



OCG

Offshore Co-ordinating Group

State of the Industry report

February 2016

Introduction

“The implications of the current price of oil for the offshore workforce are profound. Since the price started to collapse in summer 2014 job losses have been significant; the OCG believes the number of job losses now exceeds, perhaps significantly, the still widely reported estimate of 65,000 included in Oil and Gas UK’s (OGUK) 2015 annual report. Those still in work continue to experience unprecedented attacks on terms and conditions and there are growing fears over the impact of new working practices on the health and safety regime. Experienced trade union representatives in the sector report that workforce moral has never been lower.

“The impact on the north-east and Scottish economies has also been severe and the offshore unions are far from satisfied that the nature and scale of recent Government announcements (e.g. Aberdeen City Deal) is sufficient to meet the numerous challenges facing the region and industry.



• **TRADE UNIONS PROTECTING OUR FUTURE** •



“The OCG believes that the gravity of the situation facing offshore workers is not yet fully appreciated by politicians and the wider public. We are especially concerned that:

- Fear of redundancy is critically undermining offshore health and safety as workers become reluctant to report actual and potential safety breaches. There are ongoing serious concerns over helicopter safety;
- Imposed changes to terms and conditions (e.g. pay cuts) and working practices – especially the increasing use of ‘three on, three off’ shift rotation which leads inevitably to workers working 12 hour shifts 21 days in a row – are having profoundly negative effects on the offshore workforce and undermining both safety and longstanding collective bargaining mechanisms;
- Costs in the UKCS remain significantly higher than other jurisdictions such as Norway; the difference cannot be accounted for by higher wages or more stringent regulatory standards. Engaging the workforce in identifying obvious inefficiencies and the introduction of common standards – akin to the Norwegian regime – could potentially lower costs across the UKCS;
- UK seafarers are increasingly excluded from the North Sea due to employers using gaps in employment legislation to employ non-UK seafarers below the UK minimum wage.

“The economic structure of the global oil industry has fundamentally changed and, again, this does not appear to be widely appreciated by UK policymakers and media. It would be dangerously complacent to base the UK national response to the downturn on the assumption that the oil price will soon recover to anything like the average of the 2009-2014 period. With the productivity of US shale rising rapidly, cyclical and structural factors weighing on demand and OPEC split on production cuts, the International Energy Agency’s forecast that the price of oil will remain under \$80 till at least 2020 looks reasonable. In this climate it makes sense for the North Sea industry to plan on the basis of sub \$60 price.

A future worth fighting for

“Despite the crisis currently affecting our members in the North Sea, the offshore unions are convinced *there is a future worth fighting for*. But building a sustainable future demands that the industry’s response to current challenges must be based on collaboration, innovation and common high standards and a mature assessment of why costs in the UKCS continue to be higher than similar jurisdictions. The economic benefits of the industry will not be maximised by undermining safety and job security or allowing the pool of skilled labour to evaporate. Thorough and substantive dialogue between unions, employers and Government will be central in determining

a positive future for the industry as well as dealing with current issues.

“Therefore the OCG has identified the following priorities as the minimum required to provide a secure future for North Sea workers:

- In order to halt and ultimately reverse the rapid race to the bottom in employment standards, *employers must continue to abide by national collective agreements.*
- *Workers’ health and safety must remain paramount* – it is essential that operators, contractors and regulatory agencies work with unions to ensure reporting systems are operating fairly and efficiently and that workers are empowered to raise concerns and not disadvantaged by doing so.
- *Employment of foreign nationals on exploitative sub-national minimum wage contracts in shipping must end as must the flagging out of helicopter transport* – the Oil and Gas Authority (OGA) should have the power to set and police minimum standards.
- *A coherent plan for maximising economic benefit from the North Sea must be developed.* This should address opportunities for standardisation and simplification, and for diversification (e.g. renewables and Carbon Capture and Storage) as well as developing an approach to decommissioning which seeks to maximise UK employment opportunities over an appropriate timescales.
- *Workers who have been made redundant or at imminent risk of redundancy must be supported to find*

skilled employment at similar rates of pay; this should involve properly resourced, targeted retraining opportunities.

- *The oil and gas companies should cease demanding cuts from contractors that have a direct and detrimental impact on jobs and safety* - the OGA should be given powers to intervene to prevent such damaging abuses of market power.

“The OCG will also seek meetings with the relevant authorities to discuss a fiscal regime for the North Sea which is fair, robust and fit for purpose.”

Pat Rafferty, Unite **Steve Todd, RMT**

Alan Ritchie, GMB **Jim McAuslan, BALPA**

Steve Doran, Nautilus **Grahame Smith, STUC**

Focus

Regional impact

Insufficient up-to-date economic and labour market data are available to paint an accurate picture of the impact the falling oil price has had on the Scottish economy. For instance, the job losses in what is a relatively high wage sector will almost certainly have a detrimental impact on aggregate wages in Scotland but the latest regional and industry data provide only an average of the year to April 2015. Similarly, neither the Labour Force Survey nor Annual Population Survey is yet accurately reflecting the impact on the north east labour market.

The only data which can be reliably used at present is the claimant count which has the advantages of being current (latest data are for December 2015) and reliable (drawn from administrative sources). It doesn't however include all those who are

In this context the OCG is sceptical about the potential impact of the various announcements made at the end of January by both the UK and Scottish Government's around the City Deal. While a number of initiatives are helpful such as the Scottish

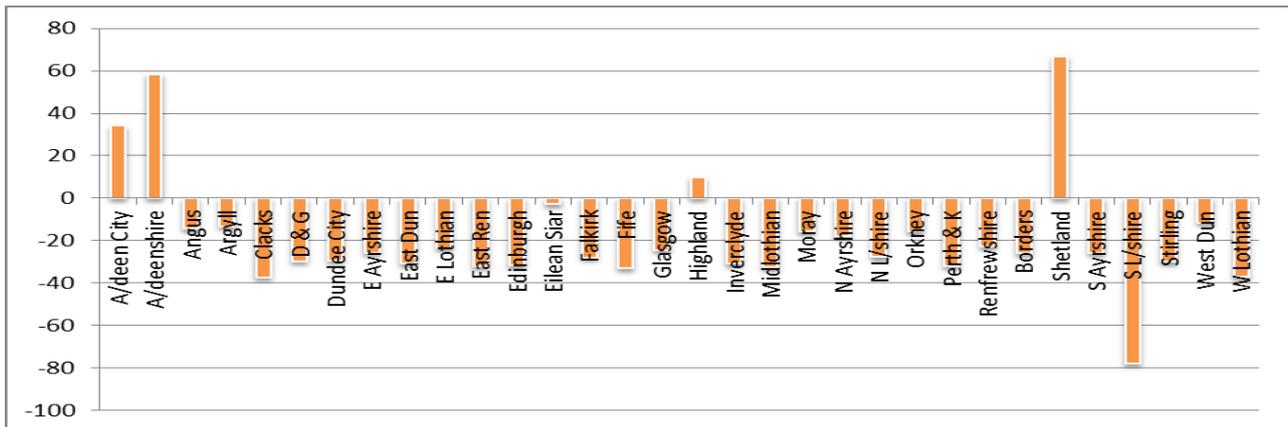


Chart 1 Increase (%) in claimant count unemployment, August 2014-December 2015, Scottish local authority areas.

identified as unemployed in the ILO measure.

This shows the discernible impact in Aberdeen City and Aberdeenshire and, to a lesser extent Highland, where supply chain activity is situated (given the very low numbers involved, the percentage rise in Shetland should be treated with some caution).

Scottish GDP figures for Q2 and Q3 2015 (0.1% in both quarters) also reflect the impact the falling price is having on onshore activity. While the particularly poor performance of manufacturing is also attributable to sterling's relative strength and weakness in some key export markets, the impact of the downturn in the north sea has been noted by trade union workplace representatives as well as bodies such as Scottish Engineering.

Government's funding of transitional skills training for oil and gas workers, infrastructure investments do little *at this moment in time* to boost the prospects for employment in the industry (although clearly investment in infrastructure is necessary and will, over time, support economic development in the North East. Indeed, many of these investments should have been made decades ago to support Aberdeen's place as the UK's oil and gas hub). Support for industrial diversification is welcome but it must be recognised that the payoffs are uncertain and long-term.

It is essential that sufficient funding is made available to the sector to support:

- excellent transitional skills training for all who need it; and,
- the collaboration and innovation on which Government aspirations for maximising economic recovery depend.