

ABERDEEN CITY COUNCIL

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| COMMITTEE | Council |
| DATE | 30 June 2010 |
| CORPORATE DIRECTOR | Gordon McIntosh Enterprise, Planning and Infrastructure |
| TITLE OF REPORT | Unconventional Oil and Gas Conference in Aberdeen |
| REPORT NUMBER: | EPI/10/185 |

1. PURPOSE OF REPORT

The purpose of the report is to seek Council approval to co-organise a conference in Aberdeen in December 2010 on opportunities for companies in the unconventional oil and gas sector.

2. RECOMMENDATION(S)

It is recommended that Council:

- 1 Approve the Council's involvement, as detailed in the report, in organising a conference in Aberdeen in December 2010 on opportunities for companies in the unconventional oil and gas sector.
- 2 Approve the Council's underwriting of the conference, as detailed in the report, up to a maximum value of £27,480 in the event of cancellation.
- 3 Approve the reinvestment of any profit from the event in trade development activities related to the unconventional oil and gas sector, for the benefit of the Aberdeen economy.

3. FINANCIAL IMPLICATIONS

The International Trade Development Team's Business plan, recently approved by EP&I Committee, highlighted the potential opportunity provided by the unconventional oil and gas sector to help anchor the oil and gas industry in Aberdeen.

This sector provides Aberdeen companies with an opportunity to develop and exploit innovative technology for use in a fast growing energy sector on a world-wide basis. As such, the sector represents a very real opportunity for some companies to diversify their business without having to make the major step that

would be needed to move from the oil and gas sector into the renewables sector. For many Aberdeen companies already operating in the oil and gas sector, diversification into the unconventional oil and gas sector therefore represents an opportunity to transfer their capability into a fast growing market sector opportunity.

Organising a conference on this fast-developing sector will enable Aberdeen City Council to be a key facilitator in bringing about a major energy theme to the attention of Aberdeen companies, and assist in the promotion of Aberdeen as a centre of excellence for the energy industry worldwide. A conference will also enable us to emphasise Aberdeen's capability in terms of developing new technologies and services to operators who are investing in unconventional oil and gas reserves. The Aberdeen Exhibition and Conference Centre are supportive of this event and consider that it is an excellent forerunner to the World Heavy Oil Conference to be held at AECC in 2012.

However, organising such a conference brings financial risks as well as possible financial rewards.

In the worst case scenario, where the event has to be cancelled at the last minute (for whatever reason) the Council would have to cover the costs associated with this late cancellation – covering venue, catering and professional conference organisation. This cost could range from £15,990 if cancelled prior to 1st September to a maximum of £27,480, depending on the date of cancellation.

In the best case scenario, the Council would stand to make a substantial profit from the event, possibly in excess of £30,000. If this profit is achieved it would be re-invested in further activity to continue to promote the international opportunities in the Unconventional oil and gas sector to help Aberdeen companies take advantage of the opportunities and promote themselves in the sector. It would therefore be necessary for the service to offer continued support to local industry in this sector

It is emphasised that the risks of organising the event have been examined closely and we would assess the likelihood of having to cancel the event, for any reason, as having a less than 5% probability. Whereas, based on the initial response we have obtained from potential sponsors and the interest from key industry groups, we believe we have a greater than 80% probability of making a profit from the event (leaving a 15% probability of making a loss of less than £27,480, which, as already noted, is the maximum possible loss).

4. SERVICE & COMMUNITY IMPACT

Impact on the Enterprise, Planning and Infrastructure service will focus primarily on officer time, namely up to 50% of the time of the Senior Business Development Officer (International Trade) from now until December 2010. There

will be engagement with the City Promotions team with regards to capitalising on destination promotion opportunities.

5. OTHER IMPLICATIONS

Health and Safety: The conference will be managed by professional conference organisers (the AECC will provide this service) and overseen by an organising committee made up of a council officer and industry, who will both seek to ensure all health and safety legislation and regulations are adhered to.

Risk Management: The conference is a high-profile opportunity to build on Aberdeen's reputation as a leading centre of innovation and excellence in the global oil and gas industry and to further develop the international expansion of the indigenous supply chain. If Aberdeen does not take this opportunity to promote its capabilities and reinforce its position as a global energy leader, local companies may miss out on significant development opportunities and the city may be seen as lacking in vision and entrepreneurship.

Human Rights, Equalities and Diversity: As with health and safety, all relevant legislation and regulation will be adhered to in the organisation and implementation of the conference.

6. REPORT

There is significant and burgeoning global industry interest in the unconventional oil and gas sector and, to date, Aberdeen has not sought to exploit this for the benefit of local companies.

Unconventional oil and gas refers to tight gas, shale gas, coal bed methane and heavy oil, produced or extracted using techniques other than the traditional oil well method. Unconventional methods of extracting hydrocarbons are experiencing unprecedented growth worldwide due to increasing scarcity of conventional supplies, increasing global demand over the long-term and security of supply issues often related to geopolitical factors such as gas supply routes.

The International Energy Agency estimates the global total of unconventional resources to be 921 trillion cubic metres, more than five times proven conventional reserves. (Source: The Economist 13/3/2010).

For example, recently-discovered shale gas in North America will produce enough to satisfy 100 years of consumption at current rates. The Wood Group's office in Perth, Western Australia recently indicated that there are eight coal bed methane projects in Australia with an estimated total \$62 billion in capital expenditure. The event will address both the opportunities and the challenges presented by this emerging sector

Considerable activity is also occurring in mainland Europe where Poland has particularly high shale deposits however assets are being acquired in France, Austria, Italy and Spain amongst others. North America has led the way in exploitation of their unconventional reserves, in less than 15 years unconventional gas resources have come to supply 35% of America's domestic gas needs. Australia, Canada and China are also investing hugely in developing their Unconventional gas reserves.

It is probably fair to assume that recent events in the Gulf of Mexico, which have led to a ban on deep sea oil exploration and extraction, will push major oil and gas producers towards the exploitation of more unconventional oil and gas deposits around the world.

So, opportunities in this sector are set to increase significantly. North America and Canada already have supply chains to service the unconventional industry, and if Aberdeen does not start to look at this now as the unconventional industry is taking off, the risk is that it will loose out due to competition from these areas.

It is therefore proposed to hold a two-day conference at Aberdeen Exhibition and Conference Centre on 1 and 2 December 2010 on the unconventional gas market.

The event will showcase the latest and forthcoming developments in unconventional oil and gas plays in the three key geographical areas of Eastern Europe, North America and Australia.

There is a strong case for holding the event in Aberdeen. Unconventional oil and gas conferences are springing up in energy provinces around the world and both London and Amsterdam have hosted European events in recent months. The global energy industry is waking up to the large-scale opportunities of the unconventional sector and Aberdeen needs to position itself to enable its local companies to take advantage of them.

The event is being held in partnership with the Industry Technology Facilitator (ITF), which is a 'not for profit' organisation owned by 23 major global operators and service companies. ITF's key objectives are to identify technology needs, foster innovation and facilitate the development and implementation of new technologies.

The conference is designed to coincide with ITF's Call for Proposals on tight gas, shale gas and coal bed methane – a collaborative approach to investment in technology.

Aberdeen has an enviable record in developing technologies and skills to meet technical challenges, and this expertise and infrastructure can be readily adapted

to meet the challenges of the unconventional sector. It is therefore an excellent opportunity for local companies to promote their products and technological capabilities in this fast-developing sector. The conference will also help to emphasise Aberdeen's position at the forefront of energy industry developments.

That this event is being initiated by the City Council will also reinforce the message to local industry that the Council is committed to providing economic development support in an emerging sector of the oil and gas industry that many feel is game-changing.

The main objectives of the conference will be:

- Allow the operators that have significant unconventional assets to showcase their operations and their technology requirements to a local and international audience
- Clearly articulate the potential of the unconventional market to Aberdeen's indigenous technology developers
- Showcase the unique technologies which are currently being deployed in, or are transferable to, the unconventional market
- Promote sources of funding from major private equity institutions
- Facilitate interaction between investors, major, mid-size and junior operators and the supply chain
- Highlight technology areas that need to be further developed, primarily through the Industry Technology Facilitator
- Establish Aberdeen as the key technology centre of excellence for the unconventional market in Europe and beyond.

Having examined the risks involved in underwriting the project, and the considerable and ever-increasing interest from industry in the unconventional sector, the conference is considered a very good prospect for success.

Growth of this market is being facilitated by private equity funds. Initial discussions between the City Council and financial institutions and private equity houses, as well as operators, show that there is a high degree of willingness to put sponsorship into this event as well as present at it.

However, in order to proceed with a conference booking, it is necessary to underwrite the event in case of unforeseen circumstances leading to late cancellation.

Should the event generate a profit, it is proposed that the total net sum be reinvested in trade development activities in the unconventional oil and gas sector for the benefit of the Aberdeen economy. This would entail hosting inward delegations from key target markets, running seminars to help local companies enter this new sector and supporting outward trade missions to key target

markets, such as Australia and the US, to enable local companies to increase their export turnover.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

None