



Grantham Research Institute  
on Climate Change  
and the Environment

# Response to the Oil and Gas Authority's 'Consultation on proposals to revise the MER UK Strategy'

Bob Ward and Sophie Dicker

May 2021



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■



THE GRANTHAM FOUNDATION  
FOR THE PROTECTION OF THE ENVIRONMENT

**The Grantham Research Institute on Climate Change and the Environment** was established in 2008 at the London School of Economics and Political Science. The Institute brings together international expertise on economics, as well as finance, geography, the environment, international development and political economy to establish a world-leading centre for policy-relevant research, teaching and training in climate change and the environment. It is funded by the Grantham Foundation for the Protection of the Environment, which also funds the Grantham Institute – Climate Change and the Environment at Imperial College London.  
[www.lse.ac.uk/grantham/](http://www.lse.ac.uk/grantham/)

## About the authors

**Bob Ward** is Policy and Communications Director at the Grantham Research Institute on Climate Change and the Environment. **Sophie Dicker** is a Policy Analyst at the Institute.

**Authors' declaration:** The authors declare funding from their host institutions and no support from any other organisation for the submitted work. The views expressed in this paper represent those of the authors and do not necessarily represent those of the host institutions or funders.

## About this submission

The Grantham Research Institute submitted this response in July 2020 to a consultation launched by the Oil and Gas Authority (OGA) in May 2020 to gather views on its intention to refresh its core aim as stated in its *Maximising Economic Recovery Strategy for the UK* [MER UK Strategy], which came into force in March 2016. The central obligation of the strategy includes a requirement for industry to help the UK government achieve the target of net-zero greenhouse gas emissions by 2050.

For more information about the consultation see: [www.ogauthority.co.uk/news-publications/consultations/2020/consultation-on-new-oga-strategy/](http://www.ogauthority.co.uk/news-publications/consultations/2020/consultation-on-new-oga-strategy/)

For more information about the MER UK Strategy see: [www.ogauthority.co.uk/regulatory-framework/mer-uk-strategy/](http://www.ogauthority.co.uk/regulatory-framework/mer-uk-strategy/)

This paper was first published in May 2021 by the Grantham Research Institute on Climate Change and the Environment. © The authors, 2021

Suggested citation: Ward R and Dicker S (2020) *Response to the Oil and Gas Authority's 'Consultation on proposals to revise the MER UK Strategy'*. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science

# Introduction

The proposed new strategy for the Oil and Gas Authority (OGA) represents a historic shift in the regulation of the UK's offshore oil and gas industry to explicitly prioritise for the first time its contribution to the nation's efforts to tackle climate change. The new strategy would establish the UK's statutory target of reducing greenhouse gas emissions to net zero by 2050 as a strategic priority alongside maximising economic recovery.

This response to the OGA's consultation<sup>1</sup> on a new strategy is intended to strengthen the overall approach outlined in the proposed strategy. In particular, we suggest that the strategy includes a requirement to help the industry to prepare for the decline in oil and gas production from the offshore industry, as reserves are gradually depleted and an expected reduction in domestic and overseas demand for oil and gas occurs over the coming decades.

## Responses to selected consultation questions

### Q1. Do you have any comments on the proposed changes to the Introduction?

We welcome the proposed inclusion of the new clauses b) and c)<sup>2</sup>. However, we would suggest the following small but important modifications.

We suggest that the proposed new clause b) is amended as follows (additions in italics):

*“to assist the Secretary of State with meeting the net zero target and carbon budgets, and support...”*

The purpose of this amendment is to emphasise the need for companies to reduce greenhouse gas emissions in the near term to contribute to the achievement of the statutory five-year carbon budgets, and not just in the long term, to help the achievement of the 2050 target for net-zero emissions.

This is particularly important as the most recent progress report by the Committee on Climate Change, published in June 2020, indicated that the UK is currently not on target to meet the fourth and fifth carbon budgets (CCC, 2020).

We also highlight figures that suggest that the UK oil and gas industry is currently under-performing relative to some of its international competitors in terms of limiting and reducing greenhouse gas emissions. The most recent *Environment Report* by Oil and Gas UK, published in July 2019, shows that there was no significant cut in annual emissions of greenhouse gases from upstream oil and gas operations between 2012 and 2018 (see OGUK, 2019, Figure 2, p.12). There has also been no real reduction in the volume of gas that has been flared each year over the past decade (ibid, Figure 3, p.13), and there were very big increases in the volume of vented gas in 2017 and 2018 compared with previous years (ibid, Figure 5, p.15). Furthermore, although the carbon intensity of the UK's offshore production has been decreasing since 2013, it is still much higher than, and compares very poorly against, both the European average and Norway (ibid, Figure 9, p.18). The inescapable conclusion from these figures is that the UK offshore oil and gas industry has not been taking seriously enough its responsibilities for tackling greenhouse gas emissions

---

<sup>1</sup> [www.ogauthority.co.uk/news-publications/consultations/2020/consultation-on-new-oga-strategy/](http://www.ogauthority.co.uk/news-publications/consultations/2020/consultation-on-new-oga-strategy/)

<sup>2</sup> See p2, [www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf](http://www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf)

from its operations. It is important that the new strategy now moves the industry in the right direction.

We also suggest that the proposed new clause c)<sup>3</sup> is amended as follows (additions in italics):

“...maintain good environmental, social, *financial* and governance practices in their plans and daily operations, *particularly in relation to their workforces*;”

The purpose of this amendment is to emphasise that companies have a special responsibility to their workforces against a backdrop of expected job losses in the offshore oil and gas industry due to expected future reductions in both production and demand. A recent study by Professor Alexander Kemp and Linda Stephen at the University of Aberdeen concluded that there may be an extended period of low prices for both oil and gas that could lead to significantly lower production in the North Sea (Kemp and Stephen, 2020). This would inevitably mean reductions in the sizes of workforces.

Although these job losses may not be the direct result of decarbonisation policies, we suggest that the principles of a ‘just transition’ to a zero-carbon economy should be applied in the offshore oil and gas industry to avoid hardship among workers who lose their jobs and among their communities. In this respect, companies should be expected not just to treat redundant workers responsibly but also to cooperate with others in the public and private sectors to provide appropriate action and support.

Furthermore, we suggest the inclusion of the explicit reference to financial practices, and that this should be interpreted as an indication that all UK offshore oil and gas companies should implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

## **Q2. Do you have any comments on the proposed changes to the Central Obligation?**

We suggest that the new clause b) of the Central Obligation<sup>4</sup> is amended as follows (additions in italics):

“take appropriate steps to assist the Secretary of State in meeting the net zero target *and carbon budgets*, including by...”

The purpose of this amendment is to emphasise the need for companies to reduce greenhouse gas emissions in the near term to contribute to the achievement of the statutory five-year carbon budgets, and not just in the long term to help the achievement of the 2050 target for net-zero emissions.

## **Q3. Do you have any comments on the proposed changes to the Supporting Obligations to embed the proposed Net Zero limb of the Central Obligation?**

We suggest that the new clause 9.c.i.)<sup>5</sup> of the Supporting Obligations on Development is amended as follows (additions in italics):

“contribute to meeting the net zero target *and carbon budgets*, including...”

---

<sup>3</sup> See p2, [www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf](http://www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf)

<sup>4</sup> See p3, [www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf](http://www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf)

<sup>5</sup> See p4, [www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf](http://www.ogauthority.co.uk/media/6497/2020-oga-strategy-review.pdf)

We suggest that the new clause 10.c.)<sup>6</sup> of the Supporting Obligations on Asset Stewardship is amended as follows (additions in italics):

*"...taking account of the Secretary of State meeting the net zero target and carbon budgets;"*

The purpose of these amendments is to emphasise the need for companies to reduce greenhouse gas emissions in the near term to contribute to the achievement of the statutory five-year carbon budgets, and not just in the long term to help the achievement of the 2050 target for net-zero emissions.

We also note that new clause c) proposed for the Introduction is nowhere reflected in the revised Supporting Obligations. Consequently, and taking account of our suggested amendment to clause c) outlined in our response to Q1, we suggest the following addition of a new clause 3a) to the Supporting Obligations on Governance:

*"good and proper governance includes considering their social licence to operate, and developing and maintaining good environmental, social, financial and governance practices in their plans and daily operations, particularly in relation to their workforces;"*

## **Q7. On what do you base your forecasts of future carbon prices?**

We suggest that responses to this question are compared against the findings of the Report of the High-Level Commission on Carbon Prices which was published by the Carbon Pricing Leadership Coalition in May 2017. Its main conclusion was:

*"Countries may choose different instruments to implement their climate policies, depending on national and local circumstances and on the support they receive. Based on industry and policy experience, and the literature reviewed, duly considering the respective strengths and limitations of these information sources, this Commission concludes that the explicit carbon-price level consistent with achieving the Paris temperature target is at least US\$40–80/tCO<sub>2</sub> by 2020 and US\$50–100/tCO<sub>2</sub> by 2030, provided a supportive policy environment is in place."* (High-Level Commission on Carbon Prices, 2017, p.3)

In addition, a study by the Grantham Research Institute on 'How to price carbon to reach net-zero emissions in the UK', published in May 2019, found that a shadow price consistent with the UK's net-zero target would start at £50 per tonne of carbon-dioxide-equivalent (with a range of £40–100) in 2020. Complete decarbonisation will require the use of negative emissions technology, which, at the scale required, could cost in the order of £160 (£125–300) per tonne of carbon-dioxide-equivalent in 2050. The shadow carbon price should rise steadily towards this level.

---

<sup>6</sup> See p4, [www.ogaauthority.co.uk/media/6497/2020-oga-strategy-review.pdf](http://www.ogaauthority.co.uk/media/6497/2020-oga-strategy-review.pdf)

## References

- Committee on Climate Change [CCC] (2020) *Reducing UK emissions: 2020 Progress Report to Parliament*. <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>
- Grantham Research Institute on Climate Change and the Environment (2019) *How to price carbon to reach net-zero emissions in the UK*. <https://www.lse.ac.uk/granthaminstitute/publication/how-to-price-carbon-to-reach-net-zero-emissions-in-the-uk/>
- High-Level Commission on Carbon Prices (2017) *Report of the High-Level Commission on Carbon Prices*. Washington, DC: World Bank. <https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices>
- Kemp A and Stephen L (2020) *Prospects for Activity in the UKCS after the Oil Price Collapse*, North Sea Study Occasional Paper No. 147, April 2020, University of Aberdeen Business School. <https://www.abdn.ac.uk/research/acreef/documents/NSP-147.pdf>
- Oil and Gas UK [OGUK] (2019) *Environment Report 2019*. <https://oilandgasuk.co.uk/wp-content/uploads/2019/08/Environment-Report-2019-AUG20.pdf>