North Sea

Investors seeing value in UK North Sea re-inventing itself

Nearly $6bn worth of mergers and acquisitions (M&As) have taken place in the UK oil and gas sector in the first half of 2017 – sending a strong vote of confidence in a basin that has been grappling with the challenges of a major downturn, according to Oil & Gas UK's *Economic Report 2017*.* Indeed, the trend looks set to continue, with Total's proposed acquisition of Maersk Oil announced in the run-up to the report's launch at Offshore Europe in Aberdeen in early September.

Assets changing hands and the increasing diversity in their ownership suggest that the UK Continental Shelf (UKCS) may start to benefit from a badly needed investment boost. Although market conditions remain difficult, the report demonstrates that the UK sector is reinventing itself. It is differentiating its offering from competing oil and gas provinces with its efficiency gains, fiscal competitiveness and world-class supply chain.

'While investors still want more certainty over Brexit and clarity over the role of oil and gas through a more comprehensive energy policy, the transformation underway is restoring the UK's position as an attractive basin for investment – and one still supporting over 300,000 UK jobs,' notes Oil & Gas UK. 'The challenge now is to ensure this renewed interest in the basin translates into tangible activity that could help unlock around £40bn worth of potential development opportunities known to be in company business plans.'

The report also shows that companies are becoming more efficient and competitive, and are better placed to cope with the lower oil price environment. The cost of lifting oil from the North Sea has almost halved since 2014 – an improvement to unit operating cost that is claimed to be greater than improvements achieved by any other basin – while UKCS production has increased by 16% since 2014, driven by production efficiency improvements, brownfield investment and new field start-ups. It also suggests that while businesses have rationalised, the pace of contraction is slowing. Meanwhile, changes to the tax regime have helped create one of the most competitive fiscal regimes for upstream investment globally.

However, while confidence is slowly returning to the North Sea basin, challenges continue across the sector. Low levels of exploration and appraisal activity remain a serious concern, with drilling at record lows, and the basin still needs further fresh capital investment as only three new field approvals have been sanctioned since the start of 2016. If activity does not pick up this could have further negative implications for jobs that could threaten core capabilities, warns the report. It also called for the UK government to make an ongoing commitment to the Driving Investment Plan and to implement transferable tax history (TTH) to facilitate asset transfer.

According to Deirdre Michie, Chief Executive of Oil & Gas UK: 'There are still serious issues facing our industry which has suffered heavy job losses since the oil price slump. But we are hopeful that the tide is turning and expect employment levels to stabilise if activity picks up. Despite our difficulties, we've got more reasons to be positive and some great stories to tell that demonstrate the real progress that we are now making. Our sector is successfully re-positioning through efficiency and cost improvements. We are transforming in a way that is getting UK oil and gas back in the game. We are increasingly being seen as a much more attractive basin in which to invest with further M&A activity expected over the remainder of this year and into the next.'

She continues: 'Although we are getting to a much better place, we still need further investment to generate new activity and sustain hundreds of thousands of UK jobs. While industry will maintain its relentless focus on improving its cost and efficiency performance, government can continue to play its part – by developing a clear energy policy that reinforces the role for oil and gas in the Industrial Strategy, supporting a Sector Deal and confirming in the Autumn Budget that decommissioning tax relief will be modified to support further investment activity.'

'Our potential is captured in Vision 2035 – an aspiration for our sector that shows that we can continue to deliver hundreds of billions of pounds in revenue over the next generation and beyond if we maximise recovery of our resources and help our supply chain grow. With global oil and gas demand forecast to rise by 25% to 2035, we have a crucial part to play now and during the transition to a lower carbon future.'

*Visit **https://oilandgasuk.co.uk/economic-report-2017.cfm** to download a copy of the report.

For additional comment on the report, go to **bit.ly/2vY7PuK**

Source: Oil & Gas UK

'With global oil and gas demand forecast to rise by 25% to 2035, the North Sea has a crucial part to play now and during the transition to a lower carbon future.'

Deirdre Michie, Chief Executive, Oil & Gas UK

IN BRIEF

Shell Petroleum Development Company (SPDC) of Nigeria has started production at Gbaran-Ubie Phase 2, a key project in Nigeria's Niger Delta region. The first phase of the integrated oil and gas development was commissioned in June 2010. Peak production of around 175,000 boe/d is expected in 2019. Visit **bit.ly/2h8RhxX** for more details.

Energean has been given the green light from the Greek government agency, Hellenic Hydrocarbon Resources Management, to develop the Kataloko field in western Greece and the Karish and Tanin gas fields offshore Israel. All three fields are due onstream in 2020. See **bit.ly/2h5qv9A**

The UK's Oil and Gas Authority (OGA) has estimated that an additional 900mn barrels of oil could be extracted from the UK Continental Shelf (UKCS) by increasing the recovery factor (RF) of a prioritised selection of large oil fields as a result of improved asset stewardship. See **bit.ly/2x0A1Rx**

France is reportedly planning to stop granting new exploration permits next year as it seeks to end all oil and gas production by 2040 as part of President Emmanuel Macron's broader plan to take the lead against climate change. See **bit.ly/2h5tvCS**