ANNEX B

ConocoPhillips

Date and Time of Engagement	Friday 10 March 2017 10:30 – 11:30
Where	ConocoPhillips Rubislaw House, Anderson Drive Aberdeen, AB15 6FZ
Key Message	**The Scottish Government is committed to a sustainable future for the oil and gas sector in Scotland and to working in partnership to secure the total value added for the economy and the industry.**
Who	**Terri G. King, President, UK ConocoPhillips** **Richard Tocher, Decommissioning Manager** **Barry King, Manager External Affairs Europe**
What	Meeting with ConocoPhillips
Why	• Terri King was appointed as the new President UK ConocoPhillips in January 2017 – this is an opportunity to meeting with Terri ahead of the next MER UK Forum (potentially 17th/24th May). [REDACT] **<u>WB 6 March is Scottish Apprenticeship Week:</u>** • [REDACT] • Modern Apprenticeship week is a celebration of the success of Scotland's Modern Apprenticeships and everyone associated with the programme which has become a key element of our approach to economic development and youth employment
When	**10:30 – 11:30; Friday 10 March 2017**
Supporting Official	[REDACT] **Oil and Gas Unit** [REDACT] [REDACT] **Head of Offshore Oil and Gas** [REDACT]
Media Handling	This is a private meeting.
Dress code	**Business attire**

Greeting Party and specific meeting point on arrival (if at a non SE Building)	[REDACT] PA to UK President Conoco Phillips (UK) Ltd [REDACT]
Specific entrance car/parking arrangements	Drive to the main gate of Rubislaw House, the security guard will advise where to park. There will be a parking space available outside the front entrance.
Briefing Contents	**Annex A – Summary** **Annex B – Company Background** **Annex C – Biographies** **Annex D - Oil and Gas FMQ** **Annex E – Apprenticeship Levy**

ANNEX A

PURPOSE: Briefing – ConocoPhillips

[REDACT]

<u>Oil & Gas UK's (OGUK) Business Outlook 2017</u> - published on 7 March 2017.

- **Slowly improving confidence in the sector**, with improvements in costs and productivity over the past two years leaving the industry in a better place to attract new investment to the basin.
- **Challenging messages** around total capital investment, supply chain revenues, accelerating decommissioning, and record low levels of exploration and investment.
- **There will be further pressures on the supply chain as it may be some time before there is a material upturn in investment in exploration and new developments**.
  - Oil and gas production continues to rise (increased by 5% in 2016)
  - Unit costs are improving (fallen by half over the last two years).
  - Exploration remains at record lows
  - Industry forecast total spend of just over £17 billion this year, around 20% lower than last year.
  - Supply chain companies have seen an average 30% fall in revenues over the last two years.

[REDACT]

<u>Recent Announcements</u>

- 7 Nov 2016- **First Gas achieved from Alder Field** - Alder is expected to produce up to 110 million cubic feet of gas and 14,000 barrels of gas condensate per day at its peak. **This project is a key example of MER UK –** adding reserves and extending the life of an existing asset.
  - Alder is HPTP gas field, and one of the first to be "tied back" to a platform – Britannia - operated by ConocoPhillips (with hold a 26.3% stake), with Chevron holding a 32% stake.
  - Alder is connected to Britannia via a pipeline, where Conoco has built a new processing module alongside the existing platform. The tie back was considered the "most cost efficient" plan for taking gas from Alder, and has the added benefit of extending the life of the Britannia platform (commercial production started in 1998).

[REDACT]

<u>On 3 March, the Cabinet Secretary for Finance and Constitution wrote to the UK Chancellor to outline priority measures, which should be introduced at the 2017 March Budget on 8 March. The key economic levers remain with the UK Government, and further support is required</u>

- Finally, the Chancellor has listened to calls the Scottish Government and the industry have been repeatedly making for some time to ensure that "the right assets are in the right hands", it is crucial this turns into actions swiftly rather than another talking shop.
- The UK Government first committed to reforming decommissioning tax relief in December 2014 in their Driving Investment plan.
- The Scottish Government has previously recommended proposals focused around increasing activity in late-life assets to ensure their full potential is realised, protecting

critical pieces of infrastructure, and driving forward much needed new investment in the North Sea.

- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.
    - **Action is required to improve access to decommissioning tax relief**, ensuring that the right assets are in the right hands, and **deliver the UK commitment to provide loan guarantees,** which are of vital importance to both the supply chain and ensuring critical infrastructure remains operational.
    - With around £17.6 billion expected to be spent in the North Sea over the next decade on decommissioning, the **UK should join Scotland in funding projects to help secure work and cut costs in this emerging field.**

Apprenticeship Levy (Further briefing is located in Annex E)

- During the consultation employers asked to see a more flexible approach and for Levy funds to be used to protect the development of the apprenticeship offering.
- The UK Government announced in November that the Scottish Government would receive £221m next year as a result of the levy
- **This is not £221m of additional money coming to Scotland** through the Apprenticeship Levy
- We estimate that **the cost to the public sector in Scotland will be around £73 million per annum** - when you take that into account the Scottish Government's spending powers are actually £30 million down as a result.
- All of the funds raised through the Apprenticeship Levy will be invested by Scottish Government in skills, training and workforce development to meet the needs to employers, the workforce, young people and Scotland's economy.
- The Minister for Employability and Training announced, as part of the budget, that a £10 million Flexible Workforce Development Fund will be introduced
- The details on how the fund will operate is still being finalised, but this funding is committed.

Action on Aberdeen Business Rates

- We have taken action to support businesses within the North East – Our competitive business rates package targets support where it is most needed, capping rates increases for offices in Aberdeen and Aberdeenshire as the local area most adversely affected by changes in the oil and gas sector.
- Councils are able to apply further rates reductions, and we continue to work with Aberdeen City and Aberdeenshire Councils to inform this consideration.

Annex B – Company Background

[REDACT]

ANNEX C – BIOGRAPHIES

	**Terri G. King, President UK** Appointed to the role of president, UK in January 2017, moving from the position of general manager, Global Production. Before this, she was vice-president, Mid Continent business unit. In her role as president, UK, Terri is a member of the board of Oil & Gas UK (OGUK), co-chair of the Oil and Gas Authority (OGA) Decommissioning Task Force and a member of the OGA MER UK Steering Group.
	**Richard Tocher, Decommissioning Manager, ConocoPhillips (U.K.) Limited** Tocher began his career with the company as a drilling engineer and specialised in subsea tie-back and completion operations. He had a six-year assignment in Norway setting-up the mechanical integrity function for the Ekofisk area, and latterly as operations support manager delivering asset integrity, brownfield projects and logistics support for the field. In 2009, he returned to the UK as operations manager for the Britannia area assets. He then transferred to Houston to take on the role of global operations chief.Tocher returned to Aberdeen in October 2016 to take over responsibility for the asset decommissioning programme in the UK.
	**Barry King, Manager External Affairs Europe** Barry manages External Affairs for ConocoPhillips in Europe, dealing with issues as diverse as climate change through to security of supply. Barry chaired the EU Committee for the International Association of Oil and Gas Producers (IOGP) in Brussels for six years and is a former board member for the Carbon Capture and Storage Association. He has been active in most key energy and cross sector industry associations including the CBI, UKPIA, AEP and the American Chamber of Commerce to the EU.

Issue:

- **On 8 March – 2017 March Budget announced the publication of a discussion paper and the establishment of a panel of industry experts to investigate the use of tax incentives to assist sales of oil and gas fields, helping to keep fields productive for longer.**
- **On 7 March, Oil & Gas UK (OGUK) published their Business Outlook 2017:**

* Oil and gas production continues to rise (increased by 5% in 2016)

* Unit costs are improving (fallen by half over the last two years).

* Exploration remains at record lows

* Industry forecast total spend of just over £17 billion this year, around 20% lower than last year.

* Supply chain companies have seen an average 30% fall in revenues over the last two years.

- **On 6 March**, Centrica is looking to **recruit 50 people in Aberdeen** as looks to build a "sustainable" exploration and production (E&P) business in the North Sea and its wider European operations.
- **On 3 March, the Cabinet Secretary for Finance and Constitution wrote to the UK Chancellor** to outline priority measures, which should be introduced at the 2017 March Budget on 8 March.
- **On 3 March, CNR submitted a draft decommissioning programme for the Ninian platform**, one of the North Sea's oldest producing fields.
- **On 8 February, the First Minister launched a £5 million Decommissioning Challenge Fund (DCF)** to provide opportunities for the Scottish supply chain to benefit from oil and gas decommissioning. GMB have criticised DCF money as a "drop in the ocean" on GMS (9 Feb); and argue (20 Feb) that Scotland is a "decade behind" in preparing for decommissioning.
- **A Labour Conference Motion: called on UK & Scottish Governments to agree a co-investment plan** to support the industry by taking a public stake to protect vital offshore infrastructure, 25 Feb 17.

Top Lines

- The **North Sea still holds significant potential with up to 20 billion boe remaining,** but the industry highlights that further action is needed to encourage investment.
- We are under no illusions about the challenges facing the sector, but welcome the fact that **production is increasing and operating costs are falling** – reflecting the significant investment in recent years and the efforts by industry to reduce costs and increase efficiency.
- **The £5 million Decommissioning Challenge Fund recognises that decommissioning is an emerging, but growing, activity in the North Sea**, with £17.6 billion expected to be spent in the North Sea over the next decade.
- **The key economic and fiscal levers remain with the UK Government**. The Scottish Government remains committed to the oil and gas industry during these challenging times.
- The **Energy Jobs Taskforce (EJTF) is supporting Scotland's oil and gas sector** - bringing together key partners to maximise employment opportunities for those in the industry.

The key economic levers remain with the UK Government, and further support is urgently required

- Finally, the Chancellor has listened to calls the Scottish Government and the industry have been repeatedly making for some time to ensure that “the right assets are in the right hands”, it is crucial this turns into actions swiftly rather than another talking shop.
- The UK Government first committed to reforming decommissioning tax relief in December 2014 in their *Driving Investment* plan.
- The OGUK Business Outlook highlights the urgent need for fresh capital investment to stimulate activity and maximise economic recovery. Steps must be taken now to incentivise investment and exploration, which would be of particular help to the supply chain, facing the greatest pressures.
- The Scottish Government has previously recommended proposals focused around increasing activity in late-life assets to ensure their full potential is realised, protecting critical pieces of infrastructure, and driving forward much needed new investment in the North Sea.
- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.
    - **Action is required to improve access to decommissioning tax relief**, ensuring that the right assets are in the right hands, and **deliver the UK commitment to provide loan guarantees,** which are of vital importance to both the supply chain and ensuring critical infrastructure remains operational.
    - With around £17.6 billion expected to be spent in the North Sea over the next decade on decommissioning, the **UK should join Scotland in funding projects to help secure work and cut costs in this emerging field.**

Norway set up an oil fund – the fund is now valued at around $900 billion and is being used to shelter the Norwegian fiscal budget from fluctuations in oil and gas revenues

- Norway has a sovereign oil fund, valued at around $900 billion (Nkr7.6 billion), which is more than double the country’s total GDP.
- The Government Pension Fund Global shelters the fiscal budget from fluctuations in oil and gas revenues. A decline in the price of oil therefore has no immediate impact on the fiscal stance, but translates into reduced fiscal space over time.
- In 2016 – the first time since its establishment in 1996 – the Norwegian government started to withdraw money from its sovereign wealth fund to cover government expenses. Withdrawals amounted to $15 billion over 2017 to cover a budget hole of roughly 8% of GDP.

First Minister launched a £5 million Decommissioning Challenge Fund (DCF) to provide opportunities for the Scottish supply chain to benefit from oil and gas decommissioning

- The DCF will support infrastructure upgrades and innovation in salvage and transport methods at Scotland’s ports and harbours. [Funding is available in Financial Year 2017/18]
- The DCF will also encourage engineering scoping work at key sites to build business cases that will attract further private investment.
- The DCF will deliver a key Programme for Government commitment to ensuring that decommissioning is executed in a safe, environmentally sound and cost effective manner and supports the ambitions outlined in our draft Energy Strategy and Scottish Enterprise’s Decommissioning Action Plan.

- The Scottish Government will make further funds available in future years once business cases have been developed to support larger scale projects.

<u>We launched a £12 million Transition Training Fund (TTF) to support individuals and help the sector retain talent on 1 February 2016</u>.

- The fund, now in operation for a year, will **operate for three years**. Latest figures show **more than 1,600 people have had applications approved from the fund**.
- Training programmes procured by the TTF will also **create around 340 employment opportunities across Scotland**, with **the latest tranche supporting 425 opportunities**.
- The TTF augments the work of the Energy Jobs Taskforce - already providing support through **PACE** and other measures such as the **Adopt an Apprentice initiative**.
- It is important that the TTF continues to address tangible economic opportunities, rather than simply offering speculative training - on this basis, the funding has already surpassed its initial aim of supporting over 1,000 participants each year.

<u>The Energy Jobs Taskforce (EJTF) remains focused on supporting those affected today but, at the same time, is looking to the future to lay foundations for a vibrant industry for decades to come</u>

- **The taskforce has met 12 times,** with the most recent meeting taking place on 8 December.
- The PACE programme has focused significant efforts in the North East **– 4 PACE job events aimed at the oil and gas industry have been attended by 3,500 people to date.**
- The Elevator Fresh Start programme has supported **the creation of 64 new businesses in the north east of Scotland**, originating from original contact at PACE events.
- From March 2015 to April 2016**, Scottish Enterprise has engaged directly with over 800 oil and gas companies via 36 events**. These include workshops and programmes and 4 industry networking events

<u>We have also provided a further £12.5 million to support innovation and business resilience</u>

- This included £10 million of SE funding to **help firms reduce risks associated with carrying out research & development. To date** around 78 innovation projects with a total project value of around £16 million having benefitted from **around £7 million** of Scottish Government support so far.
- £2.5 million was set aside for **business resilience reviews,** providing targeted support from industry experts, **with over £2.5 million committed investment so far**.
- SE & HIE are providing practical assistance to the supply chain and have run **6 Resilience in Oil and Gas Events**, welcoming 217 delegates from 144 companies, to hear from experts on strategy, operations, finance and market resilience

<u>Our draft Energy Strategy conveys a clear message to the oil and gas industry – the recovery of North Sea oil and gas as a highly regulated source of hydrocarbon fuels will continue to be a priority for this government for decades to come.</u>

- The Scottish Government remains committed to maintaining domestic oil and gas exploration and production, and **Maximising Economic Recovery**. For the first time, our Energy Strategy clearly articulates this within the context of our climate change objectives.
- Over the past five decades**, North Sea production** has established an industry that has generated over £330 billion in tax revenue and currently supports around 124,500 jobs in Scotland.

- The sector provides high-value employment, the engineering and technical bedrock for our transition from fossil fuels, and stable supply of our energy demands for decades to come.
- Around **three quarters of total energy consumption in Scotland is supplied by oil and gas**.
- As a result of advances in technology, many developing here in Scotland, new and innovative ways of using hydrocarbons are emerging. This will be a continuing opportunity for decades to come with new energy sources and technologies such as Hydrogen and CCS having the potential to substantially reduce the cost of decarbonisation.

- The Autumn Budget Statement included details on the introduction of the UK wide Apprenticeship Levy in Apr 2017. It will be set at a rate of 0.5% of an employer's pay-bill and be paid on any pay-bill in excess of £3 million. HMT suggest that only 2% of UK employers will be eligible to pay.
- The SG published response set out how the Levy will support skills, training and employment in Scotland, including:
  - continue to expand the number of MA opportunities as part of our planned growth to 30,000 new starts each year by 2020;
  - increase in the number of Graduate Level and Foundation Apprenticeships during 2017-18;
  - support measures to tackle structural unemployment issues and challenge inequalities;
  - continue with the implementation of the Youth Employment Strategy;
  - respond to the immediate skills needs of employers, through:
    - the establishment of a new £10 million Flexible Workforce Development Fund for employers; and
    - ongoing and sector-specific skills support for priority sectors in the economy such as digital, care and early years.

Employers in Scotland are set to benefit from a new £10 million skills fund, announced as part of the Scottish Government's response to the UK Government Apprenticeship Levy.

- The fund will be introduced in the Autumn 2017 and we will bring forward further details in the New Year.

There is not £221m of additional money coming to Scotland through the Apprenticeship Levy.

- While the Apprenticeship Levy will be **a new tax on employers, its proceeds will largely be replacing existing apprenticeship funding** in England of which Scotland will receive a proportionate share.
- This is a new way of the UK Government raising funds direct from business, a **policy they announced in 2015 without consultation with the Scottish Government or employers**. We estimate that the **cost to the public sector in Scotland will be around £73 million p.a.**
- We have already set out plans to deliver on our ambitious commitment to supporting 30,000 Modern Apprenticeships starts by 2020. That plan has the support of industry who have also backed our **plans to expand Foundation and Graduate Level apprenticeships.**

Impact on the Oil and Gas Sector

- The Oil and Gas Sector are concerned that *"with less than 2% of companies across the UK falling into the scope of the levy, the size and complexity of companies in oil and gas means the industry is likely to be disproportionately affected by its introduction"*.
- The Levy is viewed as an additional tax on bottom line costs which could lead to companies looking at cutting costs in areas of their business.
- Industry argues that there remains a lack of clarity on how the Levy will operate in Scotland, particularly in terms of those employers operating across borders.
- At the EJTF meeting on 8 December, Deirdre and others sought clarity on the SG approach to the Apprenticeship Levy. **Scottish Government will update on Apprenticeship Levy at the next task force meeting on 22 March 2017.**

Key Lines

- During the consultation employers asked to see a more flexible approach and for Levy funds to be used to protect the development of the apprenticeship offering.
- The UK Government announced in November that the Scottish Government would receive £221m next year as a result of the levy
- This is not £221m of additional money coming to Scotland through the Apprenticeship Levy
- We estimate that the cost to the public sector in Scotland will be around £73 million per annum - when you take that into account the Scottish Government's spending powers are actually £30 million down as a result.
- All of the funds raised through the Apprenticeship Levy will be invested by Scottish Government in skills, training and workforce development to meet the needs to employers, the workforce, young people and Scotland's economy.
- That is why Minister for Employability and Training announced, as part of the budget, that we would introduce a Flexible Workforce Development Fund, to the tune of £10 million.
- The details on how the fund will operate as officials are being finalised, but this funding is committed.