GREEN RECOVERY INSIGHTS: NORTH SEA SECTOR DEAL

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CAN THE UK NORTH SEA ENCOURAGE THE TIDES OF CHANGE?

THE UK GOVERNMENT IS LOOKING TO SET STANDARDS TO TRANSITION TO A CLEAN, GREEN ECONOMY WITHOUT LEAVING COMMUNITIES AND VITAL INDUSTRIES BEHIND. THE UK GOVERNMENT HAS ANNOUNCED THAT IT WILL DELIVER A TRANSFORMATIONAL DEAL IN PARTNERSHIP WITH THE UK OIL AND GAS INDUSTRY TO TACKLE CLIMATE CHANGE AND DELIVER KEY ASPECTS OF THEIR TEN-POINT PLAN. IN ADDITION, FROM 31 MARCH 2021, THE UK WILL NO LONGER PROVIDE FINANCIAL SUPPORT FOR THE FOSSIL FUEL ENERGY SECTOR OVERSEAS.

The sector deal between the UK government and oil and gas industry is intended to support workers, businesses and the supply chain through this transition by harnessing the industry's existing capabilities, infrastructure and private investment potential to exploit new and emerging technologies such as hydrogen production, Carbon Capture Usage and Storage (CCUS), offshore wind and decommissioning. The hope is that the North Sea Transition Deal will mean that high skilled oil and gas workers and the supply chain will not be left behind in the transition to low carbon.

Developed in partnership with the leading representative body for the sector, OGUK, the North Sea Transition Deal outlines over 50 government and industry actions to accelerate the move towards the government's target of net zero emissions by 2050.

KEY COMMITMENTS IN THE NORTH SEA TRANSITION DEAL INCLUDE:

The sector setting early targets to reduce emissions by 10% by 2025 and 25% by 2027 and has committed to cut emissions by 50% by 2030.

Joint government and oil and gas sector investment of up to £16bn by 2030 to reduce carbon emissions. This includes up to £3bn to replace fossil fuel-based power supplies on oil and gas platforms with renewable energy, up to £3bn on CCUS, and up to £10bn for hydrogen production.

By 2030, the sector will voluntarily commit to ensuring that 50% of its offshore decommissioning and new energy technology projects will be provided by local businesses, helping to anchor jobs to the UK.

The appointment of an Industry Supply Chain Champion who will support the coordination of local growth and job opportunities with other sectors, such as CCUS and offshore wind.

The deal will look to help unlock up to £16bn in investment over the next decade in crucial low carbon solutions including CCUS and hydrogen, support the creation of up to 40,000 new energy jobs in industrial heartlands across the UK and cut UK emissions by 60 million tonnes, with 15 million tonnes of reductions from industry production by 2030 - the equivalent of annual emissions from 90% of the UK's homes.

The deal will also look to kickstart hydrogen here in the UK, building a platform to provide an alternative for heating, heavy industry, and transport, ensuring energy communities like Aberdeen and Teesside can successfully transition, retain jobs and skills and create a more diverse and inclusive workforce. Finally the North Sea Energy Transition deal will look to reduce reliance on imported oil and gas and be accountable for associated emissions.

A UK based think-tank Policy Exchange, believes the government's commitment to net-zero emissions by 2050 is a "driving force behind the transformation in the North Sea", which is currently a hub for high-carbon oil and gas but will "increasingly become the engine of the UK's low-carbon economy".

As noted above decommissioning will have a part to play in North Sea energy transition. Decommissioning can be an energy-intensive exercise. It will be interesting to see how the industry finds ways to reduce total carbon footprint in decommissioning, especially now that we see decommissioning becoming a global emerging market. It will also be interesting to see if the decommissioning of offshore oil and gas pipelines and platforms will in fact be deferred and rather than decommissioned be re-purposed for use in world leading CCUS projects.

We see from the 2020 edition of the Decommissioning Insight Report that a total spend on decommissioning in 2020 is estimated at £1.1bn (around 10% of total annual expenditure) however, anticipated expenditure on decommissioning for 2020 was £1.47bn – a 30 per cent reduction. Nevertheless, although the full impact of COVID 19 remains to be seen the £15.1bn is expected to be spent on decommissioning assets in the UK Continental Shelf over the following decade. Almost £7.4bn is to be spent on well decommissioning which accounts for a vast majority of decommissioning costs over the next decade, at 49 per cent of total decommissioning expenditure – this has increased from the £6.8bn that was estimated in the Decommissioning Insight 2019. This follows a trend that suggests decommissioning has come of age and is now an increasing part of normal business of the basin.

To ensure the UK economy remains competitive and resilient on the path to net zero, companies in all sectors must be prepared to address their climate-related risks and opportunities. This is why the government has also published proposals setting out how the UK's largest companies and professional services firms representing £4tn in turnover will be required to prepare to transition to a low carbon economy.

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