
BREXIT:
THE
IMPLICATIONS
FOR UK
OIL & GAS
Oil & Gas iQ

With a few days to go until the UK votes on whether to remain within or withdraw from the European Union (EU), we take a look at what a British exit from the union, popularly known as "Brexit", will mean for the UK oil and gas industry.

The first thing to bear in mind is that since the creation of the European Economic Community (EEC) in 1957, no nation has ever voted to leave the EU. In fact, in the 59 years since original six nations signed the Treaty of Rome, a further 21 countries have applied for and been amalgamated into this gestalt political unit, including the United Kingdom in 1973.

A possible Brexit would entail departure from the European combine through evocation of [Article 50 of the Lisbon Treaty], and constitute a unique event in the history of European collaborative politics. This unprecedented move would be a leap into the unknown for the UK and could manifest in a number of flavours. The following are the most probable:

Partial withdrawal and European Free Trade Association (EFTA) reapplication – Before the UK acceded to the EEC in 1973, it had been the guiding force behind EFTA, which was founded in 1960. Set up as a trade bloc for European states who were unable or unwilling to join the EEC, EFTA now consists of Iceland, Liechtenstein, Norway, and Switzerland, who all have access to the European Economic Area (EEA). This provides for the free movement of persons, goods, services and capital within the internal market of the EU.

Full Brexit – A successful vote to leave the EU on June 23rd will initiate the process of severing contractual ties between the UK and the other 27 member states. A negotiation period will begin during which an agreement is outlined to define the country's future relationship with the union. As stipulated by the Lisbon Treaty, this will have to be carried out within 24 months. Having said that, leading EU politicians have suggested that the total withdrawal and renegotiation period for future participation in EU initiatives may take as long as seven to ten years.

With these options in mind, what could these routes mean for oil and gas on the UK Continental Shelf (UKCS)?

UNCERTAINTY IN THE STOCK MARKET

Various prognostications have suggested that the financial aftermath of Brexit might be as much as a 20 per cent dive in European stock prices, as the world's fifth largest economy withdraws from the world's most powerful trading bloc.

In the North Sea arena, not a single field development plan was submitted to the UK Oil and Gas Authority (OGA) in 2015, and with the price of Brent crude still some way beneath breakeven prices, it is unlikely that this will change, absent a significant oil price rally.

Add into the mix a stock market nosedive caused by post-Brexit malaise and the possibility of up to a decade of political wrangling, and companies may be even more reticent to commit to investments on the UKCS.

REDUCED EMPLOYEE MOBILITY

The nature of the offshore oil and gas industry necessitates that professionals are frequently relocated, sometimes at very short notice and almost always to and from inhospitable environments.

Depending on the level of Brexit involved, the transfer of a geologist from Rotterdam to Aberdeen for work in the southern North Sea may go from a mere logistical hardship to a bureaucratic headache, as freedom of movement becomes more regulated and scrutinised.

More time and red tape is hardly the order of the day at a time when oil companies on both sides of the operator and service provider divide are striving to cut cost and maximise production.

ANOTHER SCOTTISH REFERENDUM?

In the likelihood of an EFTA/EEA model Brexit or a full Brexit, one quarter of the UK's union would be vociferously displeased. The Scottish populous has always been overwhelmingly supportive of a "remain" stance with respect to EU membership.

The former First Minister of Scotland, Alex Salmond, has suggested that a majority English vote to leave the EU will trigger a second Scottish independence referendum before 2020, saying that it would provide a "full democratic mandate" to do so.

Should this be the case, all of the same issues played out around the sovereignty of oil and gas on the UK Continental Shelf would resurface. Nine out of every ten barrels produced in the UK is located in what could become Scottish territorial waters, so the tug of war for current and future "British" crude, as well as the burden of decommissioning existing assets would form a part of the political agenda for years to come.

FALL IN SCIENCE INVESTMENT

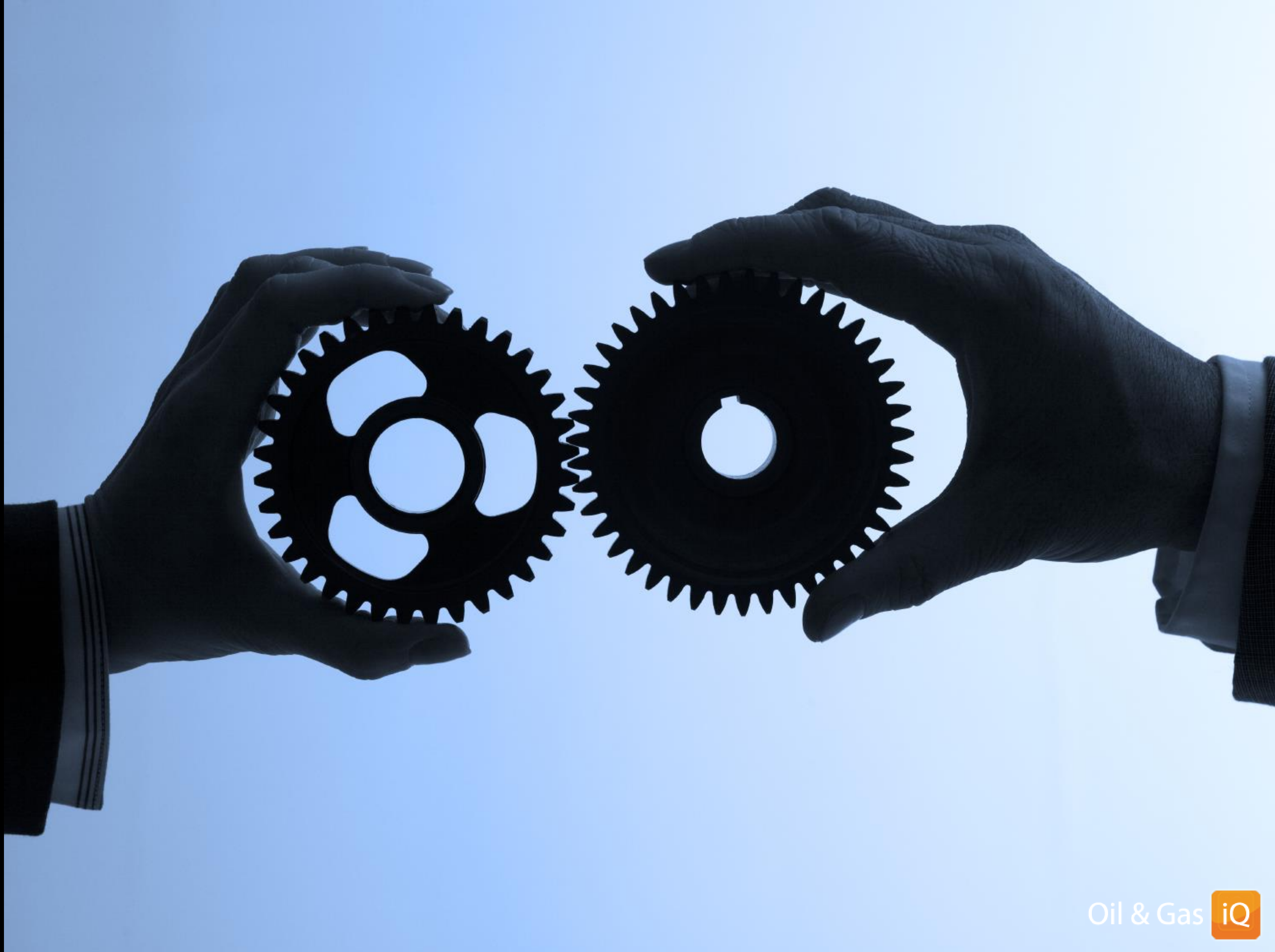
The oil and gas industry has always been at the forefront of scientific endeavour, much of this coming from governmental funding and research and development carried out in tertiary education.

For the first time in 20 years, the UK's overall science spending fell below 0.5 per cent of GDP, owing to the government's successive austerity budgets: that is already 0.3 per cent below the European average. The UK government has also mooted further cuts in the area, ranging from 25 to 40 per cent.

EU funding makes up some 17 per cent of total research grants in the UK's Higher Education Institutes (HEIs), and withdrawal from the 28 state bloc would doubtless remove that source of capital.

The oil and gas industry in the western world is already on the cusp of the "Great Crew Change" – in which half of the sector's experienced specialists will be leaving their posts due to retirement. This natural headcount attrition has also been exacerbated by the number of redundancies and early retirement options forced upon companies by the oil price crash.

With a pronounced deficit in the next generation of experts, from geoscientists to drillers and reservoir engineers, the UK's cutting edge may well be blunted.



DIVERGENCE IN REGULATION

The UK is beholden to EU-wide legislation regulating the oil and gas space, pertaining to exploration and production and health, safety and the environment, much of which has been signed into domestic law.

In the near-term, it is unlikely that these laws would be repealed, and Westminster already has sovereignty over the fiscal regime on the UKCS, including corporation tax and licensing.

In the longer-term, the UK would be at liberty to set its own offshore regulations, which could diverge with those formerly mandated by the EU. Any EU regulations or directives that the UK would like to adopt could still be ratified by its own legislature by means of the standard statutory instruments.

Of course, in the event of an affirmative vote for Scottish independence post-Brexit, the fiscal and legislative baselines of oil and gas on the UKCS would change but remain EU compliant in the longer-term.

EMBRACING THE COMMONWEALTH?

Brexit and distancing itself from the other 27 member states of the EU, could well move the UK closer to another intergovernmental organisation of which it forms part: the Commonwealth of Nations.

With 53 member states, a combined population of 1.37 billion inhabitants and a collective GDP of $5.97 trillion, intra-Commonwealth trade accounts for about one-sixth of total Commonwealth members' trade.

Nowadays, the countries that make up the Commonwealth hold some 230 billion barrels of oil and 14.9 trillion cubic metres of natural gas - roughly 16 and 8 per cent of all proven oil and gas reserves respectively.

A closer interface with the developing economies and oil and gas industries of the Commonwealth could represent a boon for UK oil and gas professionals facing up to the adverse breakeven prices of the North Sea.

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