

Panel Discussion

Now to the panel discussion. We are going to play this a bit like question time I suppose really. I have got some questions I am going to ask these chaps here. I'll ask each one of them to deal with a few of these questions. After I have asked the first victim as it were if you think you want to come in please raise your hand, I will be looking out of the corner of my eye and I will try and bring you in. So if you want to participate in this, it is up to you, you can participate, if you want to sit there and listen, that's fine too. The panel discussion is on the mature assets, we are really looking at mature fields here and wondering about the questions around the maximisation of recovery from mature fields in the North Sea, the challenges on that to us as industry participants and the roles that each of us, all the various participants can play in that, who are the enablers and who are the blockers, what are the problems here. Focusing on mature fields again and we want to go on and reflect upon, in our discussions, the impact of finance capability, on the free transfer of assets between parties and what effect that might be having on the fate of mature fields and indeed also marginal developments. So those are the sort of two issues that we want to get into so we have been hearing a lot about what the obstacles to extending the life of mature fields are in the UK, tax has come up a lot on that, fiscal uncertainty, Carl what are your views on that, what sort of an impact is fiscal uncertainty having?

Carl Hughes

Well we have obviously talked a lot about fiscal uncertainty as the day has gone on so perhaps I could try and address that by putting forward one or two new thoughts. When the Chancellor introduced SCT in 2002 the statement that he made at the time was that he had now established a stable tax regime for the UK. When the Chancellor announced the latest tax increase before Christmas, again the statement was made well, we are not now going to make any further changes to the oil tax regime and yet I think as we have heard a couple of times today when Steve was showing some of the quotes earlier, someone in the survey had talked about Indonesia, Tom talked about Pakistan, our own analysis has shown that we are actually one of the least stable fiscal regimes in the world and certainly our own analysis done by my petroleum services colleagues suggested that the loss of value to the North Sea in net present value terms with the tax hike before Christmas was about £8.7 billion so it is very substantial. In many senses the part of all the stakeholders involved and I feel most sorry for in this situation is actually the DTI because I do feel that so much of what the DTI has been doing which is being incredibly supportive of extending the life of the North Sea, has been to some extent put to one side with this particular tax change and perhaps I could just extend that thought a little bit further in terms of the instability or this message of instability, that this puts into the marketplace in the context of the energy strategy review which the minister was talking about this morning and which many people here will be involved in. Over the next 15-20 years as has been alluded to several times today the investment in energy in this country is going to be much broader than just the additional investment that needs to go into the North Sea in extending the life of the North Sea and that is going to be all the investment that is going to go into new forms of power generation whether that is more

gas power stations, nuclear rebuild, renewables, whatever, it doesn't really matter. One of the key things that the marketplace is looking for and which the DTI has spent a lot of time talking about is establishing a stable market framework which people can rely on in the power sector for the future investment which is going to be tens of billions of pounds in the power sector over the next 15-20 years. In some sense quite similar to the additional investment that needs to go into the North Sea.

Now when you are just about to start an energy strategy review when you are saying that actually ensuring that our indigenous supplies of gas aren't optimised for our own energy needs and our own national security situation, to actually at this point to introduce more instability and uncertainty into the marketplace seems to me to be quite a strange policy decision that would suggest to me that perhaps the lack of joined up, or that there is something of a lack of joined up thinking in this area particularly in terms of energy policy between Treasury and DTI. That is just to try and put a slightly different angle on it because obviously everyone in the room is disappointed, I think that SCT was further increased before Christmas, but I think from abroad a policy prospective there are some key messages here which government needs to take on board in terms of energy policy.

Malcolm Webb

Very good and I should have explained, by the way, that was Carl Hughes. He is the head of UK Oil and Gas from Deloitte, so let me just go on and repair my other great failing, as the Chairman and introduce the panel to you. Next to Carl is Alan Hart and he is the Mature Assets Leader at Shell UK and then we have Mike Wagstaff, the Chief Executive of Venture Production, Jim Atack, Managing Director of Petrafac Facilities and then of course Simon Toole, Director Licensing of the DTI so my apologies to you gentlemen for failing to introduce you to the audience as well. Alan, do you want to come in on this fiscal instability point there.

Alan Hart

I won't make a lot of additional points. First as an investor you are looking, I mean the fact is increasingly we do operate on a global environment, that's not just Shell but as you have heard today from even smaller companies the perceptions of the barriers to doing business in other parts of the world are dropping. It is getting easier to invest money elsewhere in the world and so that is just not true for us. I think the perception was that it was always the major alternatives for the investment so things that increase the cost structure especially in a very mature basin are always, whether it is increased tax or higher operating costs of other reasons are always deterrents to maximising end of field life recoveries and so again I would just like to point out that this is a concern probably for the entire industry.

Malcolm Webb

What's the accent here on Mature Assets, I mean particularly on Mature Assets, I mean the older fields?

Alan Hart

I think obviously the gap between the revenue line and the operating costs line is thinner for mature fields than it is fields earlier on in their field life and keeping that gap as far as you can, for as long as you can, is all about extending field life because if you can preserve that base longer, that gives opportunities for technology to catch up and so other technologies come to bear and also more innovative recovery techniques can come to bear so it is playing the game for as long as you can so you avoid the imbalance of infrastructure.

Malcolm Webb

Okay that is the view from the major, Mike what about the growing British independent.

Mike Wagstaff

Thanks, there has been a lot talked about tax and I just sort of focus on uncertainty, clearly we are an industry that actually is fantastically successful about dealing with risk and uncertainty so I think the idea that the only thing bad is fiscal uncertainty. It is just another burden on our business and so when people say why are you having to make investment decisions based on \$25 a barrel oil versus \$60 a barrel oil in the market that is because we have to deal with this uncertainty. What does it mean for Venture? Certainly in the three months up to the announcement in the pre budget statement the only thing any investor, anyone wanted to talk to us about, was what is the Chancellor going to do with fiscal regime. It absolutely depressed our share price therefore pushed up our cost of capital, change of tax has also pushed down returns so it actually does make a significant difference to our ability to continue to invest in the North Sea. Unlike Shell we are a pure North Sea player so at least in the short term our ability to re-deploy capital elsewhere is extremely limited and therefore we just have to get on and live with it but it is really a double blow for us and I don't think that people have thought through that side to the equation before they change the tax regime, it is not just taking windfall out of the oil industry.

Malcolm Webb

Don't forget if you want to ask a question or come in, raise your hand and I'll try and bring you in then but let's turn to another side of this. Jim you are interested in the people side of all this, what do you

see as a human resource challenge here? How serious are they in the context of the maturing fields?

Jim Attack

I think very significant indeed, obviously got a mature industry going on here although I am bit worried about this definition of the maturity. We talk about the reserve being maybe half way played out although I notice there are about 30% of the people there who thought that there were more than 28 billion barrels yet to be had. So there is the definition of a mature industry, that is a bit of a problem, it would certainly give us a bit of a problem if at age 40 we are all described as mature and there weren't any more opportunities but I think as you were implying very early on in your opening piece, there are a lot of people in the UK who don't know that we exist as an industry, that means that we haven't been for one reason or another, attracting people to the industry. If I can use two terms which are probably not very PC, blue collar and white collar, we have two distinct problems, in the blue collar workforce the typically off shore workforce we have what I would say is quite a small hole in that workforce. There are about 200-300 people that we are currently striving to get for the industry and what we seem to do as an industry is to move that hole around and spend a lot of our effort moving that hole around and borrowing the people from one another and getting them back again. I would like to see a much more concerted effort by the industry to bring new people in. With the blue collar workers, actually there is quite a large base of people out there who could be transferred from other industries and we are doing quite a lot of that as an industry. If we worked a little bit harder we could fill that gap. The age profile of those workers typically off shore is in their 40s and we do need to refresh that with a new generation and that will only really come from the population where we convince them that there is an industry to join. The rather different issues of the professional end, the white collar end, of the business is that as I think the last SPE survey showed the average age of the professionals in the industry is about 52. Now that really isn't sustainable and it's not very easily fixable by bringing people in.

Malcolm Webb

What would be a healthy average age in your views?

Jim Attack

Well I am 55 so I am dragging the average up a bit but we really ought to have a decent profile across the industry of 35 I guess and of course that wouldn't be at all mature and it is very difficult now to get that profile right. We can bring people in at the bottom end but we are going to see despite the other intervention by the Chancellor on pension funds and working longer, we are going to see a hole that continues in the professional workforce. Now that is the same here as it is in the United States at the moment and what we are finding is that there is increased competition for typically engineering

designers in this country, we employ a couple of hundred of those here. Really those skills have been develop in other places around the world, we employ about 2,000 engineer design people elsewhere. These people come from India, Indian Sub Continent and whereas the feeling was a few years ago that you wanted to have your engineering design done by experienced US or UK folk, that idea has changed so will we get to the point of substitution in our industry here in the UK with quite a lot of foreign folk coming who are eminently qualified to do the job or will we be able to refresh and build and will be energy be there to do it. Your very first question addresses that and why is it so, second question what are we going to do about it?

Malcolm Webb

Alan what about the view from Shell. You have been doing a lot of recruiting of engineers of late, haven't you? How has that gone and what's your view on the human resourcing?

Alan Hart

Yes, well, we had some good success and obviously over the past year we, clearly resources were a problem for us executing the business plan that we wanted to in 2005 and going forward in 2006 and beyond and so we have had major recruiting drive to attract more technical people to our company not only here in Europe but elsewhere but also attracting more people into the company on the technician level, not just the professional people, also the technician level. Now the good news is that in order to fill about 80 positions for our company on the technician level last year, in response to the adverts we placed we had over 1,000 people interested in moving into those positions so there is some interest.

Malcolm Webb

Of the right quality as well.

Alan Hart

Yes we, obviously not all, 1.000 would be probably, a person we would offer a job to but we were really quite pleased with the 80 that we took out of that pool, we feel are very high quality candidates and there were very many more who we would say no to. So I think there are people interested in this industry and there are people interested in working for companies like Shell and so we have had some success. Now without a doubt this is going to continue to be a challenge for us because as we go forward in time there is an ageing workforce, population is quite acute, particularly on the contracting side and I think that is a major problem for the industry collectively to address.

Malcolm Webb

Mike what about you?

Mike Wagstaff

Human resources are the input into our business that is in shortage supply, it is not capital, it is not rigs, it is not even opportunities. We are lucky, you know, the size and scale of our numbers is relatively short but we are always running significantly under the number of people that we need to execute optimally and we have had to go to some pretty extreme ends of the earth to find good people. Luckily in this day and age we are in a global industry where people will move, where you can reach even somebody sitting on a remote rig through the internet and therefore actually tracking down people, we have been amazed by the distances people have come to actually join us. It is actually sad that you have to go that far to actually get people to do it but I think this is probably the biggest challenge that an industry that we got to face, otherwise we don't have an industry.

Malcolm Webb

Interestingly you said even more than capital so what about capital availability, not a problem?

Mike Wagstaff

I think it is actually quite humorous to be able to think about shortage of capital at a time in 2006, Tom talked about it in his speech, but I recall when I first joined Venture, we were raising money in 1999 and in the days of the go-go technology and dot com boom, raising money for an oil production company was a bit like raising money for the black death. You know the number of people hanging up on the phone to you was unbelievable so I actually think while abundance of capital is a good thing, I think one of the things that we are not seeing now is the filtering effect of the capital formation process. I think where virtually anybody can to aim and raise £20 million to go and do something wild and exotic in some remote part of the world with really no scrutiny on it, comes with it risks and dangers and actually there was some checks and balances in the tough times. I am not suggesting remotely that we should go back to it but there is certainly not a shortage.

Malcolm Webb

What about competition from alternative, attractive investment opportunities, Carl, is that a major issue here or not? What's the pull there?

Carl Hughes

I think it is and I think in a sense the survey results that we had up on the screen before demonstrate that, in that when you see companies that had got new and perhaps potentially larger opportunities abroad, those opportunities attract both investment capital that also, going back to the people issue, also attract the people as well. If you look at, for example, the deployment of BP people within TNK BP over in Moscow, there is a very large chunk of I would imagine some of the most experienced people in BP who have been moved into that particular project, quite appropriately, a very major investment. So in a sense it goes back to the point we were saying earlier about maintaining the attractiveness of investing in this particular province is actually very important both from the point of view of retaining capital investment in the UK but actually also retaining some of the people to support that when there is clearly competition for all of those resources. Perhaps if I can just make one further point on the human resource point of view which goes back to this communication issue. Whilst most of you would not actually feel that in this country or in fact indeed in the Western world there was a shortage of accountants, to some extent there is but one of the things that even we find in our industry is quite challenging, is that when we recruit say 1,000 graduates a year and we then ask those graduates when they join us to then choose to work in one of the industry groups, in my own industry in energy and utilities, actually getting people to opt, of their own volition to come and work in the oil and gas sector, the mining sector or the power sector, as opposed to go work in telecoms or technology or financial services is actually quite a challenge and I think that this whole issue about the industry reputation is something that actually has a much broader footprint than actually just the issue of attracting people directly into the industry when actually some of the professional services firms like ourselves do actually over time, provide quite a lot of people who subsequently move into the industry and in fact work for many of your companies.

Malcolm Webb

And how times change because when I entered the industry 30 years ago, I mean it was completely the reverse. This was the very hot area to get into so it is fascinating. Simon I think we better bring you into the discussion, what about the Government's role in all of this? What's the best thing the Government has done of late on encouraging the extension of mature assets? What's the best thing you think you have done?

Simon Toole

I think sitting up here I have to some extent say what I think the Minister would say and I would just to turn for a few moments to the tax point. As you know in the UK we don't have a national oil company

Malcolm Webb

We did have, I worked for it actually but there you go.

Simon Toole

We don't have a national oil company, we don't have production sharing arrangements, it is the tax system that the nation seeks to share in the benefit of what is a national resource under the UK CS and I would just like to return to the point that Malcolm Wicks made this morning, that the Chancellor when he makes decisions about taxation has not just to look at the UK CS and the industry there where I would imagine a zero tax rate is probably the one that is going to be most beneficial to the industry, he is going to look across the whole nation, how to keep society on an even keel, how to make sure that we are a nation that is progressing and he has to make those difficult decisions. He made one last month, as Malcolm Wicks said a lot of people won't agree with it. I saw 2% did and I think there were four people from the Treasury and Revenue Department here this morning, but there is that balance it is not a straight forward equation. I would also just return, it was talked about the consultation that the Treasury are starting, I think Malcolm you said you didn't hugely high expectations of it

Malcolm Webb

No, frankly.

Simon Toole

I would encourage the industry to have high expectations of that dialogue because certainly if you go into it with low expectations, the likelihood is that's what you'll get.

Malcolm Webb

What I rather meant by that, it is not, I don't see it as being the big picture, it is a sub set, you are not going to get constructive engagement, I don't think on the big picture, I would quite like to but I don't think that we are, I think this is much more mechanistic than that.

Simon Toole

I would encourage the industry to go in aiming high on it. The question you actually me was what are we doing most recently to make sure the mature fields are going to do as well as they could. The obvious thing that we are doing is the Stewardship Initiative which is trying to nip at the heels of the bottom 10% of our producing fields in the UK CS. Many of you know there is a fairly simple sifting system for us to try to identify which fields are performing poorly, things like production efficiency, you know field producing at 70% of what potentially it could, sounds as if it is one that may need to be

looked at. We are half way through the first round of that, we have identified 30 odd fields. What was surprising to me is when we went to talk to the owners of those fields I thought we would have an awful lot of, oh you have got it wrong, figures were wrong, it isn't us really it's them over there or something but actually on all but two of those fields where I think we had genuinely made a mistake and just picked on the wrong ones, the owners recognised that their performance over the past few years had perhaps not been in the cortile that they had wanted to and we have entered into some fairly constructive discussions with them as to how to improve performance so that that Stewardship process is going better than I

Malcolm Webb

So the indicators that you have, the sort of killer questions, you have got the right ones have you?

Simon Toole

It is either that all the fields are performing so badly it doesn't matter what question we ask, so we will hit on the right one, I don't it is, I think we have actually got a set of questions which actually Jim and many others help put together but are identifying the fields that when you go, it is not exactly a fair cop but there is certainly a constructive feeling that something needs to be done. I think the other thing that we are doing which helps mature fields is stimulating exploration and development in their areas. There are two ways of extending, probably dozens of ways of extending field life, but one of them is to make sure the field itself is being stewarded properly. The other is to make sure that in its infrastructure catchment area there is as much activity as possible so that tariffs and other costs can be kept as low as they can so that we don't face this inevitable problem of cost just escalating as production declines so the work we are doing with the industry on Fallo and the stuff that we are doing in the licensing round to make sure we maximise exploration, all of that is pushing towards longer like and mature assets as well.

Malcolm Webb

But the best thing if you had to choose one of all of the things that you have done of late, would be stewardship, is it?

Simon Toole

Actually, the one thing

Malcolm Webb

The one thing, I think we have done of late isn't it?

Simon Toole

Yes.

Malcolm Webb

The important point is that it is the industry together with government that has done this.

Simon Toole

Actually I think that the Fallo process is the one in a way is having the biggest impact on the UK CS where we are getting assets that were lying Fallo and now almost all of them have come under pressure from us and as you say it is joint effort that the industry and ourselves designed it together and it is getting those assets active again either by being drilled on the exploration side or development. I think that's the one that I am most keen on, that is not to say that the Stewardship and the improvement in the licensing aren't also contributing but the one that I hear most when I talk to people that I must keep pressing is the area around Fallo because it links into the point that almost everyone, what's the thing that is going to make you leave the UK CS. Well it is lack of opportunity and it is the Fallo thing that I think is hitting the lack of opportunity most directly.

Malcolm Webb

Mike, what is your view of that?

Mike Wagstaff

I think the DTI has actually done a fantastic job over the last five years not just because Simon is here, in actually promoting activity and changing the way business is done in the North Sea with actually, quite frankly, their hands tied behind their back by the Treasury. I would disagree with Simon's point about it being a difficult decision the Chancellor made, I think it was an unpopular decision but if you look at it, in practical realities, I think it was a very easy decision to make in the current circumstances. I think the biggest opportunity for the North Sea in the short to medium term is actually around Stewardship. I am just looking at planning and production going forward and quite frankly this year I am concerned about levels of planned and unplanned down time that we are seeing across our assets. It isn't infrastructure, it is a whole raft of things. These are the easiest barrels we can win in the North Sea and the lowest cost and I think there is an opportunity here as we are largely

a third party user of infrastructure to change the behaviour. We have to change the behaviour on infrastructure so that it is managed as a third party service provider trying to maximise the number of barrels that go over every single day.

Malcolm Webb

Now there is a very interesting challenge. Alan, what is your view on that as a major infrastructure?

Alan Hart

I would certainly agree that there is opportunity improving reliability across the UK. We struggle, I think the industry struggle historically over the lean years in the last 1990s and suffered from chronic under investment and we, along with others, are starting to invest more significantly to improve reliability availability because those are, I agree with the comment, those are ultimately cheap barrels so across our business, particularly in my area in Mature Assets we have a considerable challenge to do that. I am pleased by the progress we are making, we improved our availability 6%, year after year, 2005 relative to 2004 so we are starting to see some gains in those areas and I would agree that that is certainly an opportunity area. I would like to comment on something else and that is the raw model that the DTI set. I think the successes, the most successes we have working with government is where we work collaboratively with them, where in fact the solutions that we create are joint ones rather than we get unilateral decisions that come to the industry and so I guess the take from a major would be to continue to work that model where we take decision together and I think we then produce the best solutions.

Malcolm Webb

We have been, haven't we, we have been slagging off the Treasury, a number of people up here pretty regularly through it. You just said then Mike that they took the simple way out in your view on this last tax increase. Well, what should they have done.

Mike Wagstaff

I think the question of what the appropriate economic take is at whatever oil is something for a very lengthy debate. I think I was probably shocked but not surprised by the change in tax along with most people in the industry. I think that there were three things that the Treasury could have done, given more clarity on certainty on it, there could have been more encouragement for companies such as ourselves who are massive net investors in the North Sea rather than harvesters and there was absolutely no real encouragement whatsoever over the 6% uplift is really designed for small new entrants to be quite honest, we are not an exploration company but personally I don't believe that exploration, exploration, exploration is the only way forward for the North Sea, is the be all and end

all. This is about developing the underdeveloped discoveries that we have got not trying to find more and more, especially in an environment where rigs and equipment are in short supply. If we want to change it we have got to develop what we found, not try and find more with the inevitable lead time in doing.

Malcolm Webb

Carl, have you got some constructive comments for the Treasury?

Carl Hughes

I would very much agree with what Mike has just said which is that effectively the way in which the tax change was implemented was using a very blunt instrument rather than actually looking at a more targeted way in which the additional revenue could have been raised. Clearly if we just work on the assumption that government spending is what it is and therefore the Chancellor had a hole of a couple of billion or so which he needed to fill, again partly because of some of the general reputation issues that you have touched on several times today, Malcolm. The oil industry in that sense is easy pickings but I do think that what I would have encouraged Treasury to do was to try, as I say, be more directional in the additional tax take so that it would be less discouraging of extending the life of mature assets and encouraging further investment into the North Sea.

Malcolm Webb

Alan, are these mature assets in the right hands, do we need to do more to get asset churn in these mature assets, that's a comment I have heard several times today, here in the hall and outside it?

Alan Hart

Well, right hands, it depends on what context you bring in and how you define right hands. I guess. I think there is room in the industry for all the players actually. Clearly the majors bring something to the equation, we bring financial strength, we bring the fact that we can readily deploy technology, learnings from part of the world into another, through the global processes that we have, we are able to bring the sustainability and the financial strength in terms of people having confidence in our staying power and so there is some strengths that clearly the majors bring. There is also some things that smaller players bring, obviously we have heard some of those today. There is the entrepreneurialship, there is taking more risk on certain types of opportunities and so I think between the two I think this is an oil problem so it is big enough and expensive and complicated enough that there is in fact a place for all the players. I think it is a matter of timing, I think there is a natural transition over the fullness of time with perhaps more assets moving from the majors to others but I think in the end there is room for everybody. It is a big enough business certainly, 24 + billion oil equivalent in this province, it has got to have space for all kinds of players.

Malcolm Webb

Jim, do you agree that the assets are in the right hands?

Jim Atack

Well, you probably wouldn't be very surprised if I said I am always very keen to say a change so by definition that would suggest that I would always like to see assets moving on but I am not simply looking for who is the right hand, I am looking for what catalyst that change is really all about. The really useful changes, the adds in value that I see in particular over the years have happened almost always as a consequence of a new set of eyes, casting those eyes over assets which may well have

been in one set of hands for quite a long time and there are always the obvious examples and I think we were picking on them quite a lot last year when we did actually some form of analysis of what had happened to the assets which had changed hands and indeed quite a lot had happened so the conventional wisdom became, let's move the assets on, somebody else will do better but it is deeper than that. The review of assets under a new owner is always going to happen but if you can provoke that review of assets, by a fresh pairs of eyes, by a third party or peer review while the assets are in the hands of the long term incumbent, that works equally well. I would probably pick on Total and maybe surprisingly even parts of Statoil, certainly BP where there have been processes of peer review be they internal or external which would trigger all sorts of interesting changes and value adds so I think it is the lack of attention and very often the anticipation that the incumbent crew on the platform on the site in there to deliver this continuous improvement which I hear such a lot about. I think there are step changes of improvement that come about from a very hard third party review and it is a source to me of both frustration and delight that these are almost always available wherever you go so I fresh pair of eyes rather than a necessarily fresh owner.

Malcolm Webb

Thank you. What about the role in joint ventures in this? Is that important to a joint venture partnership on mature assets a blessing or a curse, Mike.

Mike Wagstaff

I think the joint venture structures that we have in the North Sea quite frankly are probably getting for 20 years out of date, in terms of maximising the potential of the North Sea. They were designed to mitigate risk in the exploration phase of development and in project developments of big assets, as such in the industry of mature assets which is about, quite frankly getting up every morning and scrapping for every barrel, it is getting cycle times down, it is getting costs down and it is just hard grind, hard work, quite frankly, joint venture structures in the North Sea are not suitable for it. We need to do something different. Does that mean we need to do away with partners, not necessarily because they are a useful way of sharing risk in certain instances. I think we need to find ways of getting constructive partnership rather than sitting there, second guessing the operator or the most constructive discussion at certain operating committee meetings that I have been party to, was actually what's are the biscuits with the coffee rather than actually getting on. A lot of expensive people flying around the country to sit there and actually not do anything and not be able to make a decision. I think we need to get out of that thinking.

Malcolm Webb

That's very interesting, Simon, does the Department have a role in that?

Simon Toole

One of the things we had in the Stewardship process is the opportunity for partners to talk to the DTI separately and I think slightly to my surprise we didn't have as much as that as I thought we would

have. There didn't seem to be as many fault lines through the partnerships as perhaps you would think or at least I hear of. I think there certainly is a danger that if you have too many partners, you just lose focus totally and certainly you see some fields or units just run by the one company which seemed to be able to shorten their decision times fairly quickly. At the Department we don't have a view, you know, we continue to issue licences to multiple applicants, we continue to work with partners but I think what we would like is to make sure when those partnerships are there that they review how they make their decisions they review the rules under which make their decision so that something that was suitable 20 years ago for drilling a very expensive exploration well, maintains its use 30 years later or 20 years later when you got a field in its mature years and we try as a Department to encourage that renew and refresh.

Malcolm Webb

I think we are all enjoying this discussion down here. I hope you are up there as well but does anybody want to come in with a comment or a question on anything that has come up today. Can we get a mike here? Can you just say who you are and let us have your question or your comment?

My name is Des Holmes from RBS. It is just a question with regard to the DTI and the Treasury's changes in the tax system. Did the Treasury consult with the DTI before they announced their decision to establish the effect of the tax rises and if they didn't who did they consult?

Simon Toole

Treasury don't consult with the DTI. I mean the fiscal regime is the responsibility of the Treasury. Having said that we work very closely with the Treasury throughout the year, Treasury also work fairly closely with the industry and that they have fairly regular meetings, they are part of the pilot process and there is very little chance that the Treasury are ignorant of what is going on in the industry. We certainly at the DTI try to ensure that the Treasury are fully informed so that when the Chancellor makes a decision it is a decision on the basis of all the information that is relevant. So that is the answer, we aren't consulted on these changes but we believe the Treasury are extremely well informed when they make those decisions.

It's true to say there was contact between the industry and the Treasury on this as well, that there are pretty regular contacts at official level but there is also a six monthly meeting between the Industry leadership team and the Paymaster General and her team and there was one such meeting on 2 November and you can be assured that we did our very best to lay all of these points very clearly.

I would be wrong to say that there was a sort of strong debate and discussion on the issues. We made our points and we were asked some further questions on the competitiveness on the basin and we went back on that and we are actually still waiting to hear in reply to that letter that we have sent to them so there is something of a discussion there but I won't call it a sort of engaged debate as such

yet, maybe that is something that we need to think about, how we can improve that engagement with the Treasury.

Des Holmes

I guess my only point was just wondering how they expected the impact of tax rises to impact on mature fields and whether or not it is worth making an investment decision so I guess what you are saying is that the Treasury were informed albeit not directly with yourselves.

Simon Toole

I think the Treasury had a fairly good analysis of what the impact there, the change would be and I presume the Treasury were trying to find a point as Mr Wicks said this morning, that maintain a strong, vibrant UK CS and gave to the UK through the tax system which is the only way that the nation benefits from what is a national resource, gave a fair share of that to the nation.

Malcolm Webb

Okay we have got more questions. The gentleman there, just up on the right there, if we could take that one and then I will come to you, sir over there.

Thank you Jeremy Valentine at Burlington Resources. I wanted to come back to find a link between the Fallo acreage and this idea of joint venturing needing to change and just from a personal company experience, one of the issues you often have particularly in the mature fields, and the drivers perhaps of the majors or some of the long term holders, their investment has moved elsewhere. How would you link the Stewardship process, rather than Fallo acreage, the Stewardship process to find a way to incentivise companies to change those JVs because at the moment you probably have an operator with a different set of priorities to the partnerships and you would have to find a win, win situation for that so I wondered whether there are some ideas on why you might do that.

Malcolm Webb

Mike you were talking about changing joint venture partnerships, what are your thoughts on that one?

Mike Wagstaff

Thank you very much. I think it is actually very difficult. We have built up a culture in the North Sea where just in the six years that we have been operating the sort of commercial and legal quagmire that we operate seems to get thicker and thicker. We were involved in an asset transfer recently that involved licence 002 which straggled as far as I can tell half of the North Sea and just achieving a transfer licenseship was Herculean feat and something has to change because we are going to grind to a halt, documents sitting in trays in legal departments with no vested interest, quite frankly, I think the master deed has actually made things, at least as difficult if not more difficult.

Malcolm Webb

There is an interesting and challenging thought, why do you say that?

Mike Wagstaff

Because it has changed one set of difficult processes to another and I think it would just need to simplify it because actually where to complete a transaction to assign a licence where everybody agrees and the writer takes close to 6-9 months to go through legal processes, that is 6-9 months where activity stagnates.

So what are we missing, we are missing simple transfers.

Simple transfer but of course nobody wants to be the first person to say, I will give up some of my, it is going to require people giving up some sort of legal rights and controls and nobody wants to be the first person to do that and as an industry you end up, the lowest common denominator, I am afraid.

Malcolm Webb

Simon, a point we should be thinking of in pilot?

Simon Toole

Yes, I must admit, I hadn't heard that the master deed had made things worse, in general

Malcolm Webb

I am hoping it doesn't but there was are.

Simon Toole

And certainly the issue of multi block licences in retrospect was probably not a good idea, we don't do it much, actually when we tried to change it back the industry said, no we had better keep them as they are because there is an awful lot of stuff woven around them now that probably makes them difficult to get rid of. Certainly one of the themes that has come through to me listening today is, you have called in a quagmire, referred to several times, that the process of doing deals still hasn't got to the level that people feel that it's acceptable. There are a lot of people very frustrated that a deal that apparently is agreed in principle takes months and months and months to get agreed in law and I also hear a lot of people who fear that the deal they are trying to agreed in principle is just either never going to be killed off or given the green light, they are in a sort of limbo so I think those behaviours, those commercial behaviours are still in need of a lot of attention. I think we made perhaps a little bit more progress on some aspects on your response there.

Malcolm Webb

Maybe there is a brave lawyer in the room who could think about coming into that point in a moment but in the meantime can it go first to the gentleman in the front and then we will come back to you, sir.

John Wallace of Hyperion Energy. Carl, this time last year you made a very erudite speech about the problems associated with asset transfers and the lack of clarity on the rules for financial provision for abandonment and I just wondered if you felt as a result of your speech last year there had been any change in that and whether the panel also agree that this is a continued disincentive to wealth generation in the North Sea?

Carl Hughes

John, it is very kind of you to remember my speech from last year and in fact I think it probably took place at about this moment in the conference. I think on decommissioning I am sure that there is in some senses a lot new to say in terms of particular significant developments in the last 12 months. I don't want to keep sort of going back to fiscal instability but one of the things that I think that I talked about at some length which I think continues to be in my view at any rate in sharp focus is whether or not it is a realistic expectation for the industry to expect to get ERT refunds for abandonment costs going forwards. I would suspect that most people don't have that substantially factored into their long term economics but again I mean that is clearly that there is a fiscal change in the wings I would suspect at some point because clearly whether you think that the existing abandonment provisions are too high or too low, whatever when you actually look at that for PRT paying fields in terms of the amount of PRT that would be refunded, someone said to me recently that in money terms not in real terms in money terms, that the PRT rebate on some estimates on abandonment would be the equivalent of all the PRT that has even actually been paid.

Malcolm Webb

Alan, you have got a number of PRT paying fields and a big decommissioning potential liability, what is your view on that one?

Alan Hart

Yes, well certainly again the argument of fiscal uncertainty comes to bear heavily on this because that is not good for us and I don't think it is good for anybody on the other side of a deal so certainly anything that gets in the way of, certainly it is something that gets in the way of deal making in general so obviously is it a big concern to our company. We are sitting out there with a large abandonment and decommissioning liability and anything that would change the ultimate fiscal structure on that would be of monumental concern to us as a company. I think that it is not just a concern for long term future but even in deal making today, people's view of what do I put in the transaction price gets in the way of the deal because some people sitting on the side of the buyer you are going to discount that heavily and you think, but quite frankly, I mean Shell is on both sides of that in terms of being a seller because obviously the buyers are just going to want to discount that off the price and the deal and so it is not like we are carrying these higher estimates because we think it is to our advantage, we are not. What we are doing and in fact if we had a lower we could probably ask for more in the transaction so it's not like Shell wants to carry that higher cost for a reason but that's the best view we

have and we have also independent people look at those costs and they think that higher structures are there unless something happens and so right now we don't see what those things are that will happen.

Malcolm Webb

Jim I remember you being pretty vocal on this issue in the context of the brown fields, have you got something to add here?

Jim Atack

What me?

Malcolm Webb

You, yes.

Jim Atack

There seemed to be so many uncertainties about decommissioning. You start off by asking the question well, what gets decommissioned and who is going to decide that? Right now we have a view that well it's still structures and probably down to the sea bed, well, depends how deep the water is, there are drilling cuttings, there are pipe lines, there are concrete gravity structures, there are all sorts of questions about what needs to be taken out. I actually think the estimating how much it is going to cost is quite simple, if we can get that to plus or minus 50%, if you add on to that the tax relief issue which is often described as the elephant in the room in conversations, it is the one that nobody talks about, huge amounts of potential relief, there but nobody actually thinks that that is going to happen so that gives you those three variables, quite a range. If you are a small company looking to buy one of these assets and in some way underwrite or insure that liability, you therefore have a range between a fairly large number and a very large number before you add on the quite large premium that the insurer will probably want to take from you as a multiplier on that. So by the time that you have got some numbers together, if you are quite prudent then you are paying a very big insurance premium and that takes a huge bundle of cash out of the deal so certainly to leave the liability with the seller seems like a good idea or maybe to move it back to the government would be very popular indeed. It is just a whole collection of uncertainties that makes doing deals very difficult.

Malcolm Webb

Mike, this whole decommissioning thing and the securitisation stuff that comes off the side of it what's the view from there?

Mike Wagstaff

It has been an issue for us from day one. I think fundamentally clearly the industry recognises that we have to clear up after ourselves to whatever standard, that is part of our duty as responsible corporate citizens. I think the whole question of how you impacted decommissioning, impact transfer of

ownership of assets, actually in my experience that is probably less significant than people, people would like to talk about it more than it has actually stopped deals happening where there is a fundamental, I think the big risk for us is always ensuring that there is enough meat on the bone and enough time left to chance the behaviour on an asset before you come to decommissioning in order to take it over. I think the whole business of financial security and actually funding of abandonment is a bit like pensions and life assurance. The guarantee is the life assurance which says, protects the other side, what happens if you die, it doesn't actually give you any protection if you actually live, that is the pension side of it and how do we build up a fund. I think the government's answer to the pensions issue that we all live longer and we all work longer. Well, I would like to think that as a principle should be applied to the oil and gas industry, maybe if we can keep this field working longer, it is going to push back abandonment by which time I am absolutely certain that we will discover better and more efficient and cheaper ways to do it so this whole question of actually it is less about the legislation, the big question on abandonment cost as I sit here today and we go through abandonment cost periodically every year to look at the abandonment we carry, comes down to what is the day rate you factor into your assumptions for heavy lift equipment. At some point between 10 and 20 year out, now that is a very, very difficult exercise to do with any accuracy and I would dispute Jim's estimate that you can get plus or minus 50, if you can get plus or minus 50 you are doing a good job. So I think we have got to actually, there is a new way of doing it, I think we need to actually build up some way in a tax efficient way of pre-funding abandonment long before it gets to be the moose on the table.

That is one of the issues, you can't do that at the moment.

No, you can't, that's the pension. I mean in the issue why does anyone pay into a private pension fund, it is because you get tax relief going in and actually if we are going to grasp this issue in the tens and fifties and hundreds of billions of pounds that you are talking about investment, it is something that we have got to deal with.

It is a huge issue and it's one actually that the industry leadership team is working on at the moment. We have got a number of working groups, well pilot working groups, looking at the whole of decommissioning.

I think I am right to say that it's one of the aspects that the Treasury are interested in the views of in this review.

Malcolm Webb

There was another question up there. Gentleman there, yes. Have we run out of questions? No, we have got one here, right at the front.

Barry Hood with Nova Technology, just to change tacks slightly, one of the pillars that Lord Brown talked about was technology. Do you think this will be a significant thing now to help unlock the remaining reserves in the North Sea and is it something that we embrace or are we still very conservative to use new technology?

Malcolm Webb

Thanks a very good question. Alan, what is your view on that? Do we embrace it? Are we taking it?

Alan Hart

Yes, I think we have got some excellent examples of taking on board new technology. I mean if I go to the southern North Sea for example I see the innovative model power completions that we developed that are powered by renewables. I think that is a very innovative application of technology that is allowing us access to marginal fields in the southern North Sea and some of the new technologies on innovative well completions. We have just drilled a well with a dual like completion in the Cormorant field that is extremely innovative in its application and there are a couple of world firsts in it. I can offer other examples, but yes, we are applying them, we are always open to looking for other new technologies, not just on the big scale of technology but the smaller innovative things are just continuously helping us drive down cost structures so certainly we are open to it. I think there is a reality check that says if you go to a province like North America, a Canadian land based operation for example, you can try out some very innovative things because the cost is quite low and that has to be kind of contemplated in the equation but certainly as an industry I think we are open to the application of new technology and we have shown that we are bringing those to bear and realising some benefits.

Malcolm Webb

Simon, have you got a comment on that?

Simon Toole

Technology always has had a strong role to play in UK CS and I am sure it will continue to. When I talk to service providers who perhaps are at the leading edge on technology, they say that the UK CS is not a bad place to sell products, if you have got the product right but coming back to the Stewardship thing, if you have got fields which are producing at 70% efficiency because their compressor doesn't work and nobody's gone to fix it or, I do think there is a need to balance the need to use and adopt new technology, of getting the kit that you put out there to begin with to work properly, reliably even 95% of the time and actually you can make, I think Mike said, a huge impact on production.

Malcolm Webb

Jim is nodding and you are saying that you agree with that?

Jim Atask

I do, I think we are generally slow adopters of technology but wherever you visit you will see that there a lot of multi technologies in play and some of them are really quite recent. I am particularly interested in well what do you do with some of these very mature sets of facilities. There are often some quick fixers by putting reasonably well proven technology of the last maybe 5-10 years into operations which were designed 30 years ago built 20 years ago and have run pretty much that way ever since. There are some very easy fixers, compression is one of my favourites but I think that we could very definitely come up to date with some of the technology. Will there be any silver bullets in the future? It's very interesting, we keep looking at how much oil is going to be left behind and I think we should anticipate that there will become technologies available before the life of these fields are played out and there may be technologies we don't know anything about right now.

Malcolm Webb

Thanks very much. Well is there a last question from the floor or anybody want to raise a last question? If not I think I am going to thank all our panellists for that. Thank you very much indeed. I found that to be a very interesting and stimulating discussion and I learned quite a bit from it too, as well so it was very interesting. Brian, you are going to come a give a few closing remarks.