

12 November 2002

INDUSTRY SURVEY REVEALS CHALLENGES AHEAD FOR UK OFFSHORE OIL AND GAS

With just half of Britain's estimated oil and gas reserves recovered, initial indications from a new survey reveal the UK offshore oil and gas industry has reached a critical point in terms of its international competitiveness, with projections of investment growth not being matched by increased production volumes.

The annual survey of the investment and development plans of 28 UK offshore oil and gas producing companies is commissioned jointly by the UK Offshore Operators Association (UKOOA) and the Department of Trade and Industry (DTI).

It suggests that on current trends the Industry will be spending more to deliver less oil and gas, as depleting reserves in existing fields become more difficult and costly to replace with new developments. Clearly, this trend must be arrested, UKOOA says. Greater capital and operating efficiency will be key to future business success on the UK Continental Shelf (UKCS), as will continuing co-operation between the Industry and Government. The substantial investment in new technology of recent years, along with the vast network of existing infrastructure and the contribution of over 600 new wells drilled over last two years, will also be vital in maximising economic recovery.

The survey's key findings and associated industry statistics are:

- There are 260 oil and gas fields currently under development or in production on the UKCS (248 in 2001), with remaining reserves in these developments of around 11 billion barrels of oil equivalent (boe) - up from 10 billion boe;
- There are 64 fewer new field developments planned for the future compared to last year's survey findings (84 as opposed to 148 in 2001). New fields are subject to the recent Corporation Tax increase (up from 30 per cent to 40 per cent) and to 100 per cent first year capital allowances;

Cont/...

Industry survey reveals challenges ahead for UK offshore oil and gas/2

- However, the survey identifies more projects under consideration in mature fields (144 compared with 96 in 2001). Investment in these fields is becoming increasingly important if the PILOT vision is to be achieved. The early abolition of Royalty is essential to restore capital efficiency in these fields. While the delay in abolishing Royalty continues, the UK's oldest fields are subject to a 74 per cent marginal tax rate;
- Total UK oil and gas production for the period 2001 to 2010 is forecast to be an estimated 12.9 billion boe, some 370 million boe lower than predicted twelve months ago;
- Total capital expenditure for the period 2001-2010 is forecast to increase by around £1 billion, compared with last year's forecast;
- 2002 capital development spend is expected to meet 2001 forecasts of between £3.3-£3.8 billion while expenditure in 2003 is likely to be at the lower end of this range;
- Year on year capital expenditure is expected to decline in the near term, following the large number of new developments approved in 2000/01, which has not been sustained;
- Operating costs are forecast to rise by 20 per cent from \$4.1 per boe in 2001 to \$4.9 per boe by 2010;
- The PILOT production objective for 2010 is becoming more difficult to achieve. There remains an estimated shortfall of 650,000 boe per day (boepd) on the joint Government Industry production "vision" of 3 million boepd by the end of the decade.

Beverly Mentzer, Chair of UKOOA's Fiscal Policy Group, said: "Managing a business as production declines requires different application of the skills and disciplines that have been successful during the growth of the UKCS in the first half of its life. We have to demonstrate capital and operational efficiency in an increasingly competitive global market to attract the resources that are vital to our ability to maximise economic recovery of UKCS oil and gas reserves. Government's design of the fiscal regime also significantly influences the international competitiveness of the UKCS."

Michel Contie, UKOOA President, said: "The survey indicates that the UKCS is at a critical point in terms of its international competitiveness due to the maturity of the basin. The Industry will do all it can to maximise the economic recovery of remaining discovered and undiscovered reserves. To secure those reserves the UK must retain an adequate offshore infrastructure, which is particularly important in terms UK gas supply.

Cont/...

Industry survey reveals challenges ahead for UK offshore oil and gas/3

“Operating companies in the UKCS have the ability to deliver, in co-operation with an effective supply chain, and, more and more, the support and long term vision of Government and the regulators,” Michel Contie said.

- ends -

For further information, please contact:

Trisha O'Reilly

UKOOA Communications Team

2nd Floor, 232-242 Vauxhall Bridge Road

London SW1V 1AU

Tel: 020 7802 2422/2400

Fax: 0207 802 2401

Email: toreilly@ukooa.co.uk

Pager: 07659 153 069

Website: www.oilandgas.org.uk

Notes to Editors

1. **The UK Offshore Operators Association (UKOOA)** is the representative organisation for oil and gas companies licensed by the UK government to explore for and produce hydrocarbons offshore around the British Isles. It currently has 28 members. Visit www.oilandgas.org.uk for further information.
2. **PILOT** was established in January 2000 to secure the long-term future of the oil and gas industry in the UK. PILOT is made up of twenty-three key Government representatives and recognised leaders from the industry and meets on a quarterly basis. The strategy is for 10 years of Industry/ Government co-operation aimed at achieving the following vision in the year 2010.
 - Oil and gas production maintained at 3million boepd
 - Investment sustained at £3bn per annum
 - Prolonged self sufficiency in oil & gas
 - Up to more than 100,000 more jobs than would have existed
 - 50% increase in exports (by 2005)
3. PILOT's intermediate objectives for 2005 are:
 - Maintain oil and gas production at 4 million boepd
 - Sustain investment at £3 billion per annum.
4. The UKOOA/DTI 2002 Activity Survey was commissioned in August 2002 to gather data on all identified projects across the UKCS, ranging from fields in production to “possible” future developments. Exploration and appraisal activity is not included. Professor Alex Kemp, petroleum economist at the University of Aberdeen, subsequently aggregated the data, which is presented on a risked basis (ie probable and possible projects' timing is influenced by its probability of occurrence).
5. **A selection of graphs showing UKCS production and investment forecasts is available from the UKOOA Press Office. Call 020 7802 2422 or email toreilly@ukooa.co.uk**