



## Oil & Gas UK - a new trade association for a new era

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The chairman of the All Party Parliamentary Group gives his views on the industry



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A new trade association for a new era



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Wireline is published by Oil & Gas UK, the leading representative organisation for the UK offshore oil and gas industry. Oil & Gas UK's members are companies licensed by the Government to explore for and produce oil and gas in UK waters and those who form any part of the industry's supply chain.

We want to hear your views on our newsletter so please send us your feedback as well as ideas for future articles. We would also welcome your letters for possible publication.

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# Welcome

*The joint chairmen of Oil & Gas UK, Dave Blackwood, head of BP's North Sea business unit, and Tom Smith, managing director of Nessco Ltd, share some opening words*



## Welcome to the first issue of Wireline, the new quarterly newsletter bringing you news and information about the activities of Oil & Gas UK

The launch of Oil & Gas UK has created a brand new trade association for one of Britain's most successful industrial sectors. For the first time in its 40 year history, the UK offshore oil and gas sector has a pan-industry forum which is open to all companies active in the UK continental shelf, from super majors to large contractor businesses and from small independent oil companies to SMEs working in the supply chain.

As the organisation continues to grow – and there are already over 60 companies signed up – it will be important to keep our members, as well as those with a stake in the future of our sector, informed of its activities. This is where Wireline comes in, providing news, features and

analysis as well as details of forthcoming events in the Oil & Gas UK calendar.

Oil & Gas UK gives industry a stronger voice in putting forward its case to ensure a long and healthy future, whether of a technical, financial, economic, safety, environmental or social nature. It will do this by promoting an active and informed dialogue within and across all sectors of the oil and gas industry and, by drawing on the combined perspectives of its member companies, will deliver a more effective message, particularly in its conversations with government.

The organisation builds on existing strengths established by the UK Offshore Operators Association, which it now incorporates. The staff of 30, based in offices in London, Aberdeen and Brussels, is being expanded to include a manager to deal with supply chain issues as well as new business analyst and communications posts.

But why is the work of this new industry body so important? Simply, it is because there are still up to 25 billion barrels of oil and gas reserves to recover from the UK continental shelf. These are significant volumes whose importance should not

just be measured in terms of primary energy supply but also in the number of jobs, the tax revenues and the wealth generated in local economies that the investment in the recovery of these barrels represents.

We are about to enter a new and critical phase in our industry's lifecycle. The decisions taken today will determine the shape of UK oil and gas production to come, and the whole of industry, from one end of the supply chain to the other, must be involved in these decisions. Oil & Gas UK is the trade association for the new era, a stronger voice for a vital UK industry.

## Energy tops the political agenda as Prime Minister and First Minister visit Aberdeen

During the campaign for the Scottish Elections, Prime Minister Tony Blair MP, and First Minister Jack McConnell MSP met senior members of industry in Aberdeen on March 16. Following an offshore trip to the Buzzard field hosted by Nexen Petroleum UK, Tony Blair and Jack McConnell spent nearly an hour in Oil & Gas UK's offices with representatives of the operator and contractor community and Aberdeen Chamber of Commerce hearing at first hand about the achievements and concerns of the UK's oil and gas industry.

The visit was the direct outcome of a meeting arranged in April last year by Sir Robert Smith MP, when the Prime Minister was invited by Malcolm Webb, Oil & Gas UK's chief executive, to come to Aberdeen. We were therefore delighted when the Prime Minister's office contacted Malcolm to take him up on his invitation.

The meeting was extremely positive and the industry was able to put across the important point that the UK still has considerable volumes of oil and gas to recover which could support the country's energy needs for many years to come.

During the discussions both Tony Blair and Jack McConnell emphasised the need to maintain and increase the high skills base needed to sustain oil and gas activity in the UK. They were also receptive to the need to maintain the pace in exploration, bring on new developments and maximise recovery from existing fields.



Prime Minister Tony Blair MP and First Minister Jack McConnell MSP with staff in the Oil & Gas UK Aberdeen office

## Update on Government consultations

The long awaited Energy White Paper was published on May 23. Responding in the media, Oil & Gas UK was pleased to note the government's recognition of the vital contribution made by indigenous oil and gas to energy supply. Expect a new Energy Minister to take the policies forward as the new Prime Minister instigates a Cabinet and Ministerial reshuffle.

Oil & Gas UK continues to work on its written submission to the Marine Bill White Paper, with a deadline of June 8. Changes to the oil and gas licensing regime remains one of the key concerns from the industry, coupled with the

uncertainty of whether the DTI will survive a government re-shuffle or if the Energy sector at DTI will be swallowed up into a new super department of Energy and Environment.

The Budget papers released on March 21 included a Treasury discussion paper on the oil tax regime and Oil & Gas UK members are working together to submit written evidence for the September 2007 deadline. As mentioned by Bob Blizzard MP in his oil taxation debate in Parliament on March 21, this discussion paper has a very long gestation period – with the first mention of it being included in the Pre Budget report in 2005.







Rona Macdonald, government relations manager, Oil & Gas UK with Eric Joyce MP at the annual APPG reception in January

## Oil & Gas Parliamentary Group goes from strength to strength

With ten new MPs signed up since the beginning of the year, the British Offshore Oil & Gas Industry All Party Parliamentary Group (APPG) chaired by Bob Blizzard MP now has over 80 members and a busy schedule ahead. The Group heard about safety issues at its April meeting and questioned the Treasury Minister, John Healey MP, in May on oil taxation issues. Energy Minister Lord Truscott has agreed to address the AGM in July and APPG members will hear about the findings of Oil & Gas UK's latest Economic Report at its launch in early July.

Rona Macdonald, Oil & Gas UK's government relations manager, will take on the running of the Oil & Gas Cross Party Group in the Scottish Parliament from May. The Cross Party group ceased to exist during the Scottish elections because the Parliament was dissolved but work is progressing on re-forming the Group and arranging an AGM so that a new Chairman and Officers can be elected.

## Report explodes myth of ageing oil and gas offshore workforce

The current high levels of activity on the UK continental shelf have resulted in some well-publicised concerns about the demographics of the offshore workforce, and the sustainability of the skills base. One particular area of concern often highlighted in the public arena is the age profile for the offshore population, which is traditionally viewed as ageing and all-male.

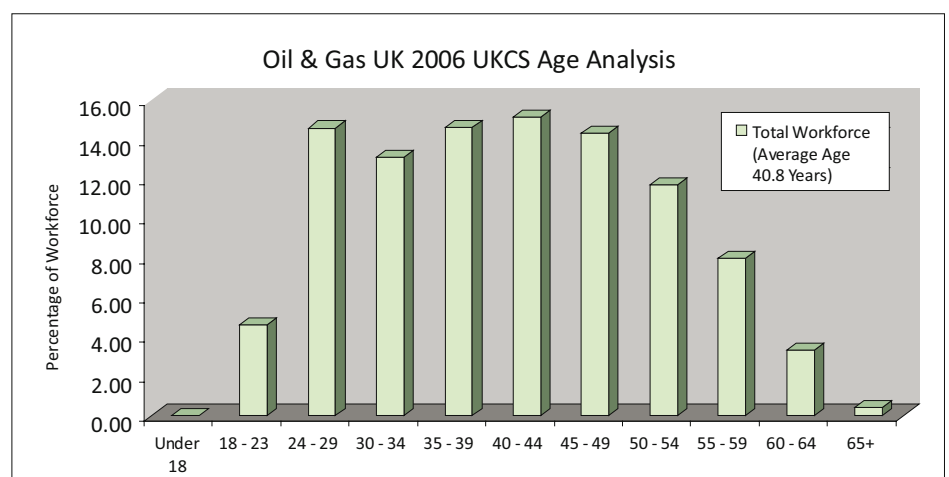
Recent research carried out by Oil & Gas UK, using data from the Vantage POB system, reveals a much more optimistic picture of offshore workforce demographics than common perception holds.

The results show that the average age of workers offshore is actually 41 years which is the expected average for a workforce generally ranging from 20 to 60 years of age. In addition, the number of women working in the industry is

increasing, with over 1800 travelling offshore in 2006. The majority are employed within the catering sector, but significant numbers are also entering technical roles.

However, the report also highlights specific demographic characteristics that need to be addressed. These include under-representation in the under-24 year and 30-34 year age groups and older age profiles in certain occupations, such as rigging and crane operations. This signals the continued need to focus recruitment in particular areas to avoid potential shortages in the near future.

The full results can be found in the Oil & Gas UK 2006 UKCS Workforce Demographics Report, available at <http://www.oilandgasuk.co.uk>



Total Workforce	
Male	96.5%
Female	3.5%
Average Age	40.96 years

## Supply Chain Code of Practice: launch of Guide to 30-day Payments



A guide to 30-day payments has been launched to help North Sea purchasers and suppliers settle invoices more efficiently, improving cash flow for their businesses and for the oil and gas industry as a whole.

The new guide, which takes the form of an A3 poster to be displayed in an area visible to all those involved in the procurement process, provides some simple steps for establishing a clear procedure for raising, receiving, authorising and paying invoices. They embrace the following key principles and practices:

### Key principles

- obtain formal commitment for work
- log 30 day period start date
- pay undisputed amounts in 30 days
- charge interest on unpaid invoices
- treat ALL suppliers fairly
- make teams accountable

### Key practices

- agree appropriate payment process
- remove barriers to timely payment
- establish dispute resolution process
- review procurement to payment process
- improve methods for circulating invoices internally
- hold accurate supplier bank details

The guide is a key element of the industry's Supply Chain Code of Practice introduced by PILOT in 2002 to drive improvements in commercial behaviour across the industry. The Code itself is a set of best practice guidelines to streamline processes, helping individual companies to improve performance, eliminate unnecessary costs, add value and boost competitiveness.

More than 110 companies, accounting for over 80% of expenditure on the UK continental shelf, are signed up to the code.

For more information on the Supply Chain Code of Practice or to obtain a copy of the Guide to 30-day Payments poster, please contact Oil & Gas UK at [info@oilandgasuk.co.uk](mailto:info@oilandgasuk.co.uk) or call 01224 577250

## Gas market – new uncertainties By David Odling, gas and commercial issues manager, Oil & Gas UK

The gas market has undergone dramatic and unprecedented changes in the past two years and, in particular, the past 12 months. Throughout 2004, 2005 and 2006, wholesale gas prices in Great Britain rose significantly on the back of high oil prices and an expectation of supply-demand tightness during winter, especially the one of 2005-6. That winter was difficult for industry with high, peak prices occurring both early on and towards the end; in addition, prices generally were at or above those on the continent of Europe, where oil indexation is the normal means for pricing gas. High gas prices also affected electricity prices, because of the extent to which electricity is produced from gas.

For domestic and commercial consumers, although prices rose appreciably, there was not the same exposure to short term fluctuations, because these markets are mainly supplied through longer term contractual arrangements which dampen price movements.

However, in the past 12 months, wholesale gas prices in Britain have crashed, as new supplies have come on-stream with the completion of two new pipelines, from Norway and The Netherlands. Through a very mild winter in 2006-7, these pipelines have delivered substantial new gas to the market, such that wholesale prices have fallen to less than half of those indicated by oil indexation. This is good news for all UK consumers, but less good for producers,

especially those with interests in the gas-only provinces of the southern North and Irish Seas, and those trying to develop gas west of Shetland where no pipelines exist to bring the gas to market. It also creates an awkward differentiation with the more oil-dominated central and northern North Sea, costs being driven mainly by the search for and development of higher priced oil, at the expense of gas further south and west.

These new uncertainties and the tensions which they produce are being fed into PILOT as part of the continuing debate with government about securing the maximum recovery of the economic oil and gas reserves.

## Feature Article

# The launch of Oil & Gas UK - a new trade association for a new era

Oil & Gas UK was officially launched at a reception in Aberdeen on Monday, April 23. Over 100 people attended, including politicians, journalists and the first joint chairmen of Oil & Gas UK, Dave Blackwood, head of BP's North Sea Business, and Tom Smith, managing

director of Nessco Ltd. Speaking at the event, Malcolm Webb, the new association's chief executive, said that the formation of Oil & Gas UK continued a process started several years ago to give the UK oil and gas industry a forward looking and dynamic representative body

with the skills and resources required to address the full range of issues before it. The Association will "develop and deliver pan-industry policies to secure the long-term health of the sector", he added.

Below: At the launch of Oil & Gas UK

**The Oil & Gas UK Board comprises 16 leaders drawn from across the industry. The members are pictured below at the PILOT meeting on April 24, 2007.**

#### Back row left to right:

Roland Festor – managing director, Total E&P UK Limited  
 Brian Taylor – director, northern business unit, KCA Deutag Drilling Limited  
 Dave Blackwood – director & SPU leader, North Sea, BP plc  
 Bob Keiller – chief executive officer, Production Services Limited  
 Mike Bowyer – UK vice president, Halliburton Manufacturing Services Limited  
 Nick Walker – vice president, Talisman Energy (UK) Limited  
 Alan Booth – chief executive officer, EnCore Oil plc  
 Dennis Clark – chairman, SLP Engineering  
 (Insert: Mel Fitzgerald – chief executive officer, Subsea 7 plc)

#### Front row left to right:

Malcolm Webb - chief executive, Oil & Gas UK  
 Tom Smith – managing director, Nessco Limited  
 Chris Cox – vice president UK upstream, BG Group  
 Mark Hughes – managing director, Gaz de France Britain  
 Jon Murphy – chief operating officer, Venture Production plc  
 Archie Kennedy – managing director, UK, ConocoPhillips (U.K.) Limited  
 John Gallagher – vice president technical – Europe, Shell U.K. Exploration and Production



# Face to Face: An Interview with Bob Blizzard MP

A former local teacher and council leader, Bob Blizzard was first elected to Parliament in 1997. His constituency of Waveney is centred around the town of Lowestoft, on the far eastern tip of East Anglia. Before becoming a Member of Parliament Bob Blizzard was a teacher for 25 years, as well as the Leader of Waveney District Council from 1991 to 1997.

Mr Blizzard is currently the Parliamentary Private Secretary (PPS) to the Rt Hon Douglas Alexander MP (Secretary of State) at the Department for Transport. With interests in energy, employment, health, transport, education and foreign affairs Bob Blizzard is a founder member and Chairman of the British Offshore Oil & Gas Industry All Party Parliamentary Group. Launched in April 1999, the Group seeks to provide a dedicated parliamentary focus for issues relating to and impacting on the British offshore oil and gas industry and the 380,000 jobs that depend on the sector.

The Group organises:

- Topical meetings with Ministers and key industry spokespeople
- Regular written briefings
- Visits to sites of interest, including offshore platforms
- An annual Parliamentary reception for MPs, Peers and key industry leaders

Oil & Gas UK's Alexa Chaffer asks Bob Blizzard for his views on the industry

### Why did you decide to become an MP?

I first became a councillor because I wanted to get things done locally. Later, when I had success in my role as Council Leader, people urged me to try and stand for Labour in the next general election, so I decided to give it a go and won at the first attempt in 1997.

### When did you first take an interest in the oil and gas industry?

Oil and gas is important to my constituency as a major employer. A thriving industry and ensuring the UKCS is fully exploited is important to my constituency and therefore important to me.

### When did you become Chairman of the All Party Group (APG)?

Upon being elected I found there were APGs for practically everything else but the oil and gas industry. There was a need for an organised voice for the oil and gas industry in the House, so in consultation with UKOOA we formed the APG in early 1999, and things went from there.

### What do you think the APG achieves?

I think it's very important in raising the profile of the industry and the issues affecting it within parliament. It draws together those who have an interest in oil and gas and the input from industry helps keep MPs informed of the latest developments and issues.

It also helps us address any concerns we might have by taking them up directly with companies. The common interest between MPs and the industry is our constituencies

### As an MP interested in the oil and gas industry what do you think the future is for the UKCS?

The future right now looks brighter than it has done for many years. The high oil price means that investment levels and activity are up. However, there are still various issues to be addressed if we are to reach the PILOT targets and recover all the oil and gas that is economic to do so. The challenge is to continue to develop the technology and establish the right fiscal and regulatory framework to enable us to succeed in this goal.

### Do you have any interesting stories about oil and gas?

Last year Malcolm Wicks, who was then Energy Minister, and myself visited a normally unmanned platform in the southern North Sea. Apparently Malcolm was the first minister to visit such a platform and I the first MP to do so. As the helicopter that had taken us out there took off from the platform to do some other work, it suffered a 'bird strike'. This meant it had to return to base to have the blades checked, and we were left stranded for over three hours on the platform drinking tea! We looked at the bunks in the refuge area and the store of emergency rations, but thankfully we didn't have to spend the night there!

Apart from the humour, the trip was useful to Malcolm and myself. The visit was a look into the future of the modern day industry. For recovery to be economical, platforms will increasingly become unmanned.

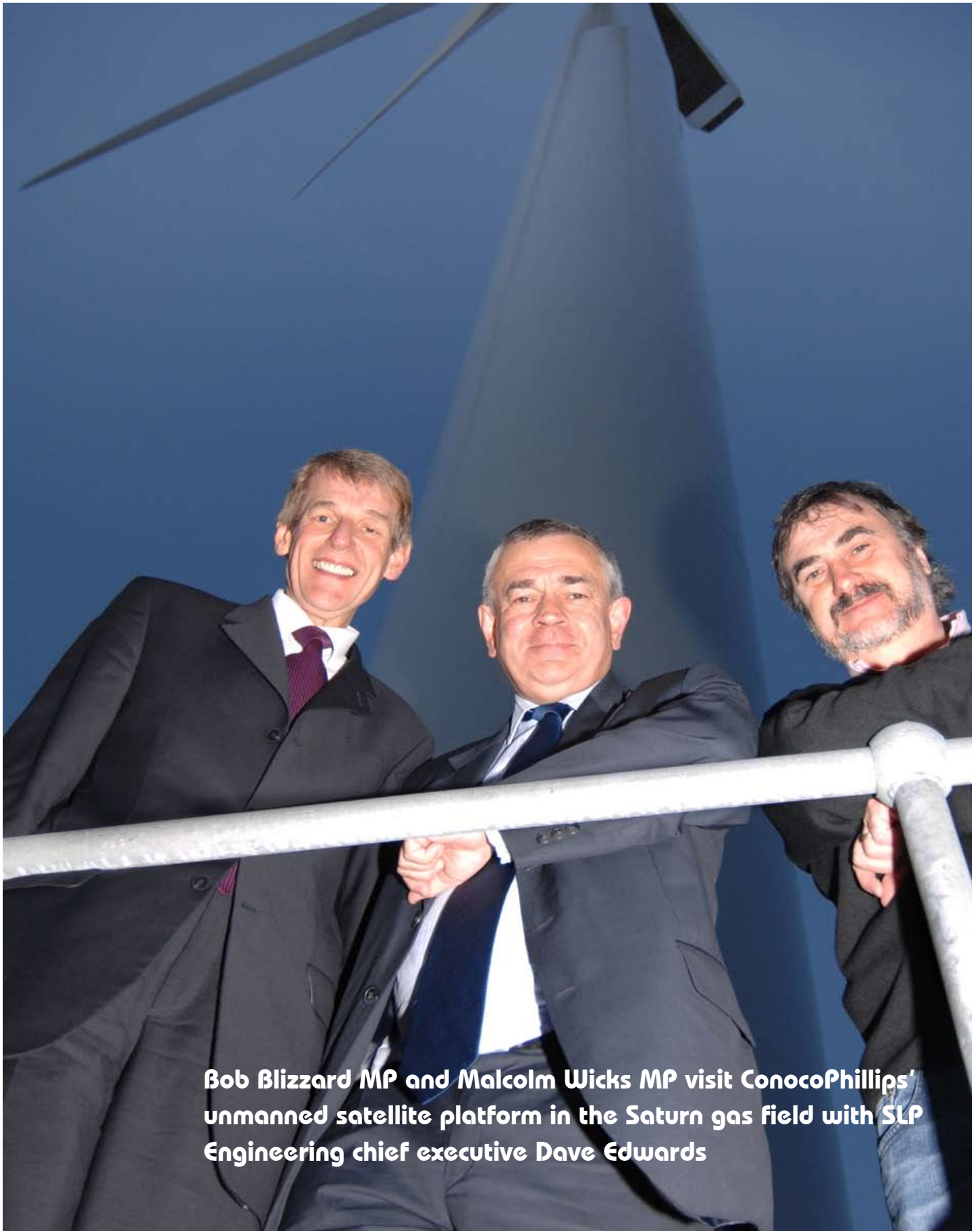
### How good is the oil and gas industry at lobbying?

As a large and important industry it has never really had too much of a problem getting access to government. However, it didn't engage sufficiently with parliament, which was one of the reasons I started the APG. The challenge for the industry now is to communicate with those who MPs don't have a direct interest in the industry, particularly those who don't understand it and have negative or outdated images in their minds. Messages about the industry meeting environmental concerns are important to get across.

### Lastly, who will you be supporting as the next leader and deputy leader for Labour?

Gordon Brown for leader and Harriet Harman for deputy leader.





**Bob Blizzard MP and Malcolm Wicks MP visit ConocoPhillips' unmanned satellite platform in the Saturn gas field with SLP Engineering chief executive Dave Edwards**

# Advocating the minimalist approach to taxation



**The future of our North Sea industry very much depends on a fiscal regime that encourages inward investment to the benefit of the whole UK economy. Oil & Gas UK's economics and commercial director Mike Tholen argues that the balance can be achieved with a 'less is more' approach to taxation.**

There's a great deal we're doing as an industry to ensure we have the right people, skills and resources in place to sustain the North Sea into the future. But all this counts for very little without a healthy amount of investment.

Last year, we saw oil and gas investment and expenditure rise to an all-time high of over £11 billion. What's not so encouraging is that in 2007, we're experiencing a drop of capital investment of around £1 billion. Granted, we don't have a Buzzard-size development on the go this year, but there is no shortage of new, smaller developments waiting in the wings, many of which are not attracting investment

### So why the dip in investment?

In the first place, North Sea costs are escalating in what was already an expensive oil and gas province and investors have other less expensive options in the global oil and gas marketplace. Whilst some may believe that as more companies enter the supply

chain, competition will drive costs down, I believe the reverse is the case. Yes, the supply chain is growing, but increasing global demand means high costs are here to stay.

Against this background, the current tax regime is really starting to bite. When the government raised tax 18 months ago, it did so at a time of heightened oil and gas prices. Since then, oil prices have softened and gas prices have plummeted. Oil and gas companies are now really starting to feel the full weight of the tax burden.

Add high taxation to cost inflation and it is little wonder investment in the UK continental shelf is feeling under pressure. This is not simply an industry issue – the whole of the UK economy benefits from secure energy from the North Sea.

It is not even as if high taxation is paying long-term dividends. The Chancellor, in his most recent Budget, complained about a fall in tax revenues from the North Sea – this despite the existing 75% tax levy on older fields! The tax increase of December 2005 may have injected an additional £3 billion into the Treasury in the short term, but the government now realises that this result is not sustainable. High taxation discourages enterprise, risk-taking and investment in new opportunities. And since investment is the life-blood of the North Sea, it is clear that the current tax regime is a major obstacle to the UK's future prosperity.

At the risk of sounding like a reality TV design guru, I would argue that the 'less is more' approach to taxation would deliver greater benefits all round. For example, Ireland's low tax economy is extremely successful and attracting a surfeit of revenues simply because it is encouraging a lot of inward investment. Those who remember 'Reaganomics' will know that former US president Ronald Reagan's dramatic cut in income tax

rates reaped massive rewards in revenue for that same reason. More recently, the same thing happened in the North Sea, when tax rates were lowered in 1993. With more investment in new and existing businesses, more people were paying tax and the economy prospered.

In the North Sea today, there are dozens of new opportunities whose development is solely dependent on a favourable fiscal regime. Tax rates and costs are the big factors here, but there is also an issue around investor uncertainty about such things as future tax increases and the government's financial contribution to decommissioning.

The treasury is currently consulting on the future of the UK's North Sea taxation regime. Oil & Gas UK will be making a strong case for a lighter tax burden which acknowledges the maturity of this industry and helps us to compete more effectively in a global market.

We are now much clearer that it is not simply the oil companies, but the entire industry that benefits from the basin's success. Consider the current buoyancy of Scotland's supply chain, which has grown exports by 10% a year over the past five years, while much of the rest of the country's manufacturing industry has seen its exports decline by 5% a year over the same period.

Now more aware of the true contribution our industry makes to the UK economy, we, as an integrated organisation, are well-positioned to communicate to government the true value of North Sea oil and gas investment – and the price we would all have to pay should that investment be channelled elsewhere.



## Dates for your diary



For further information on Oil & Gas UK events or to book, please contact Elisabeth Glover or Louise Wood on Tel: 01224 577250 or visit [www.oilandgasuk.co.uk](http://www.oilandgasuk.co.uk)

### Oil & Gas UK Seminar Series

Sponsored by AkerKvaerner

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#### 6 June: Safety Seminar: Lessons from Major Accidents

Ardoe House Hotel, South Deeside Road, Blairs, Aberdeen, 9.00am – 4.30pm

### Oil & Gas UK Breakfast Season

Sponsored by The Royal Bank of Scotland

**RBS**  
The Royal Bank of Scotland

#### 5 June: Oil & Gas UK Summer Breakfast - North Sea United!

Aberdeen Beach Ballroom, Aberdeen, 7.00am – 9.00am

#### 12 June: Oil & Gas UK Summer Breakfast - The UK Oil and Gas Industry and Government; securing a bright second half

Riverbank Park Plaza, 18 Albert Embankment, London, 7.30am – 9.30am

### Other workshops and seminars

#### 4 June: The annual Aviation Safety Technical Group Seminar

Evolve Conference Centre, Aberdeen, 10.00am – 4.00pm

#### 5 July: Oil & Gas UK EU Training Seminar

Aberdeen (full details of venue to follow on the Oil & Gas UK website)  
9.00am – 5.00pm

## And finally...



Oil & Gas UK events manager Elisabeth Glover joined children from Holy Family Primary School in Aberdeen's Hazlehead Park as they warmed up for the city's Big Run in May. Over 200 primary and secondary school children took part in the event, which was organised by Aberdeen City Council under its Active Schools Aberdeen initiative and sponsored by Oil & Gas UK.

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