

CEN briefing note: oil and gas

- **The volatility of fossil fuel markets following the invasion of Ukraine has hastened the transition towards cleaner, cheaper, more secure renewable energy.** The UK cannot significantly influence the price of oil and gas as they are regionally traded commodities and we are not a major producer. Our reliance on oil and gas forced the Treasury to provide billions in direct support to struggling bill payers during the gas price spike. While we will need oil and gas for decades to come, there should be no doubt that reducing our dependence on them is a security, economic, and environmental imperative. Our focus should be on reducing this demand and scaling up clean energy supply.
- **Scotland and the North Sea energy sector have a bright future with the transition to clean energy.** The North Sea is a mature basin with declining production (even with new licences), so accelerated deployment of clean energy is necessary on energy security grounds. The North Sea's future lies in the rollout of carbon capture, renewables, and hydrogen as our demand for oil and gas decreases.
- **Scottish voters are optimistic about the transition to renewables, and think it is easier to do within the Union.** The Scottish Government's energy strategy has brought climate change into the debate about the future of the Union. But [CEN's polling](#) found that Scottish voters think it will be easier to transition to clean energy and fight climate change using the fiscal might of the Union. However, they would also be less likely to vote to remain in the UK if it felt Westminster did not share their concern over climate change.
- **The oil and gas sector will play an important but shrinking role as the UK transitions to a green economy.** The oil and gas industry currently supports 200,000 jobs and adds about [£16 billion](#) to the UK economy annually, while the net zero economy is now worth more than [£70 billion](#) to the UK and supports nearly one million jobs, which pay around [30% higher](#) than the national average. These jobs are also 1.7 times more productive, generating almost [£50,000](#) in extra value for every 'green' employee.

The North Sea transition:

- **The energy transition needs a pragmatic, balanced approach.** There is an undeniable security imperative of having reliable access to oil and gas supplies while we still need it. Energy companies could play a crucial role in the transition. But powerful international market forces are a constant and increasing risk to the North Sea oil and gas sector, which has been severely damaged twice in a decade due to the shale revolution in the US followed by a

fall in demand from the pandemic. There can be little doubt that Britain's future lies with clean energy and electrification.

- **Oil and gas exploration should fall in line with demand.** Even with the current licensing round, UK oil and gas production will fall albeit at a slower rate than without new licences. This means that unless we increase our deployment of renewables, we will be reliant on imported oil and gas, undermining our energy security. Curtailing fossil fuel supply before we have sufficiently increased our renewable energy capabilities could result in price spikes due to a mismatch between supply and demand. Exploration should decline in line with decreased demand for oil and gas. The best way of reducing our reliance on oil and gas is through increased renewable generation and increased electrification of heating and transport.
- **The world's movement towards clean energy has been cemented by the Russian invasion of Ukraine.** The weaponisation of oil and gas markets against democracies has bolstered policies that are designed to roll out more renewable generation capacity and increase energy efficiency. Even BP's [outlook for 2023](#) has global oil demand peaking in 2019 and plateauing for a decade before declining. The International Energy Agency [found](#) that natural gas use, previously seen as the 'bridge' between coal and renewables, will now peak and start to decline before 2030.
- **As a mature basin, the North Sea oil and gas sector is more at risk of divestment than others.** Production in the North Sea is expected to be around [a third of 1999 levels by 2035](#) and less than 3% of the 1999 peak by 2050. As a basin matures and becomes less economical to extract from, the international companies that operate there will look elsewhere for newer fields.
- **Rising oil prices due to the war in Ukraine might make North Sea projects look viable now, but they will inevitably fall again.** The major oil and gas companies now appear reluctant to forego investment in oil and gas due to the high profits they have made, and have watered down plans for cutting production. Renewables have smaller profit margins and the oil and gas companies are facing much tougher competition for market share. The Energy Profits Levy and lack of political support for new licences by some political parties have created a more challenging investment environment in the UK. However, there are much more attractive oil and gas investment opportunities abroad, especially in Africa. Meanwhile, according to the [International Energy Agency](#), global capital is turning rapidly towards renewables, which have fallen dramatically in costs. The UK is the premier location in Europe for offshore wind energy potential, with Scotland set to benefit the most from the growth in floating offshore wind.
- **The North Sea Transition Deal commits industry and the Government to**

work together towards decarbonisation. Measures in the deal include phasing out venting and flaring by 2030, investment in the electrification of assets, investment in emerging technologies such as CCUS and hydrogen, and supporting workers through the energy transition.

- **The energy transition is likely to be irreversible and the UK needs to prepare.** For Scotland's oil and gas sector, which supports 71,500 people (a third of the UK's total employment in the sector), this means leveraging more investment into growing clean energy sectors to prevent communities from being left behind.

Key policies (UK Government):

- **Energy Act:** The Energy Act passed the necessary legislation for scaling up carbon capture and storage and low-carbon hydrogen industries, including the regulatory frameworks and business models. It also includes measures to update energy system regulations so they are more fit for low-carbon energy sources. The Act is expected to unlock up to **£100 billion** in private investment.
- **North Sea Transition Deal:** The deal was struck between Government and industry in March 2021. It commits the industry to investment in the decarbonisation of production in return for government support. The decarbonisation targets (an absolute reduction in production emissions of 10% in 2025, 25% in 2027, and 50% in 2030 on the pathway to net zero by 2050) are not aligned with the Climate Change Committee's net zero pathway, which sees a 68% reduction in North Sea oil and gas operational emissions by 2030. But the North Sea Transition Authority, which oversees the deal, says 50% by 2030 is a minimum, not a maximum.
- **Climate compatibility checkpoints:** This checkpoint was introduced to evaluate the compatibility of future licensing rounds with the UK's climate objectives. It includes three tests that must be passed for a licensing round to go ahead: **1)** reductions in operational greenhouse gas emissions from the sector vs. commitments in the North Sea Transition Deal; **2)** reductions in operational greenhouse gas emissions from the sector benchmarked internationally; and **3)** the status of the UK as a net importer or exporter of oil and gas.