

16 June 2011

Charles Hendry MP
Minister of State for Energy
Department of Energy & Climate Change
3 Whitehall Place
London
SW1A 2AW

Dear

SURVEY OF INTERNATIONAL ACTIVITY
IN THE OIL & GAS SECTOR

For information I enclose a copy of SCDI's latest annual survey into international activity in Scotland's oil and gas sector. This research, which is supported by Scottish Enterprise, has been undertaken by SCDI for the past eleven years and represents the most accurate picture available of the global impact which Scottish based businesses are having in the oil and gas industry and the positive benefits this is bringing to Scotland and the UK.

The latest figures once more show a strong international performance which reflects the growing maturity of Scotland's company base. Through the establishment of overseas based businesses and also via the acquisition route, Scotland's oil and gas supply chain has now established a physical trading presence in 107 different countries across the globe.

However, there are some worrying signs that business levels in the UK Continental Shelf (UKCS) are slowing down and the survey records a decline in sales into the UKCS for the first time since 2004.

In SCDI's view part of the reason for this is the capacity constraints felt within the industry in terms of manpower, but equally there remains a need to make the UKCS as attractive an investment opportunity on a global scale as we possibly can. Attracting people into the industry and addressing labour supply is an issue that has been a problem for many years and it is encouraging to see the oil and gas industry working hard to tackle this through the work of OPITO. In addition SCDI's efforts in this area, backed by private sector sponsorship, continue to bear fruit and are illustrated by the 60% growth in our Young Engineers & Science Club (YESC) network to over 400 Clubs across Scotland. We work closely with UK-wide partners in this initiative including Engineering UK, Young Engineers and the Royal Academy of Engineering.

The other major constraint to growth is undoubtedly the tax regime which is one of the key levers in making the UKCS an attractive region in which to invest. The recent increase in supplementary corporation tax by the UK Chancellor is clearly unhelpful and we deeply regret that the assurances that were made, privately and publicly, by senior Coalition Government Ministers to the industry and organisations such as SCDI of their commitment to a stable and predictable regime for investors were not kept in the Budget. We do not consider that the economic benefits of marginal reductions in fuel duty can justify or compensate for the loss of investment caused by the increase in the supplementary tax on North Sea oil and gas. Subsequent announcements by a number of companies about deferrals in major investments and the shutting down of production have borne out the warnings from industry and SCDI. We acknowledge and welcome the First Minister's contribution to this debate and look forward to further industry and UK Government feedback on the proposals.

The ongoing UK Government consultation on Air Passenger Duty (APD) also has the potential to cause damage to the North of Scotland economy, where much of the oil and gas sector is based. SCDI has joined other organisations to call for helicopters serving the North Sea energy industry to be exempt from APD and that this should be written into the appropriate definition of business jets that is being sought.

I trust you will find the report and our views of interest and look forward to your response. If you require any further information on this particular survey I would be delighted to assist.

Regards

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