Making the most of what's left in the North Sea

By Sir Ian Wood
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Over the last five decades, I have seen Britain become a major international player in the oil and gas industry, something we have achieved because of the success of our own offshore industry.

To date we have produced 42 billion barrels of oil and gas from beneath the seas around the UK. The industry currently supports employment for over 400,000 people across the country and it exports more than £7 billion per year in goods and services to more than 100 countries across the world. Our international success is sustained by a vibrant offshore industry at home. The more active we are in the UK, the stronger the demand for our expertise abroad.

UK production is now declining, having peaked in 1999. Yet despite the UK continental shelf (UKCS) being considered one of the most mature offshore basins in the world, up to 24 billion barrels of oil and gas remain to be recovered from both existing fields and still-to-be discovered new plays and frontier areas.

Encouragingly, today there are many new developments underway in the UKCS, unlocked with the help of government fiscal allowances and contributing to the record £14 billion of capital spent last year in developing new oil and gas fields. The challenge now is to sustain this current wave of activity in the decades to come, but there is concern that fewer companies in recent years have been exploring for new oil and gas. Unless we see some significant commercial finds, capital expenditure is forecast to fall significantly over the next three or four years. We need to act now to avoid a downturn in activity and under-recovery of our oil and gas resources

Yet the landscape of the UKCS has changed considerably over the past twenty years. It is much more complex, with the range of companies active in the North Sea growing in diversity. The number of fields in operation has increased to over 300; new discoveries are much smaller; many fields are marginal and very interdependent; and there is strong competition for ageing infrastructure. In short, the UKCS is now a patchwork of interconnected and interdependent operations. There is also growing competition from many international offshore regions. At the same time, the number of people involved in carrying out the regulatory function of the Department of Energy and Climate Change (DECC) has halved in size over the last 20 years and they now lack the broader capability and resources to perform the much more demanding stewardship role that is required.

Given such wide-ranging challenges faced by the industry, Edward Davey, the Secretary of State for Energy and Climate Change, deserves great credit for instigating a review of oil and gas production and regulation in the UK. I was pleased to be asked to lead this review on how we could maximise recovery from the UKCS in the years ahead. Over the last eight months, I have consulted widely and interviewed key players both in the UK and abroad. My final report, published at the end of February, calls for a fresh approach by both government and industry and proposes significant changes to the way the industry is regulated.

The current licensing model has worked well. Over the last 50 years £300 billion has been invested across the North Sea, earning the UK exchequer more than £300 billion to date in production taxes. To build on this success, the Review concludes the need for a new tripartite strategy for Maximising Economic Recovery involving HM Treasury, industry, and a new independent government regulator. This does not change the lead position of the operators who provide the significant investment of funds, people and skills. The primary task of the new regulator will be to provide more effective long term stewardship and encourage much more collaboration and alignment between the companies exploring and producing oil and gas from the UK Continental Shelf. The new regulator must be low in bureaucracy, high in facilitation skills and experience, and strong and pragmatic.

The UKCS is facing stiff and growing competition from many international offshore regions and we need to step up our game to recover more of our reserves and attract more investment. I am heartened by the strong support from both industry and government for my proposals. There is a huge prize at stake, and I believe the government must implement the key recommendations, including the creation of a new regulator, as quickly as possible. UK offshore oil and gas is a great industry which has made an immeasurable and vastly underestimated contribution to the UK economy.

The good news for UK investors is that the review provides the opportunity to revitalise the UKCS with a better resourced, more capable and more involved regulator that will help fully exploit our outstanding reserves and take us closer to the 24bn boe prize potentially still to come. This should provide better rewards for existing investors and good opportunities for new incoming investors. ■