

New Minister, Peter Hain, Sets Out Challenges for PILOT

PILOT is a unique initiative and to me it exemplifies the kind of relationship, which Government should have with industry. One of joined up thinking, co-operation and focus on common causes. WE have some good news with Bonga, Otter and Blyth, which I welcome. I am also grateful to the industry for all their work on ultra low sulphur petrol.

My first message is a frank and important one. I am rather disappointed by the level of exploration drilling on the UKCS last year. Although an improvement on 1999's poor performance, it is still much lower than it needs to be to meet PILOT's target for production rates in 2010. It is also nowhere near what it needs to be to match rising profits. But a survey shows significantly increased intent to drill over the next three years, reflecting the greater confidence with which the industry views UK potential. These intentions must be turned into action.

The Government has worked hard to stimulate increased investment.

We have agreed a Royalty Remission arrangement with Talisman, without which I doubt the Beatrice redevelopment project would proceed.

We are open to further discussions on royalty relief with any operator who has a strong enough case.

There has been an encouraging response to the 19th Round of offshore licensing, indicating that there is still plenty of potential for exploration and investment in the UK.

We are taking other steps to promote exploration. We showed our determination to see new work carried out on the UKCS when we held the 2000 Fallow Initiative – this process will be repeated every year from now on.

But I'm concerned at the progress that some operators have made in response to last year's Initiative. While there has been a good start towards reducing the number of fallow blocks, and I congratulate the companies responsible, much more progress must be made in the next three or four months if the industry is to deliver on its promises.

The combination of future licensing rounds, the impact of a rolling programme of fallow initiatives and these indications of increasing investment on the UKCS should lead to a significant upswing in exploration and development activity in the near future.

I say "should". This is because I fear that, despite this effort, the full potential may not be realised. The prime barriers I see are not technical, not economic, but behavioural. By "behavioural" I mean the way in which the players interact with one another, the effectiveness of the business culture at identifying opportunities for wealth creation, creating alignments and completing transactions.

These concerns are not new. CRINE sought to address them and the Taskforce itself took action – the work on removing pre-emption rights is a good example. But there is more to be done and I believe PILOT can and must play a major part in ensuring this happens.

Anna and Simon have some thoughts on what more can be done.

We now need more developments to be brought forward on the UKCS, securing more jobs for the workforce of the UK.

I am disappointed by OPEC's decision at the weekend to reduce production by 1 million barrels a day. I recognise that some of you here today may not share my feelings on this, because of the impact on your bottom lines. But world oil stocks remain low and are in need of substantial replenishment. This will require supply to outstrip demand and also the right price signals. If stocks are rebuilt, the market should become less volatile. In addition, an unsustainably high crude price will reduce demand. For many developing countries, imports of oil are significant. They require affordable prices for their economic growth to be sustained. And the US and Japan – both key oil importing countries – are already showing signs of slower economic growth. I hope you will all work with me to make sure the international oil market is as open and transparent as possible.

Meanwhile, I am equally disturbed at the way wholesale gas prices have more than doubled since early 2000 undermining our wider policy for a competitive gas market. Speculation over gas price manipulation is rife.

One of the main causes of the price increase is the lack of open markets in Europe and arbitrage across the interconnector with oil related gas prices in Europe.

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Public concern over gas price increases is building. Industry is hurting. Our inability to be completely clear on the causes of the increases is harmful both to the Government and the industry. It breeds suggestions about anti-competitive irregularities in the way the market is operating.

We have therefore devised a three-point strategy to address the problem:

Firstly, of crucial importance, we are working with the Commission to achieve European gas market liberalisation. We look to UK based companies, especially those with shareholdings in European companies, to help us achieve this. We will be talking to individual companies about this. I hope you will co-operate.

Secondly, ways to improve the functioning and design of all parts of the market. This involves increasing the amount of information available to the market. Again, I'm looking for your co-operation here. We hope to do all this voluntarily. But I don't rule out investigation and regulation if necessary.

I know that some of you have been speaking with my officials about ways to improve information flows in the gas market. Information is central to ensuring a transparent, competitive and efficient market, and to securing public confidence in that market. It is vital that information that will help achieve such a market is readily made available to all players. Although some information is commercially confidential, I ask you to give serious thought to how to open up information flows around the onshore-offshore interface and how to do this quickly.

Thirdly, we will take action against anti-competitive behaviour. The operation of the Interconnector has been giving cause for concern for some time. I am pleased that the Commission are now looking into this. It will be a swift but thorough investigation. This should put all companies on notice that the Government means business.

In another initiative to help pro-competitive markets, I issued in February a consultation document on the arrangements and provisions on access to oil & gas infrastructure. I hope you will let me have your views. Together we must make sure that the events of last autumn are not repeated. In the future we must work together to deal with any emergencies whether they be up or downstream.

Fuel prices coupled with recent announcements of record operator profits continue to put a strain on the public image of the industry. The media and public do not differentiate between upstream and downstream. Motorists look at simultaneous high profits and high pump prices and ask whether they are being ripped off. I recognise that downstream is a very competitive market but it is important that smaller market players are treated fairly. I look to all of you to work with us to ensure that there is a well functioning market so that public confidence is restored.

PILOT is at a crossroads and today we must decide which direction it will take. At the heart of PILOT's agenda are the vision targets, set jointly by Government and industry.

Firstly, despite being a long way off, I believe that the 2010 vision is achievable. But I hope our working groups will consider some intermediate targets in each area. Targets for which we can take personal responsibility.

Secondly, training, and research and development is vital in delivering PILOT's work. I would like you to consider PILOT targets on these subjects.

Thirdly, I look forward to hearing the outcome of your discussions on which industrial activities will be critical to your sector, and the UK economy, to drive forward output and exports.

The PILOT targets on exports and new business are very important to help to sustain employment levels as the UKCS matures.

I am delighted by the Prime Minister's announcement that Shell has awarded the Bonga topsides project to AMEC in Wallsend. This is great news for the UK oil & gas fabrication industry and will, I understand, secure some 4000 jobs. I hope that PILOT's Fabrication Support Group will explore how to stem job losses.

Today I am launching the DTI/PILOT reports on new business opportunities from diversification and the environmental sector. These reports represent an excellent first step towards encouraging and helping UK companies into new markets.

I would urge companies to look closely at the prospects for them in all the sectors highlighted, particularly renewable energy.

We are looking to really accelerate the development of renewables in the UK and in a wide range of technologies. Some of these have synergies with the skills that already exist in the oil and gas sector - offshore wind turbines and wave energy in particular come to mind. In solar PV, I am pleased that Shell and BP are very active here.

Finally, I should like to reiterate the importance of PILOT to the Government. It is vital to achieving a successful energy policy and a successful economy.



UK Oil and Gas Industry Moves Forward with Major Programme of Change to Secure Long-Term Future

The UK Oil and Gas Industry is now embarked on one of the largest change programmes in British industry today, and is making good progress towards ensuring its continued success to 2010 and beyond.

That is the conclusion reached by 'What's Possible', the end of year review of the work of PILOT, the joint Government/Industry body charged with delivering the change programme outlined by the Government's Oil and Gas Industry Task Force (OGITF) in 1999.

Malcolm Brinded, managing director of Shell UK Exploration and Production and co-chair of PILOT's Industry Leadership Team (ILT), said: "The increased confidence of investors in the UK Oil and Gas industry has been the key feature of the past year. Investor confidence is critical to what we are trying to achieve and the commitment shown by all sides of industry and Government, through PILOT, has played an important part in boosting that confidence. "That said, there is still much to do," he added. "We still face the challenge of maturity - smaller fields and higher costs relative to our global competitors."

Sir Ian Wood, Chairman of the John Wood Group and also Co-chair of the ILT, said: "The PILOT message to companies in our industry is clear. We must continue to meet the challenge of greater competitiveness, we must maximise our

export potential and we must be alert to the possibilities offered by new business in related areas. We must also capitalise on any advantage to be gained by greater collaboration with each other in areas like logistics and in the development and introduction of the new technologies and innovations we need to keep the UK Oil and Gas industry competitive.

Danny Carrigan, Scottish Regional Secretary of the Amalgamated Engineering and Electrical Union and a member of PILOT, said: "At the heart of any industry are the people that work for it. I am delighted at the importance PILOT and the industry as a whole places on attracting, training and retaining the high quality workforce on which our industry's successful future depends. Continued investment in people is vital."

The review identifies good progress in every area of PILOT's focus, especially in the drive for greater competitiveness through maximising the efficiency and value of the supply chain; in the establishment of an industry-wide, two-way, web-based recruitment system, Oilcareers.com, to facilitate employment in the industry; in the successful development of an industry-wide organisation to facilitate the development and introduction of vital new technologies for the UKCS; and in the development of a sectoral sustainability strategy.



Sustainability Through Diversity - PILOT's Key to Success

New Business Opportunities for oil & gas suppliers

Peter Hain, Minister for Energy and Competitiveness in Europe, today launched the findings of a series of studies into diversification opportunities for companies servicing the UK's oil and gas industry. The opportunities identified will help to generate much of the £1bn of new business set as a target for PILOT by 2010.

Mr Hain, at his first PILOT meeting in London, presented a CD ROM summarising the studies undertaken by DTI on behalf of PILOT. (PILOT is the successor to the Oil and Gas Industry Task Force).

Mr Hain said, "The oil & gas industry in the North Sea is alive and well, and will continue for many years. But the prosperity of the UK supply chain relies not just on the buoyancy of North Sea activity but also on diversification and exports. PILOT has adopted a target of £1 billion per annum from new business by 2010. Diversification and exports will help to broaden the base of the industry and maintain jobs - hence the title of one report: "Sustainability through Diversity". Companies can take great benefit from the opportunities identified in diversification and the environmental sector."

"PILOT's priority is sustaining employment and maintaining the oil & gas industry in the UK to its maximum potential. These reports represent an excellent first step towards encouraging and helping UK companies into new markets.





DEAL (Digital Energy Atlas & Library) Website: Phase Two

Common Data Access Limited (CDA) is pleased to announce the release of DEAL Phase 2. DEAL is a web-based service that allows users to access information related to E&P activities on the UK Continental Shelf.

Significant new data sets have been added to the website and selected data is also now directly downloadable in digital format. New map layers include 2D seismic navigation, surface and subsurface infrastructure and safety zones. A comprehensive set of well header information and 3D seismic outlines is available for the first time as a free and easily downloadable digital dataset.

More than 3000 users have visited the DEAL site (www.ukdeal.co.uk) at least once since its launch in September 2000 and many are now regular visitors to the site. Two thirds of DEAL users come from

within the oil industry, the remainder from government departments and academia. The large majority of users are UK-based but more than twenty other countries are represented, ranging from Australia to Vietnam.

The directory of geoscientific data on DEAL currently displays in excess of 50,000 products from data vendors. The success of this directory service can be gauged from the more than three thousand product enquiries that have so far been received by vendors.

Malcolm Fleming, Chief Executive of CDA said "The DEAL website is making UKCS geoscientific data extremely visible and therefore far more widely available than it has ever been before. The DEAL initiative is playing a very important part in keeping the UKCS at the forefront of industry investment and development."

CDA, in conjunction with the British Geological Survey (BGS), are actively encouraging data providers to add further data to DEAL, with new data added each month. Dr David Falvey, Executive Director of BGS said "We are delighted with the progress made on DEAL. BGS is receiving excellent support from UKOOA members, service companies, consultancies and DTI. DEAL is proving to be a very successful initiative that has developed from the PILOT oil and gas industry task force".

The DEAL website has been developed by BGS under contract to CDA Limited, a wholly-owned subsidiary of UKOOA.

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Jargon Buster

LOGIC: Leading Oil and Gas Industry Competitiveness
LIFT: Licence Information for Trading
DEAL: Digital Energy Atlas and Library
ITF: The Industry Technology Facilitator