

Submission to the the inquiry on 'The future of the oil and gas industry' by the House of Commons Select Committee on Scottish Affairs

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July 2018

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Inquiry: 'The future of the oil and gas industry'

This submission was made to the House of Commons Select Committee on Scottish Affairs in July 2018 by Bob Ward, Policy and Communications Director, and Dr Maria Carvalho, Policy Analyst, at the Grantham Research Institute on Climate Change and the Environment and the ESRC Centre for Climate Change Economics and Policy, London School of Economics and Political Science.

1. This submission focuses on the implications for the oil and gas industry in the UK, including Scotland, of the transition to low-carbon economic growth. In particular, it highlights the need for the Government's Industrial Strategy to reconcile its ambitions for the oil and gas sector with the 'Clean Growth' Grand Challenge.
2. The Industrial Strategy (Her Majesty's Government, 2017a) rightly recognises that the transition to a low-carbon economy can drive sustainable economic growth in the UK. The Government has commendably been using the Industrial Strategy Challenge Fund to focus efforts on boosting research and innovation in relation to clean growth. However, the implications of the low-carbon transition for the UK oil and gas sector, which is a major strategic issue for the UK, are not yet receiving adequate attention from the research community.
3. The 2008 Climate Change Act commits the UK to reducing its annual emissions of greenhouse gases by at least 80 per cent by 2050. The Government has indicated that it will be shortly asking the advice of the Committee on Climate Change about setting a target for achieving 'net zero' annual emissions, in line with the goals of the Paris Agreement. The Agreement has committed the Parties to a collective goal of reaching 'net zero' annual emissions during the second half of this century.
4. Carbon capture, usage and storage may eventually allow the continued consumption of some natural gas for electricity generation while also meeting goals for reducing emissions of greenhouse gases. However, carbon capture, usage and storage does not appear to be a viable option for the consumption of oil and its products for transport.
5. Since 2016, many national governments have announced plans to ban the sale of new diesel and gasoline vehicles in the future. The countries include Norway (by 2025; Ministry of Transport and Communications, 2017), Netherlands (by 2030 at the latest; Coalition Government, 2017), Ireland (by 2030; Government of Ireland, 2018), France (by 2040; Ministry for Ecological and Inclusive Transition, 2017), the UK (by 2040; Her Majesty's Government, 2017b), and Taiwan (by 2040; Department of Information Services of the Executive Yuan, 2017). In addition, the national legislative chamber representing the German regions (*Länder*) has issued a statement supporting the European Commission's strategy for an emissions-free mobility strategy, including that only zero-emission vehicles are being registered within the European Union by 2030 (Beschluss des Bundesrates, 2016).
6. Additionally, several sub-national governments have also announced plans for bans on diesel and gasoline vehicles. Eight State governments in the United States (California, Connecticut, Maryland, Massachusetts, New York, Oregon, Rhode Island and Vermont) reaffirmed their commitment to make all new passenger vehicles zero-emissions by no later than 2050 at the United Nations climate change summit in 2016 in Marrakech (International ZEV Alliance, 2016). As part of C40 Mayors Air Quality Commitment, the mayors of Athens, Madrid, Mexico City and Paris have committed to removing all diesel vehicles from their cities by 2025 (Hidalgo et al., 2016).

7. Thus, the combination of domestic and international targets for emissions reductions could have a significant impact on demand for oil and gas from the UK's onshore and offshore reserves over the next few decades.
8. The Government's Industrial Strategy states that '[w]hile the move towards clean growth is clear, oil and gas remains one of the most productive sectors of the UK economy' (Her Majesty's Government, 2017a). However, it does not explicitly consider that domestic and international targets for emissions reductions may result in a severe decrease in demand for oil and gas, and that there could be serious consequences for a sector that currently supports more than 300,000 jobs in the UK, according to the latest economic report published by Oil & Gas UK. For comparison, more than 200,000 jobs were lost in coal mining in the UK during the 1980s and 1990s (Fothergill, 2017).
9. Many regions and countries are currently confronting the implications for investors, businesses and workers of a reduction in demand for coal for electricity generation. There are widespread concerns about stranded workforces, and calls for action to ensure a 'just transition' for communities that could be particularly affected. While the impacts on the UK oil and gas sector may be less imminent, delaying any consideration of the consequences may result in a more difficult transition.
10. Companies and investors in the UK are beginning to consider, at least privately, how the low-carbon transition might affect the oil and gas sector. Much of the current considerations are focused on reducing greenhouse gas emissions from the upstream operations of the oil and gas industry. For instance the *Economic Report 2017*, published by Oil and Gas UK, included a brief section on 'The role for oil and gas in the lower-carbon economy'. However, there has been very little analysis to date of the implications for investors, businesses or workers of a potential reduction in demand for oil and natural gas due to domestic and overseas actions to curb greenhouse gas emissions.
11. As yet the Government has not made available any funding for analysis of this issue. For instance, the launch earlier this month by UK Research and Innovation of a call for a new Energy Revolution Research Consortium does not include any reference to the implications for the oil and gas sector (Innovate UK and UK Research and Innovation, 2018).
12. It would be prudent for the Government to take three specific actions to promote a discussion, informed by accurate and reliable information, about the future of the oil and gas industry in the UK, including Scotland. First, it should ensure that the sector deal for oil and gas includes an explicit recognition of the sector's need to consider how the low-carbon transition will impact investors, businesses and workers over the coming decades. Second, the Government should earmark some of the Industrial Strategy Challenge Fund to support for research and analysis, such as the production of scenarios, on the potential implications of the low-carbon transition for the UK oil and gas sector, and options for managing the transition, to inform decision-making by investors, businesses, workers and policymakers at national and local levels. Third, the Government should build on the recommendation of the Green Finance Taskforce's report earlier this year to foster inclusive prosperity at the local level and develop place-based green financing plans for regions exposed to the impacts of the low-carbon transition on the oil and gas sector, drawing on inputs from leading UK banks and investors (Green Finance Taskforce, 2018).

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