

ITEM No ...3.....

REPORT TO: CITY DEVELOPMENT COMMITTEE – 24 APRIL 2017

REPORT ON: DUNDEECOM

REPORT BY: EXECUTIVE DIRECTOR OF CITY DEVELOPMENT

REPORT NO: 119-2017

1 PURPOSE OF REPORT

1.1 The report advises members of a new private/public initiative to create a major centre in Scotland for oil & gas decommissioning at the Port of Dundee.

2 RECOMMENDATION

2.1 It is recommended that the Committee:

- a notes the scope and ambition of the Dundecom initiative and endorses the Council's participation as a key partner; and
- b agrees to the proposed utilisation of the agreed funding package for Dundecom.

3 FINANCIAL IMPLICATIONS

3.1 The 2017/18 Revenue Budget allocates a contribution of £100,000 towards supporting the Dundecom initiative.

4 BACKGROUND

4.1 The Tay Cities Deal proposals were agreed by the Policy and Resources Committee on 13 February 2017. One of the key initiatives included in the proposals was the formation of Dundecom, a new private/public sector partnership aimed at creating a major centre in Scotland for oil and gas decommissioning at the Port of Dundee. The project seeks to establish the Port of Dundee as a multi-disciplinary, internationally recognised centre of excellence in the practice of and research into this emerging new industry.

4.2 In the budget proposals approved by the Policy and Resources Committee on 23 February 2017, the Council agreed to allocate £100,000 of new revenue funding for the Dundecom initiative. It was noted that Forth Ports and the Council would jointly share the operating costs of Dundecom and the Executive Director of City Development was remitted to bring forward a report detailing relevant proposals.

5 REALISING THE OPPORTUNITY

5.1 The oil and gas industry over the past four decades has built significant fixed offshore infrastructure in the North Sea and a significant amount of this infrastructure is coming to the end of its economic viability. This is driven by an age related decline in asset integrity coupled with reducing production volumes. This is forcing assets into cessation of production and ultimately decommissioning; therefore, the end-of-life planning of these assets is happening now. Decommissioning of this fixed infrastructure is a legal requirement and poses a significant liability to the UK taxpayer as relief on decommissioning projects can be as high as 70%.

5.2 Some early decommissioning projects have, however, been won by locations beyond the UK resulting in that taxpayer expenditure being exported; with a consequent loss of jobs, GVA (Gross Value Added) and expertise. Scotland and the UK currently lack a recognised,

predominant centre for this emerging industry in the way that Aberdeen has been the ‘capital’ of oil & gas development in the UKCS (UK Continental Shelf). Aberdeen has, through their City Region Deal, stated a clear aim to retain that status by focussing on extending extraction in mature oil & gas basins. Dundee recognises the logic of that strategic objective for Aberdeen and supports their ongoing focus on exploration and production wholeheartedly. Dundeecon, therefore, wish to complement Aberdeen’s role by establishing Dundee Port as the predominant decommissioning ‘capital’ for the UK. The Port of Dundee, supported by the Ports of Montrose and Methil, can collectively provide all of the required infrastructure, land and skills to perform that role at a location which is closest to the bulk of the North Sea with a ready supply chain and workforce to service the industry’s needs.

- 5.3 Moreover, Dundeecon offers the opportunity of a ‘blank page’ to completely revolutionise the decommissioning sector, firstly, by adopting a ‘circular economy’ approach (rather than mere recycling) and, secondly, by creating a bespoke supply chain which adopts new streamlined processes with resultant savings to the UK taxpayer and efficiencies to North Sea operators. The existing oil and gas sector approach to decommissioning is unlikely to deliver the 35% savings sought by the Oil & Gas Authority (OGA) and a new mind-set and culture is needed to rethink the core methodology and to bring a new expertise which can re-model the industry.
- 5.4 Dundeecon is seeking an opportunity to work in partnership with the Scottish and UK Governments to ensure our ambition becomes reality. Part of that partnership would be to put in place funding for any additional necessary infrastructure which may be required in the future. But of much more importance, is the need for that partnership to recognise and believe that Dundee is Scotland’s and the UK’s best option to establish a decommissioning capital for the North Sea. Part of that partnership approach should be that all parties involved (including all relevant Government agencies) align behind the Dundeecon strategic goal and commit to its achievement. Such recognition would not exclude other locations in Scotland and the UK from a significant participation in the future decommissioning industry, just in the same way as Aberdeen’s predominant status in exploration and production has not excluded other locations from playing a significant role in the oil & gas sector. The intention is that Dundeecon acts as Scotland’s and the UK’s ‘spear point’ in our collective endeavour to ensure that the exportation and costs of North Sea decommissioning are minimised.
- 5.5 The benefits of success in this venture are very significant. Firstly, there would be a large number of new jobs created at all levels in our regional economy, ranging from semi-skilled, skilled, professional, academic and managerial. These would raise our skills base and help tackle issues of social exclusion and areas of deprivation and in-work poverty which currently exist. Secondly, there would be an increase in the tax base at a Scottish and UK level as a result of the additional GVA within the regional and national economies. Thirdly, there would be minimisation of the exporting of decommissioning spend from the UK by providing a viable and attractive alternative within Scotland. Fourthly, the ‘blank sheet’ approach proposed by Dundeecon can help to re-model the decommissioning process and achieve the significant cost savings required. And lastly, through the experience gained in delivering significant decommissioning services to the North Sea, and through necessary associated academic research, Scotland and the UK would have readily exportable skills and knowledge which will be in demand as other oil & gas basins across the world reach the end of their effective life.

6 PROGRESS TO DATE

- 6.1 Work to realise the aims and objectives of Dundeecon are already well underway. Improvements have already been made to the infrastructure at the Port of Dundee, such as new road access, and other improvements will be completed next year, such as the £10m project by Forth Ports to create ultra-high capacity quaysides. Forth Ports have recently formed a partnership with Augean to provide an end-to-end integrated decommissioning service for the oil & gas industry and are actively bidding for contracts currently being tendered.

- 6.2 The partners involved in Dundecom comprise Forth Ports, D C Thomson and Dundee City Council and a Board has been formed to guide the project and they have recently recruited a recognised industry expert, Callum Falconer, to act as Chief Executive. The Board, therefore, comprises;

Charles Hammond, Chief Executive, Forth Ports (Chairman)
David Martin, Chief Executive, Dundee City Council
Ellis Watson, Executive Chairman, D C Thomson
Mike Galloway, Executive Director of City Development, Dundee City Council
David Webster, Manager, Port of Dundee
Callum Falconer, Chief Executive, Dundecom

It is proposed that the £100,000 contribution from the Council is directed towards staff costs, research, marketing and specialist advice required as part of Dundecom's activities in 2017/18.

- 6.3 The Scottish Government recently announced the launch of the Decommissioning Challenge Fund (DCF) to support the potential development of this key sector in Scotland. The Government have allocated £5 million to the fund for 2017-2018. It is anticipated that the fund will provide opportunities for the supply chain in Scotland to benefit from the decommissioning of North Sea infrastructure. The DCF will support infrastructure upgrades and innovation in retrieval and transportation methods at ports and harbours. It will also encourage engineering scoping work at key sites to build business cases and feasibility studies that will help to attract private investment. The DCF will align with and support cost reduction efforts related to retrieval and disposal activities, with the aim of enhancing the Scottish onshore decommissioning market. Dundecom is currently preparing a bid for financial support from the DCF and further details will be reported to Committee in due course.
- 6.4 Forth Ports are currently bidding for decommissioning contracts on the UKCS and this is already beginning to bring associated work to the Port and establishing it as future hub for the sector. Details of the contract bids are commercially confidential, but Forth Ports intend that this activity will increase rapidly and they are confident that Dundee Port will win significant contracts through the Dundecom initiative.

7 POLICY IMPLICATIONS

- 7.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

8 CONSULTATIONS

- 8.1 All members of the Council Management Team have been consulted and are in agreement with the contents of this report.

9 BACKGROUND PAPERS

- 9.1 None.

Mike Galloway
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MPG/MS

6 April 2017

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