

SUBMISSION FROM STUC

1 Introduction

1.1 The STUC enthusiastically welcomes both the Committee's decision to run a short inquiry into the future prospects for oil and gas in Scotland and the opportunity to provide oral evidence on 25 November.

1.2 The STUC and the oil and gas trade unions (UNITE, RMT, GMB, BALPA and Nautilus International) are intensely concerned over the current state, and future prospects of, the oil and gas sector. The falling oil price – at the time of writing Brent Crude is trading at \$44.71 a barrel; a fall of 35% on the year and 61% from July 2014 – has led to significant job losses, the imposition of major changes to collectively bargained terms and conditions and rising fears over the health and safety regime. The sector's fortunes probably account for Scotland's deteriorating economic and labour market performance relative to the UK through 2015.

1.3 Neither the UK nor Scottish Governments can materially influence the global price of oil but they can help support a process of change in the industry which will leave it better placed to meet current and future challenges. It is essential that all necessary support (facilitating collaboration, effective and proportionate regulation, appropriate fiscal regime, supply chain growth and internationalisation, preparation for UK led decommissioning etc) is provided as rapidly as possible. The maximising economic recovery approach must seek to maximise wider economic and employment benefits through, for example, developing a proactive and effective approach to decommissioning.

2 Economic importance of oil and gas

2.1 It must be stressed that the oil and gas industry is a very significant component of the Scottish economy. It is true that revenues which help support public spending have fallen precipitously and that, due to declining production and profitability, revenues were probably in secular decline prior to the current price collapse. Yet the industry continues to support many high skilled, relatively well paid jobs. The priority must now be to maintain employment and the fragile skills base within the context of excellent safety standards.

2.2 Representing a massive transfer of income from producers to consumers, the falling oil price has had a significant stimulus effect at the global and European levels. Most credible analyses find that the net impact on the UK is also positive; the direct impact on the sector is more than compensated for by the boost to household spending and businesses reliant on oil as an input.

2.3 For Scotland however, an oil producing nation, this is not the case. Recent data indicate that the recovery in Scotland slowed significantly in the middle part of this year and the impact on the supply chain and north east economy helps to explain why. The offshore sector might be a separate entry in the UK's national accounts but the onshore supply chain, which is included in Scottish GDP, has taken a very significant hit.

3 Impact of the falling oil price on oil and gas workers

3.1 The UK continental shelf oil and gas industry is undergoing profound change due to the collapse in the oil price. Operating expenditure on existing assets has been slashed as has investment in exploration and new projects. According to Oil and Gas UK (OGUK), the contraction of the sector has already led to 65,000 job losses; the number of jobs supported by direct, supply chain and indirect employment has fallen from 440,000 to 375,000.

3.2 The STUC believes this was a reasonable estimate at the time of publication (September 2015) but that the situation has since deteriorated and that significant future job losses can be anticipated as current contracts expire and no new work is generated to absorb redundant workers. It should be stressed that the impact of job losses and increasing job insecurity is being experienced across the whole industry. Morale is low and falling as workers see further redundancies in the offing.

3.3 The offshore unions are especially concerned that:

- Fear of redundancy is critically undermining offshore health and safety as workers become reluctant to report actual and potential safety breaches. There are ongoing serious concerns over helicopter safety;
- Imposed changes to terms and conditions (e.g. pay cuts) and working practices – especially the increasing use of ‘three on, three off’ shift rotation which leads inevitably to workers working 12 hour shifts 21 days in a row – are having profoundly negative effects on the offshore workforce and undermining both safety and longstanding collective bargaining mechanisms;
- Costs in the UKCS remain significantly higher than other jurisdictions such as Norway and Denmark; the difference cannot be accounted for by higher wages or more stringent regulatory standards. Engaging the workforce in identifying obvious inefficiencies and the introduction of common standards – akin to the Norwegian regime – could potentially lower costs across the UKCS;
- UK seafarers are increasingly excluded from the North Sea due to employers using gaps in employment legislation to employ non-UK seafarers below the UK minimum wage.

3.4 It must be stressed that these practices are not evident in other North Sea jurisdictions similarly affected by the falling global oil price. Norway has significantly lower costs than the UKCS because it operates to common standards.

3.5 In this context the STUC notes that the Energy Skills Investment Plan contains a ‘commitment by the industry to promote progressive Fair Work practices across the oil and gas sector and within the supply chain’.

4 Industry engagement

4.1 The STUC and the offshore unions currently participate in a number of industry forums including:

- **The Maximising Economic Recovery (MER) UK Forum** (formerly PILOT and before that the Oil and Gas Taskforce) which ‘facilitates the partnership between the oil and gas industry and the UK Government. The trade union representative is currently Grahame Smith, STUC General Secretary;
- **The Energy Jobs Taskforce** which was established by the Scottish Government in early 2015 to address the immediate challenges facing the industry. Trade union representatives are Grahame Smith, STUC, Jake Molloy, RMT and Wullie Wallace, UNITE; not just about safeguarding jobs but helping to drive change in how the industry operates
- **Oil and Gas Industry Leadership Group**, the Scottish Government’s main consultative forum for the industry. The union representative is Grahame Smith, STUC;
- **The Oil and Gas Industry Council**, a forum where current and arising issues for the oil and gas supply chain can be discussed with BIS/DECC. The union representatives are Grahame Smith and Gary Smith, GMB.

4.2 The sector has suffered through the lack of a forum for serious strategic dialogue between unions and operators (as distinct from contractors with limited locus to address strategic issues). Through the auspices of the groups listed above, particularly the Energy Jobs Taskforce, this longstanding deficit is gradually being remedied. The STUC and oil and gas unions have recently met with both the Oil and Gas Authority and the board of Oil and Gas UK. It is anticipated that dialogue with both bodies will be ongoing and allow an opportunity to identify and address issues such as the health and safety concerns outlined above.

5 Skills

5.1 The current consensus appears to be that at some point in the future – probably post 2020 – the oil price will rebound to levels which, although lower than the \$100 plus levels witnessed for much of the last decade, will reach the point where investment in the UKCS looks much more attractive. The worry is that job losses during the period of low prices will undermine the skills base leading to constraints during future periods of higher investment. The offshore workforce is highly skilled and therefore mobile; the consequences of losing this key Scottish economic asset are that the economic benefits in the future would not be so great or as widely shared in Scotland. If revenues are low, the workforce largely transitory and operators largely foreign owned then the economic dividend will be minimal.

5.2 Whilst the priority must be to sustain as much of the current skills base as possible, it is only fair that workers unable to find new posts in the UKCS are supported to retrain or upskill.

6 Fiscal regime

6.1 As the Committee is aware, the STUC tends to be highly sceptical about the claims made by employers over the magical incentive effects of business tax cuts. Oil is a declining, commonly held resource and it is only appropriate that the public benefits from its extraction. However, given the steep fall in the profitability of the sector, the concomitant problems listed above and the ongoing threat to employment, it is reasonable to ensure that the fiscal regime is broadly supportive of investment. Therefore, the STUC believes the Chancellor should use his autumn statement to outline further measures to encourage exploration, infrastructure access and new entrants for late-life assets.

6.2 It should also be noted that these measures, however appropriate, are likely to have a very limited short-term impact given that so few operators are currently paying tax due to low profitability. The Chancellor should also tie additional fiscal incentives to action to sustain and improve levels and quality of employment.

7 Conclusions

7.1 The refrain heard increasingly around the sector is that the oil price will remain 'lower for longer'. It is perhaps still under-appreciated that the economics of the global industry have fundamentally changed; the IEA believes the price is unlikely to reach \$80 before the end of the decade. In these circumstances it is essential that the UKCS changes in a way that will allow it to flourish in the context of sub \$80 prices.

7.2 Continually hammering workers' jobs and terms and conditions is not a viable approach. The only effective solution is to engage more comprehensively with the oil and gas workforce to develop common standards to improve efficiency and lower costs.

STUC
November 2015