

# Cambo Briefing: 30 June 2021

## Summary

- **The OGA is set to approve a new oilfield off the West of Shetland**, the first phase of which would produce over 150mn barrels of crude oil. First production would start in 2025 and continue until 2050, with plans for a second phase of production beyond that. Shell owns a 30% stake in the project, with the rest backed by Siccar Point Energy.
- **This goes directly against the recommendations of leading international bodies.** The UNEP Production Gap report set out a clear imperative for countries to act to reduce global oil and gas supply by an average of 4% and 3% respectively per year over the next decade in order to be consistent with 1.5C. The IEA's latest net zero report reinforces this message, saying investment in new oil and gas fields must end this year to be on track for global net zero by 2050.
- **The project brings limited benefits to the UK, but represents a significant investment risk.** Contracts for construction and installation have been awarded to overseas firms, meaning the bulk of jobs will be outside of the UK. As part of a global oil market 80% of UK crude is currently exported, and so this field would not contribute significantly to UK energy security. Siccar Point Energy, who owns the majority stake in the proposed field, paid no net tax between 2015 and 2019, instead receiving £41mn from the government through tax relief for decommissioning. Meanwhile, the complexity of the field and high cost of operating in the West of Shetland makes the project high risk, with similar projects suffering from large cost overruns that have driven producers to bankruptcy.
- **The project exposes the weaknesses of UK government policy to tackle climate change.** The forthcoming climate compatibility checkpoint will not be applied to this development, as the checkpoint applies only to new licenses. This loophole means that prospective North Sea oil projects with the capacity to produce more than 1.7bn barrels of oil will be unaffected.
- **Approval of a new oil field undermines the UK's chances of delivering successful outcomes at COP 26.** As the host of the COP26 climate summit, it's vital for the UK's international leadership credentials on climate for it to walk the walk on all aspects of domestic energy policy. Approving a new oilfield sends a damaging signal to the international community when it is inconsistent with global climate safety.
- **The project is inconsistent with a 1.5C world, and must be cancelled.** The forthcoming climate compatibility checkpoint must also reflect the need for the UK Continental Shelf to be consistent with global fossil supply reduction in line with 1.5C.

## What is the Cambo Oil Field?

The [Cambo oil field](#) is a potential new oil field in the North Atlantic West of Shetland. The field holds 800mn barrels of oil in place, and a proposed first phase of production would seek to extract 150mn barrels - a second phase would likely extract a similar amount, making the field one of the largest in the UK. The first phase aims to produce 51 thousand boe/day, which would make it the fifth biggest producer on the UK Continental Shelf (UKCS) based on current production levels.

The 150mn barrels of oil targeted in Phase 1 of the project have a [climate footprint](#) equivalent to running 16 coal fired [power stations for a year](#). The crude oil in the Cambo reservoir is a heavy grade, which means it has a higher emissions intensity than oil from other fields. The average emissions intensity of the oil produced by the field comes to 23 kgCO<sub>2</sub>e/barrel<sup>1</sup>, which is higher than the average for the UKCS, and triple the average emissions intensity of [oil produced](#) in Norway.

The project is backed by Shell, who own [a 30% stake](#), with the rest owned by Siccar Point Energy (SPE), a privately equity-backed oil and gas producer backed by BlackStone Group and Blue Water Ventures.

Although the field was appraised in 2018, this would represent a new oil field as production is yet to begin, and the project is yet to reach a Final Investment Decision (FID). If approved, the project will seek to commence drilling in 2022, with first production slated to begin in 2025. The lifetime of this first phase would be 25 years, meaning that it would still be extracting oil in 2050. This can be seen as a proof of concept, with Siccar Point keen to emphasise the potential to [further develop Cambo](#) and link with surrounding fields.

## Why does this matter?

### It is incompatible with a 1.5C world

The UNEP [Production Gap Report](#) highlights the increasing gap between planned oil and gas supply and Paris-aligned demand. Countries already aim to produce 120% more fossil fuels by 2030 than what is consistent with limiting warming to 1.5C. This demonstrates an urgent need for an orderly phasedown of global fossil fuel production. The [Stockholm Environment Institute](#) has found that under baseline scenarios, high income countries alone would exceed oil and gas production that is consistent with 1.5C in the 2030s, with similar trends applying to countries with low dependence on fossil fuel revenues. A managed phasedown of oil and gas supply is vital to getting on track for 1.5C, and can only be led by those who are best-placed, such as the UK.

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<sup>1</sup> CO<sub>2</sub>e emissions from the operations of the FPSO taken from Siccar Point Energy's [environmental impact assessment](#). Assumes the project extracts 150mn barrels of oil as targeted - the intensity would be higher if less is eventually recovered.

The IEA's [Net Zero by 2050](#) roadmap – commissioned by Alok Sharma as the COP26 President – has reinforced this need. It made clear that in a world that limits global warming to 1.5C, there is no new investment in new supply of fossil fuels. This sets a clear benchmark for whether governments are truly aligned with global net zero and sends a strong signal to investors on the future of fossil fuels in a 1.5C world.

## Cambo will contribute little in terms of domestic jobs, energy security or tax revenue

Development of the field is unlikely to bring significant jobs to the UK. [Sembcorp marine](#), a Singaporean offshore engineering firm, is leading the design and engineering of the floating production storage and offloading (FPSO) vessel, which is the biggest source of jobs for the project. When operations begin, likely in 2025, the FPSO is designed to operate with only 100-150 staff, provided by operational contractors who may not be UK based. Siccar Point Energy themselves only have a small managerial footprint of 36 staff based in the UK. All other contracts awarded to date have been to firms outside of the UK. In contrast, Shetland's [Viking wind farm](#), under construction, will create over 400 jobs, with primary contractors based in the UK.

Further, oil is a global market, with most of the existing oil supply from the UKCS being [exported overseas](#). This means that West of Shetland crude oil will be sent to global destinations via tankers, and the additional supply does little to contribute to the UK's energy security.

In 2019 Blackstone and Blue Water Energy unsuccessfully [tried to sell Siccar Point's assets](#) in the North Sea - boasting how due to large transferable tax losses, future buyers would be sheltered from tax payments until the late-2020s. Between 2015 and 2019, Siccar Point Energy has paid no net tax to the government, instead receiving £41mn. Developing a new project in the UKCS will only add to the [public bill for decommissioning](#) through the form of additional tax relief.

While benefits are small the risk of the project is high. The field is technically very complex, and higher cost than other existing fields, due to its significant depth, geology of the surrounding rock, and harsh Atlantic conditions in the West of Shetland. In light of this, the project was [postponed](#) last year, citing uncertainty around Covid-19, and the resulting commodities price crash. This follows a trend of [other projects](#) in the West of Shetland region suffering severe delays and cost overruns, which have severely impacted the share price of [producers involved](#). This carries a risk for the taxpayer, with government liable to provide additional tax relief to cover decommissioning costs if [a company defaults](#).

## It undermines the UK's COP 26 credentials

Pursuing new developments undermines the UK's chances of delivering successful outcomes at COP 26. Greenlighting this development would only encourage other countries to continue to invest in fossil fuel development. In the run-up to COP 26, countries will be paying more attention to what the UK does than to what it says. The UK must lead - and be seen to be leading - from the front to ensure its successful delivery.

The UK is missing an opportunity to seize international leadership on climate action. The recently published [North Sea Transition Deal](#) failed to set an end-date for licensing of oil and gas developments, and only set voluntary upstream emissions reduction targets for the sector, which were lower than the [recommended targets](#) laid out by the CCC. The government's proposed climate compatibility checkpoint will likely be delayed until after COP 26, and, if Cambo goes ahead, it will only add to suspicions that the checkpoint exercise will be used as a means to greenwash future licensing.

Meanwhile, other producing countries such as Denmark and Spain are demonstrating what ambition looks like on upstream oil and gas policy. Denmark and others are set to form the Beyond Oil and Gas Alliance in coming months. The UK still has a chance to become the first significant producer to lead on this issue, but its policy of Maximising Economic Recovery is looking increasingly out of step with both domestic [public opinion](#) and the recommendations of international institutions. If every country pursued this policy the global temperature would breach catastrophic heating levels.

## Cambo exposes the weakness of UK government policy

The field exposes the weaknesses of UK government policy to tackle climate change. Because the Cambo field is already through its initial licensing round, it will not have to pass through the government's "climate checkpoint" to assess whether new oilfield developments are "compatible with the UK's climate change objectives". The checkpoint is still in development and will only apply to new licensing rounds. This loophole applies to prospective North Sea oil projects with the capacity to produce more than [1.7bn barrels](#).

## It goes against the recent court ruling for Shell to reduce its emissions

A Dutch court recently ruled that Shell would need to cut its emissions by 45% by 2030. The clear implication of the ruling, as acknowledged by the court, is that Shell will need to forgo new investments in oil and gas production. Shell has responded by saying they will 'rise to the challenge' on this issue. Their ambition to develop the Cambo oil field and expand production in the UKCS is at odds with this sentiment and the thrust of the ruling, and raises questions as to their commitment to take the ruling seriously.

## Growing influence of private equity in the UKCS stymies the transition

Siccar Point Energy is an oil and gas producer [backed by](#) private equity firms Blackstone and Blue Water Energy. They [acquired](#) North Sea assets from OMV UK in 2016, in a deal worth \$1 billion, marking a new era of private equity involvement in the North Sea as majors began to divest from the basin.

Privately backed producers tend to focus around 5 year investment horizons and specialise in cutting operating costs to eke returns out of mature/high cost assets, which often results in job losses for offshore workers. In addition, privately backed producers are less exposed to financial markets, and aren't accountable to shareholders in the same way as the majors. As a result, they are more immune to market driven pressure to transition.

Blackstone has previously [invested](#) in the highly opposed Dakota Access Pipeline, and has considerable oil and gas interests in the US, despite the company trying to highlight its growing [ESG credentials](#) in recent months. Privately backed producers are now [responsible for a third of production](#) in the UKCS.

The growing involvement of private equity (which is not subject to the same climate reporting regime as listed companies) in the North Sea calls into question the extent of the commitment of the Government to the transparency and accountability of the ownership of North Sea assets.

## Recommendations

1. The Cambo oil field must be cancelled. Given the clear conclusions from the UN's Production Gap report and the IEA's Net Zero Roadmap, as well as Shell's court ruling to reduce its emissions all coming since the original exploration licence was granted, there is a need to stop this project in light of new evidence. The science is clear - development of this field is not consistent with a 1.5C pathway and it must therefore be cancelled.
2. The forthcoming climate compatibility checkpoint must reflect the evidence on climate change - under any rigorous checkpoint, no new oil and gas fields can be developed. Otherwise, it will only serve to greenwash continued production expansion by industry.
3. The UK must also end the legal duty of Maximising Economic Recovery of oil and gas, which is at odds with the UK's commitment to 1.5C and undermines its leadership credentials on climate change in the lead up to COP 26.
4. Public money for domestic oil and gas should also be switched to support the clean energy transition and to help oil and gas workers to transition into the clean energy sector. This should include the £18 billion of public subsidy which is due to be paid towards the decommissioning of oil and gas rigs. Oil and gas companies should pay 100% of the cost of the decommissioning instead.
5. The government must invest in a managed phase out of oil and gas and an orderly transition with meaningful consultation with oil and gas workers, their unions and local communities. This will involve large-scale job creation in clean industries; fully funded programmes to re-train and re-skill energy workers in renewable technologies; safeguarding of workers rights and improving working conditions; the creation and implementation of an offshore passport for workers to transfer their skills from offshore oil and gas to offshore wind and avoid paying double to work across both sectors, as is currently required; significant investment in fabrication yards to enable UK firms to secure contracts to manufacture turbines; and investment in communities formerly dependent on oil and gas revenue.