

Welcome and Introductions

Thank you Deirdre (Michie, OGUK Chief Executive) for that kind introduction and for inviting me to speak today. I am delighted to be here with you in Aberdeen, to address the Oil and Gas UK Conference – Open for Business.

Open for Business is an important conference theme and a message that the Scottish Government strongly endorses.

Through my appointment as a dedicated Cabinet Secretary for the economy, I want to send a clear message to business about this Government's focus on stimulating growth, protecting and creating jobs and promoting Scotland as a great place to do business. I can assure you the oil & gas industry is a very important part of that vision.

Before the Scottish Parliamentary elections, Oil & Gas UK set out four asks of the new administration. I want to take the opportunity today to try to address those points.

Current Industry Challenges

While 'Open for Business' must remain the objective – it is clear that the challenges facing the sector are substantial.

We only have to look at the latest figures from Oil and Gas UK published last Friday – an estimated 120,000 jobs lost to the industry by end 2016 since the peak in 2014.

While the Scottish economy has been resilient over the past 12 months, a combination of weak global growth, low oil prices and a strong sterling exchange rate have combined to create a challenging economic environment - especially for the oil & gas sector and its supply chain.

As a result, cash flow constraints, financial stress and redundancies are emerging as key problems.

However, I know the industry is working hard to overcome these challenges, making significant progress in reducing costs and increasing production efficiency. The first increase in annual oil & gas production in 15 years should be recognised as a significant achievement.

I also encourage you to continue to use your greatest asset – your people. Engaging both the workforce and suppliers will undoubtedly help you understand the most efficient and pragmatic way to increase efficiency. Strong collaboration is essential to protect jobs, retain skills and ensure a viable future.

Scottish Government Support to the Industry

It is important that Government does its part to help the industry. I strongly support the tripartite approach that is required to ensure we maximise economic recovery and the Total Value Added of the industry. I therefore place significant value in the strong relationship we have with both Oil & Gas UK and the Oil & Gas Authority.

The Scottish Government will do what it can to support the sector and its workforce during these challenging times.

You will all be aware of the Energy Jobs Taskforce and, indeed, I am sure some people here today are providing excellent support to that group. It is hugely appreciated.

Since the First Minister launched the Taskforce last January, it continues to be an influential forum, and a great example of collaboration in action – it will also be meeting again this week.

The Taskforce has achieved a great deal since its creation. Much of this support, including direct redundancy support for over 2,500 people, has been delivered through the PACE programme, with three events held in the North East and another once taking place next week on 22 June at Robert Gordon University.

On 1st February, we launched a £12 million Transition Training Fund (TTF), with training grants to redeploy individuals in the wider energy, engineering and manufacturing sectors. The TTF augments the work of the Energy Jobs Taskforce, which provides support through the PACE process and other measures such as the Adopt an Apprentice initiative.

As the oil and gas capital of Europe, Aberdeen is a major driver for the Scottish economy and I am determined we do all we can to improve infrastructure to ease commutes, boost business and keep Aberdeen internationally competitive.

Aberdeen City Region Deal

This is highlighted through our support for the Aberdeen City Region Deal, which sends a strong and unequivocal signal that we are fully supportive of the region's position as a global oil and gas hub.

Delivery of the city region deal will reaffirm this reputation through the new Oil and Gas Technology Centre and pave the way for diversifying the region's economy, building upon existing strengths in the agri-food and drink and biopharmaceuticals sectors.

The investment in an Oil and Gas Technology Centre (OGTC) will help forge new collaborations between universities and industry to increase R&D investment.

I'm pleased to be able to say that its development is coming on apace. This is an exciting initiative, with the potential to be a major player driving the sort of transformative change the industry needs to modernise and tackle the challenges it faces.

That is why in addition to our contribution of £125 million, we announced a further £254 million of additional support in key infrastructure to secure Aberdeen as one of the world's leading cities for business and industry.

We are supportive of the proposal to expand Aberdeen Harbour and committed to working with all partners subject to the relevant planning consents. If the development goes ahead, we will provide investment along with the two Aberdeen Councils through the City Deal.

Construction work on the Aberdeen Western Peripheral Route / Balmedie to Tipperty project is also underway. The new roads are on programme to be open to traffic in winter 2017, and Craibstone and Dyce Junctions are scheduled to open by autumn 2016. All providing substantial benefits across the north east.

We also recognise the need to provide a world class digital infrastructure, delivering high quality connectivity across Scotland. I believe this will be of real benefit to the oil & gas industry, enabling businesses across the country reach new markets, ensuring people can work flexibly and creating opportunities for all to flourish.

Alongside partners, we are investing over £410 million in the Digital Scotland Superfast Broadband (DSSB) programme, which will extend fibre broadband coverage to at least 95% of premises in Scotland by the end of 2017.

Update on Business Rates

I am also pleased to say we offer the most competitive business rates for the majority of ratepayers. From last year, all Scottish Councils have had the power to award their own localised business rates reliefs to respond to local need and economic demand.

We are committed to review the rates system in Scotland. Former RBS Scotland chair Ken Barclay is leading the Scottish Government's review of the business rates system to ensure that it minimises barriers to investment, is responsive to economic conditions and supports long-term economic growth. I encourage you to engage with that process.

Retaining a skilled workforce

However, the future success of the industry will be inextricably linked to the next generation of skilled engineers and geologists, among the many different skillsets required for a thriving sector.

High quality STEM education and training is vital to this. Ensuring all children and young people develop the skills, knowledge and capabilities they need during their education is a priority for this Government, as it aims to deliver both excellence and equity in our education system.

Learning in the STEM subjects can be greatly enriched by the contribution of partners – with huge opportunities for greater collaboration with industry, and I know many companies here will already have established these productive links.

We have committed to bringing forward a STEM strategy to ensure young people can access STEM qualifications, knowledge and training linked to key skills gaps in the economy and are aware of the opportunities that STEM offers.

In addition, the Deputy First Minister announced yesterday that funding will be available through the Transition Training Fund to support oil & gas workers at risk of redundancy to retrain as secondary teachers, particularly in STEM subjects.

The scheme will allow suitably qualified oil and gas workers to be employed by either Aberdeen or Aberdeenshire Councils while they undertake the initial teacher education, with guaranteed employment for four years for up to 20 people.

Further support from UK Government

I hope this underlines the breadth of the work Scottish Government is doing to support the industry.

However, the UK Government retains control of the key taxation levers affecting the sector and must take the action needed to protect businesses and jobs. Although the fiscal changes announced were welcomed, the March Budget was ultimately a missed opportunity as a number of critical challenges remain.

One of the most critical is exploration. Exploration is the future life-blood of the industry, without which we will never realise the 20 billion barrel potential of the North Sea. Higher rates of exploration are crucial if we are to maximise economic recovery and avoid premature cessation of production.

However, exploration levels currently sit at an all-time low, with recent projections for 2016 estimating half the number of E&A wells compared to 2015.

Whilst funding for seismic surveys will have long term benefits, further support must be provided for exploration and, indeed, enhanced oil recovery.

With costs much lower and spare capacity in the market, now is the time to undertake exploration activity.

This view is backed up by the latest Bank of Scotland survey, indicating that over half of all companies want to see a basin-wide fiscal stimulus to encourage exploration and preserve the stimulus to late-life fields.

The UK Government must not consider the last Budget to be job done. Further fiscal support for exploration is needed now.

The Scottish Government will continue to work with the Oil & Gas Authority and the industry to consider areas where further value can be added or support is required.

In the Spring Budget, the Chancellor also committed to consider loan guarantees.

Access to finance continues to be considered one of the greatest challenges in the basin, but we have heard no further details since the Budget on these critical issues. The Government must provide more clarity on their use - they could potentially be used to ensure critical assets and infrastructure remains operational, preventing systemic risks.

We are clear that everything must be done to ensure there is no premature cessation of production.

Conclusion

The current challenges facing the oil & gas industry are considerable, but I firmly believe the North Sea can still have a bright future.

I intend to continue and further develop the close engagement, developed by the previous Energy Minister Fergus Ewing, and to work with the industry, the Oil & Gas Authority, Oil & Gas UK, DECC and the unions to overcome the current challenges facing the sector – using every lever at our disposal – and secure its long term future.