



Department for
Business, Energy
& Industrial Strategy

Rt Hon Kwasi Kwarteng MP
Secretary of State for Business,
Energy & Industrial Strategy

Department for Business,
Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

All MPs
House of Commons
London,
SW1A 0AA

T +44 (0) 20 7215 5000
E enquiries@beis.gov.uk
W www.gov.uk

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ENERGY POLICY UPDATE

Dear Colleague,

I am delighted to announce a landmark agreement between Government and the oil and gas industry – the North Sea Transition Deal - to support the industry's transition to clean, green energy and secure the future of high-skilled oil and gas workers and the supply chain. This follows our commitment to securing a Deal in the 2019 Conservative Party manifesto and is the first of its kind to be agreed by a G7 nation.

The offshore oil and gas industry has been a major British industrial success story. For decades, the sector has strengthened our energy security, generated significant tax revenue to fund our public services, and currently supports around 260,000 jobs across the UK. From the Shetland Islands and Aberdeen to Teesside and the Humber, the industry is critical to the health of local economies across the country.

Through the Deal, the oil and gas sector and government will work together over the long-term to deliver the skills, innovation and new infrastructure required to decarbonise North Sea production, as well as other carbon intensive industries. Not only will the Deal support existing companies to decarbonise in preparation for a net zero future, but it will also attract new industrial sectors to base themselves in the UK, develop new export opportunities for British businesses, and secure new high-value jobs.

Through the package of measures, the Deal is expected to support up to 40,000 jobs across the supply chain and is expected to cut pollution by up to 60 million tonnes by 2030 including 15 million tonnes from oil and gas production on the UK Continental Shelf - the equivalent of annual emissions from 90% of the UK's homes.

The North Sea Transition Deal

Delivery of the new Green Industrial Revolution will require a strong partnership between government, regulators and industry. This Deal sets out a template for that partnership and includes an ambitious plan to meet stretching greenhouse gas emissions reduction targets. The Deal aims to support and anchor the expert supply chain that has built up around oil and gas in the UK, to both safeguard and create new high-quality jobs.

The Deal includes:

- The sector setting early targets to reduce emissions by 10% by 2025 and 25% by 2027 and has committed to cut emissions by 50% by 2030. This will be supported by joint work to address the commercial and regulatory barriers to electrification of offshore platforms to realise these targets.
- Joint government and industry investment of up to £16 billion by 2030 to reduce carbon emissions. This includes up to £3 billion to replace fossil fuel-based power supplies on oil and gas platforms with renewable energy, up to £3 billion on Carbon Capture Usage and Storage, and up to £10 billion for hydrogen production.
- By 2030, the sector will voluntarily commit to ensuring that 50% of its offshore decommissioning and new energy technology projects will be provided by local businesses, helping to anchor jobs to the UK. This will be supported by the appointment of an Industry Supply Chain Champion who will support the coordination of local growth and job opportunities with other sectors, such as Carbon Capture Usage and Storage and offshore wind.
- A 60Mt reduction in greenhouse gas emissions, including 15Mt through the progressive decarbonisation of UK Continental Shelf production over the period to 2030.¹
- Support for up to 40,000 direct and indirect supply chain jobs in decarbonising UK Continental Shelf production and the Carbon Capture Usage and Storage and hydrogen sectors.

Today's package follows the recent Budget in which the Chancellor committed to funding that targets the oil and gas sector and supports businesses to develop green energy.

This includes up to £27 million for the Aberdeen Energy Transition Zone to transform the area into a green energy hub and up to £5 million additional funding for the Global Underwater Hub based in Aberdeen to open up opportunities for the city to become a global hub for underwater engineering, including in offshore wind and hydrogen – further supporting the creation of green jobs and helping the transition to net zero.

Oil and Gas Licensing Review

We committed in September 2020 to reviewing policy on licensing for North Sea oil and gas to ensure it was compatible with our climate change objectives. Noting the ongoing role of oil and gas on our path to net zero, the Government will introduce a new Climate Compatibility Checkpoint on future oil and gas licensing rounds to ensure they are compatible with wider climate objectives, including net-zero emissions by 2050.

Design of this checkpoint will be completed by the end of 2021, before the next oil and gas licensing round. The Oil and Gas Authority has already indicated that that they will

¹ The 60Mt also includes emissions savings from CCUS and hydrogen already set out in the PM's 10 Point Plan.

not be running a new licensing round this year. In parallel, the Offshore Petroleum Regulator for Environment and Decommissioning is commencing work on a new Offshore Energy Strategic Environmental Assessment which will underpin future licensing rounds.

Government response to the public consultation: Aligning UK international support for the clean energy transition

At the Climate Ambition Summit on 12 December 2020, the Prime Minister announced that the UK will end new direct financial or promotional support for the fossil fuel energy sector overseas, other than in limited circumstances, as soon as possible. A consultation was held until 8 February 2021 on how to further enable an accelerated growth in UK clean energy exports, and the impacts of the timing of implementation of the policy shift.

The evidence received reinforced the importance of the UK taking ambitious and decisive action but underlined the need to ensure the skilled and dynamic UK energy industry is supported to make the transition to clean energy exports. Therefore, the government will implement the policy shift on 31 March 2021, but with strong mitigating and supportive actions that respond to the evidence provided in the consultation. These include: a one-year exemption for Small and Medium sized Enterprises; a new 'Transition Export Development Guarantee'; and the publication of a comprehensive and transparent description of the exemptions underpinning the policy shift.

This combination of positive and mitigating actions provides a balanced approach that will enable the greatest UK climate leadership as well as a secure transition for UK industry.

As we emerge from the effects of the global pandemic, these announcements are part of an ambitious agenda taking bold steps to tackle climate change and support our energy transition. We strongly believe that the sector can contribute meaningfully to the Green Industrial Revolution by providing essential skills and these announcements commit us to continuing to support the sector as we transition to ensure that we leave no one behind.

Yours ever,



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