) and Siccar Point (20%) **[REDACTED]**

Key facts

- The UK overall production is currently 1.5 million barrels per day and Rosebank's expected average additional production is across its (24 years) lifetime will be roughly around 2.8% of UK production**. To note that Equinor's analysis focuses solely on the peak production of the Field over 4 years resulting in their estimate that Rosebank could account for around 8% of the UK's oil production.**

[**REDACTED**]

1. Economic impact

Rosebank could benefit from the UK Government's £3 billion tax allowance for fields deeper than 3,280 feet and with more than 180 million barrels of reserves, a key factor in the investment decision in the field.

2. Environmental impact

- We expect the potential increase in emissions from Rosebank to be exported because North Sea oil is not a substitute for the oil Scotland imports and has capacity to refine.
- The environmental impact of the Rosebank development is likely to be substantial and increase the pressures to achieve the Scottish Governments emission reduction targets. Depending on the levels of production the impact will be varied. The emissions related to the UK targets will depend on how the oil is used within the UK.
- [**REDACTED**]However, if this was to displace fuel currently used in the UK there would be no net increase and a potential decrease in emissions from a drop in importations of crude oil. However, this is unlikely given that in 2020 we exported 38mt and imported 37mt of crude so likely we will see an increase in export emissions.
- The UK's refineries were developed to produce petrol for transport and fuel oil for electricity generation as a result, the UK relies on imports to meets its requirements for jet fuel and road diesel. Grangemouth is Scotland's only crude oil refinery, of which approximately 70% of the crude oil to be processed is imported. This is due to the North Sea Brent crude oil being light and sweet due to its relatively low density and low sulfur content, respectively. Considering this, and the high volumes of crude oil exported from Scotland the increase in emissions is likely to be exported.

Annex E – Biographies

Anders Opedal, President and CEO, Equinor – since 2 November 2020

Opedal joined Equinor in 1997. From 2018-2020 he held the position as Executive Vice President Technology, Projects and Drilling. From August to October 2018, he was Executive Vice President for Development, Production Brazil and prior to this Senior Vice President for Development, Production International Brazil. He also held the position as Equinor's Chief Operating Officer. In 2011 he took on the role as Senior Vice President in Technology, Projects and Drilling; where he was responsible for Equinor's NOK 300 billion project portfolio. From 2007-2010 he served as Chief Procurement Officer.

He has held a range of technical, operational and leadership positions in the company and started as a petroleum engineer in the Statfjord operations. Prior to Equinor, Opedal worked for Schlumberger and Baker Hughes.

Education: MBA from Heriot-Watt University and master's degree in Engineering (sivilingeniør) from the Norwegian Institute of Technology (NTH) in Trondheim.

David Cairns, Vice President Political and Public Affairs, Equinor.

After joining the FCO in 1993, David Cairns served in Japan as Second Secretary Commercial and in Geneva as the Head of the World Trade Organisation (WTO) Section. He has also held a number of positions based in London.

From 2015 -2019, David was the UK Ambassador to Sweden. In 2019, David took up his current role as VP President Political and Public Affairs at Equinor.