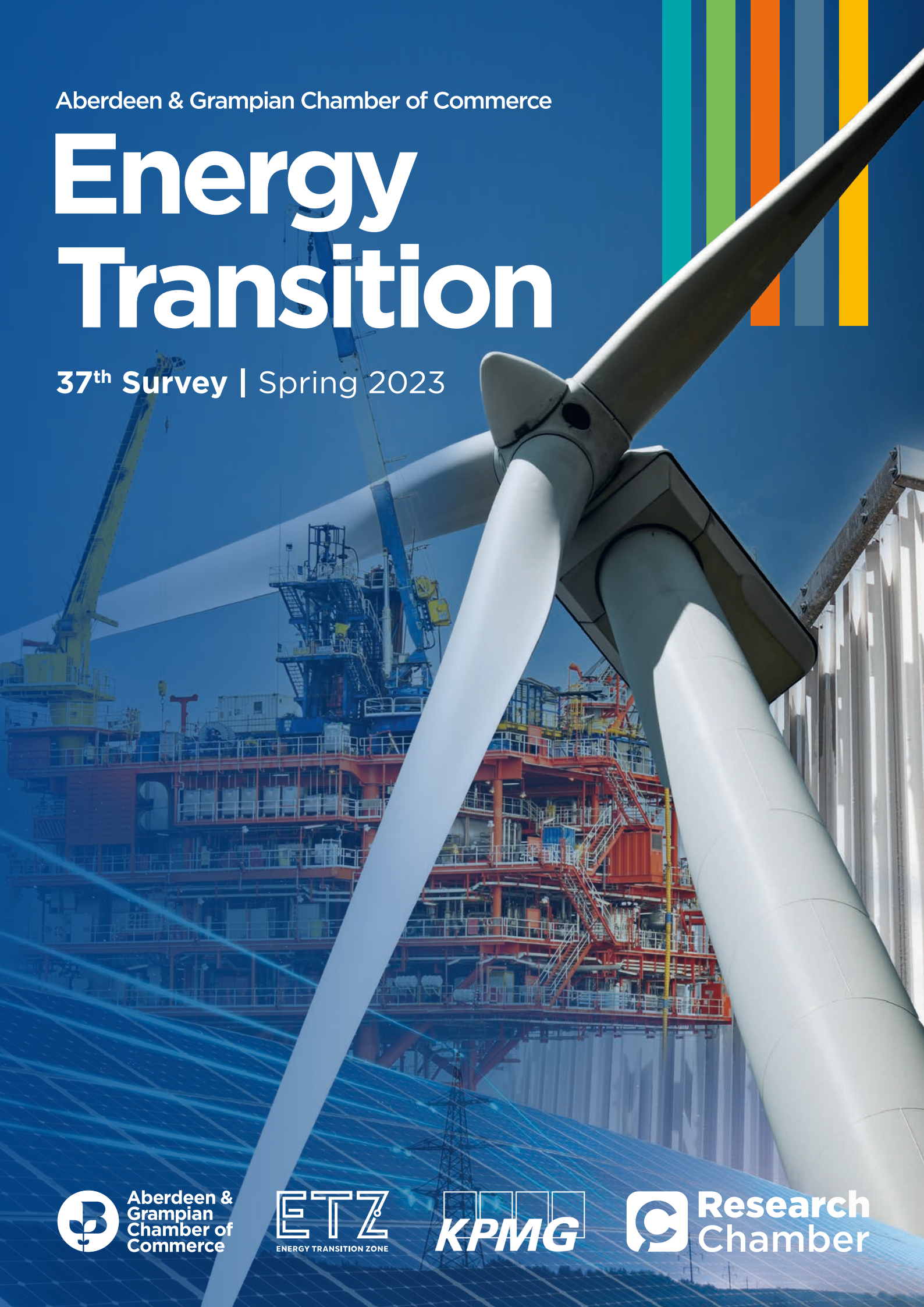


Aberdeen & Grampian Chamber of Commerce

# Energy Transition

37<sup>th</sup> Survey | Spring 2023



**This long-running survey has followed Scotland's energy sector through good times and bad, but never in its 37 editions has so much changed so quickly.**



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# Sponsor forewords

**ETZ Ltd is proud to partner with KPMG once again in support of the ET37 survey, the publication of which comes as progress continues on the transformation of the North East of Scotland to maximise the significant opportunities presented by the energy transition.**

Uncertainty still dominates the global stage as the war in Ukraine continues and the effects of the cost of living crisis continue to bite. Policymakers are grappling with the best solutions in the face of constant flux but the focus on energy security and supply continues to dominate.

However, across the North East of Scotland, our energy industry is rising to these challenges. No-one is labouring under the impression that these can be overcome overnight but the work currently underway across the sector to achieve an accelerated transition demonstrates the continued commitment of our world class energy supply chain to reaching this goal.

This most recent survey highlights some of the most pressing issues to face us all. Sector confidence in UKCS has plummeted in the past year to a level only outstripped by the financial crisis of 2008, the oil crisis and the aftermath of Covid.

At ETZ, our goal is to protect and create as many jobs as possible, ensuring a sustainable and vibrant future for the region and the people who live and work here. A drop in confidence in there being a sufficient pipeline of people to deliver the transition is therefore genuinely concerning. If we are to deliver the transition and safeguard our energy future, this must continue to be addressed by governments, industries, colleges and universities.

Unsurprisingly the need for the right policy environment from Scottish and UK Governments was highlighted. Almost half of those surveyed said no political parties are delivering the best policies for domestic energy and transition. The sector as a whole believes the right conditions and incentives are not being delivered by Governments. It is no surprise that the majority of businesses believe the Energy Profits Levy (EPL) has had the most negative impact on business. Once again, the clear message from the survey is that there continues to be a need for policymakers in both Scottish and UK Governments to provide a clearer vision for the sector.

Many of the issues explored by the survey – investment in strategic infrastructure, technology innovation, supply chain development and skills – sit at the centre of ETZ's vision. To date, we have engaged with well over 500 companies across our supply chain initiatives.

We have launched the Energy Transition Supply Chain Pathway and Challenge Fund with grant funding of between £50k-£250k to businesses across Aberdeen, Aberdeenshire and Moray to help companies realise new or existing opportunities in green energy and wider low-carbon sector.

We published the ETZ Jobs & Skills plan, in recognition of the importance of creating and retaining sustainable energy jobs, as well as delivering a just transition for local communities.

We have also unveiled our Energy Incubator and Scale Up Hub delivered in partnership with bp and Scottish Enterprise with delivery partners NMIS and NZTC. The centrepiece of the Innovation Campus, it will be an entry point for new and growing supply chain organisations, providing flexible accommodation for prototyping and small scale manufacturing and a wide range of growth support.

The scale of the task in front of us to reposition this region as the Net Zero Energy Capital of Europe is vast. However, this survey serves to take the temperature of the sector and provide valuable insight into both the obstacles and the advantages facing all of us.

If action is taken to address these issues, we can continue to build a strong future for this region.



**Maggie McGinlay**  
*Chief Executive*  
*Energy Transition Zone*

**Successful delivery of an energy transition is now an ever-present topic in society, business and politics - net zero is an unchanging target. How we get there is still up for debate, and depends on a variety of factors, including demand patterns and how energy businesses are properly incentivised to invest in greener activities and solutions.**

Each survey proves to be more insightful than its predecessor and the 37th edition is no different, touching on the hot topics and providing a number of discussion areas. KPMG UK is proud to continue with its sponsorship through 2023.

Many of the businesses who kindly take the time to respond to this survey are leading the shift from fossil fuel extraction to renewables, but clearly further support is needed from all corners to make it happen.

As you will read, there has been a drop-off in UKCS confidence levels, with a prevailing feeling that international activity is more fruitful than doing work closer to home.

We also found that the balance between oil and gas and non-oil and gas activity has bucked trends of the last few surveys, with many businesses observing a higher concentration of oil and gas work this time, albeit this doesn't necessarily indicate a reduction in the absolute volume of non-oil and gas activity.

Should I stay or should I go?

Earlier this year the Scottish Government published its energy strategy. It remains to be seen if its current position to oppose new North Sea extraction licenses being issued by Westminster will continue under its new leadership and whether it carries weight under devolved powers.

What is clear, based on this survey's findings, is that respondents feel the need to maintain the right balance



between oil and gas and renewables to maintain Scotland's economy and jobs market while protecting the environment long term. Interestingly, most respondents did not believe that any political party was delivering the best policies for energy security and the transition.

Shutting up shop in the North Sea would mean more fossil fuels are imported at a higher cost and carbon footprint, not to mention having a major impact on the economy and cost of living for consumers. This would also negatively affect a highly skilled workforce at a critical time where it is on the cusp of transferring traditional skills into new green collar jobs.

#### Crisis of confidence

For the first time in two decades, this survey found a clear divergence in confidence levels between UKCS operations and those overseas, suggesting that businesses are becoming increasingly aware of the incentives on offer further afield, and the increasing cost of doing business at home.

Those surveyed continue to predict a shift in their business mix to a higher proportion of non-oil and gas content by the end of the decade - expecting, on average, the share of their business outside of oil and gas to jump to 45% by 2030.

However, when asked today what portion of business activities are currently in oil and gas, the figure was 73% - a notable increase since the last survey suggesting that in the short term, attentions are turning back to oil and gas as a more stable source of profitable activity. This is likely to be a result of renewed price stability in oil and gas, an emphasis on energy security, and an acceptance that fossil fuels are a present-day necessity on the path to a greener future. However, it is a striking statistic, and a retrenchment which policy makers should be aware of.

#### ESG credentials more important than ever

What businesses do now across the three ESG strands of environmental, social and governance will determine the talent they attract, the customers they serve, the profits they make, and ultimately the impact they will have on society.

We continue to see that graduates who are considering a career in the sector wish to see proof that a business has a well-developed Environmental, Social and Governance (ESG) strategy. Without proof of change, there is a risk that talented young people enter other professions and delay the transition further.

While successfully managing the here and now is always critical, so is looking at the medium to long-term strategy with a net zero lens and identifying opportunities to make changes in your business and in our markets, to help both companies and the UK economy grow through the transition.

Thank you to everyone who contributed to the latest survey and of course to Aberdeen and Grampian Chamber of Commerce for its work and support in bringing it to life.

I hope you enjoy reading these latest results.



**Robert Aitken**  
Director  
KPMG UK in Aberdeen



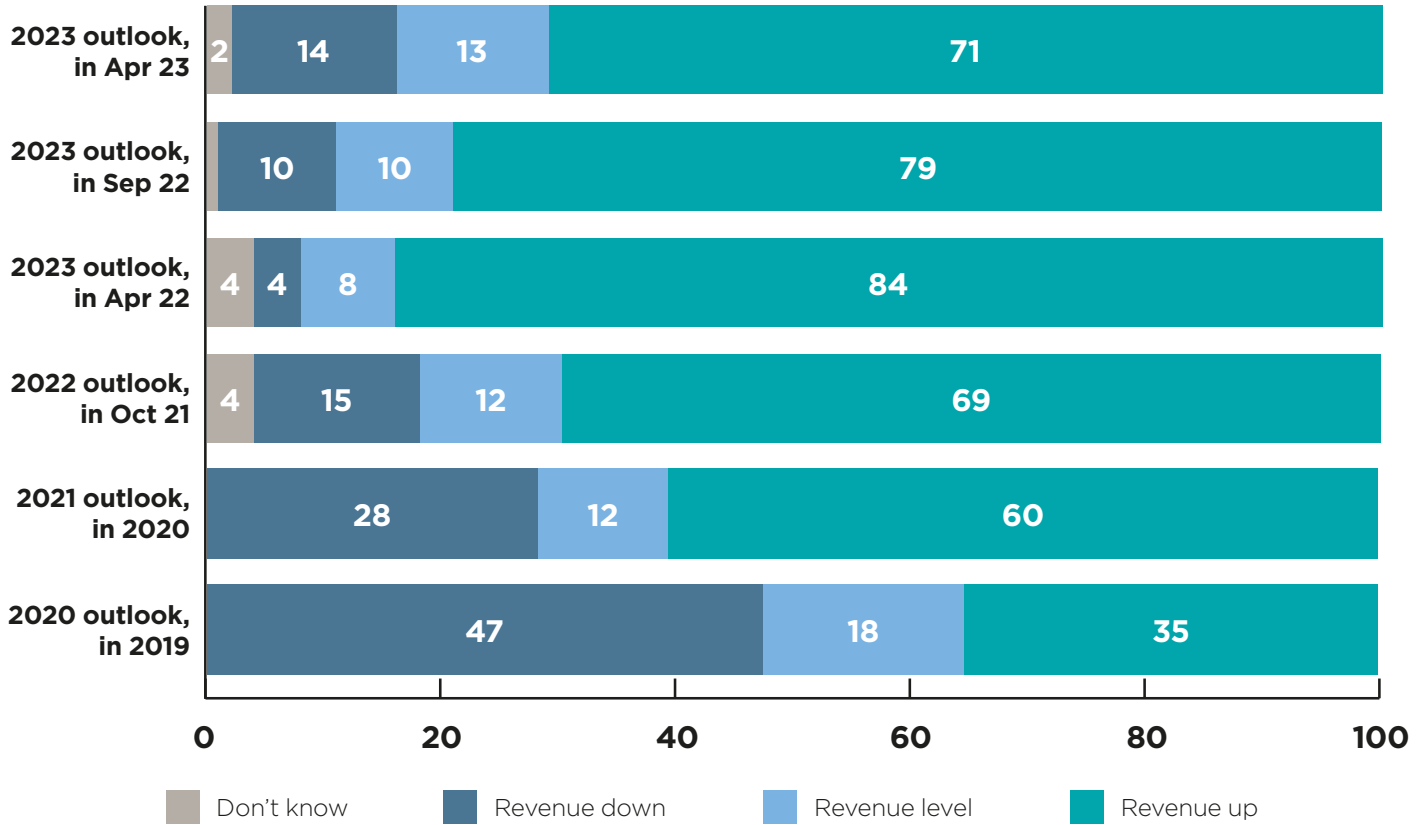
# Sector trends and outlook talking points



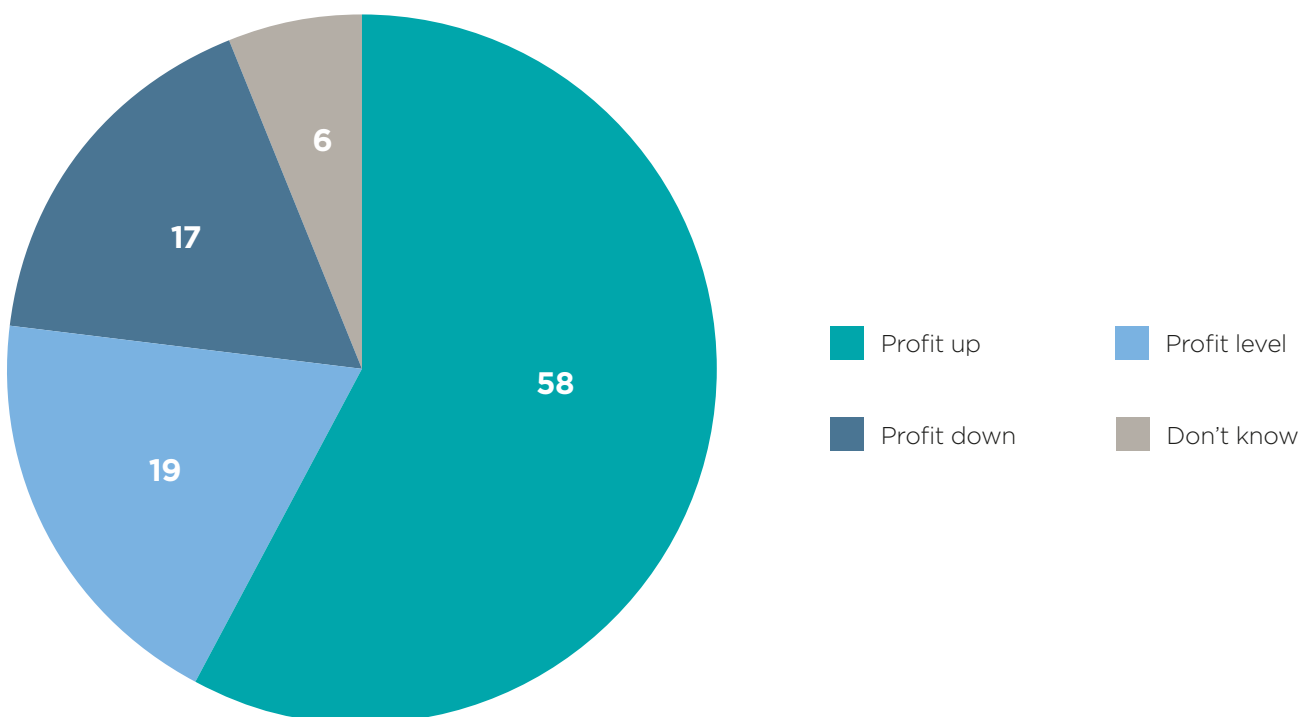
- The majority of respondents believe that revenues will rise in 2023 (albeit down versus last two surveys), more so among service/supply chain
- More than half expect profits to rise this year – true of both operators and service/supply chain companies
- Declines expected in UKCS exploration and production work but an uplift in renewables activity
- Increases forecast in the value of international work, specifically in production, exploration and renewables
- Percentage of businesses working at or above optimum levels sharply dropped in both the UKCS and internationally
- Government policy including taxation, level of demand and skills availability are top three factors in determining UKCS activity levels over next 12 months (respondents answering ‘very important’)
- Key factor in overseas activity levels is service demand with the relative importance of other factors less marked than previously backing up increased work levels trend
- Significant shift in previous UKCS/international activity trends which have generally tracked closely over time- until now
- Sector confidence in the UKCS has dropped sharply- falling from +36 last April to -37 now
- However, confidence remains high in terms of international work and has risen slightly since Sept 2022

# 1. Majority of the sector believes that revenues will rise in 2023 (albeit down versus last two surveys) and more than half expect profits to rise this year.

Q: To what extent do you expect your organisation's revenue to change in 2023, compared to 2022:



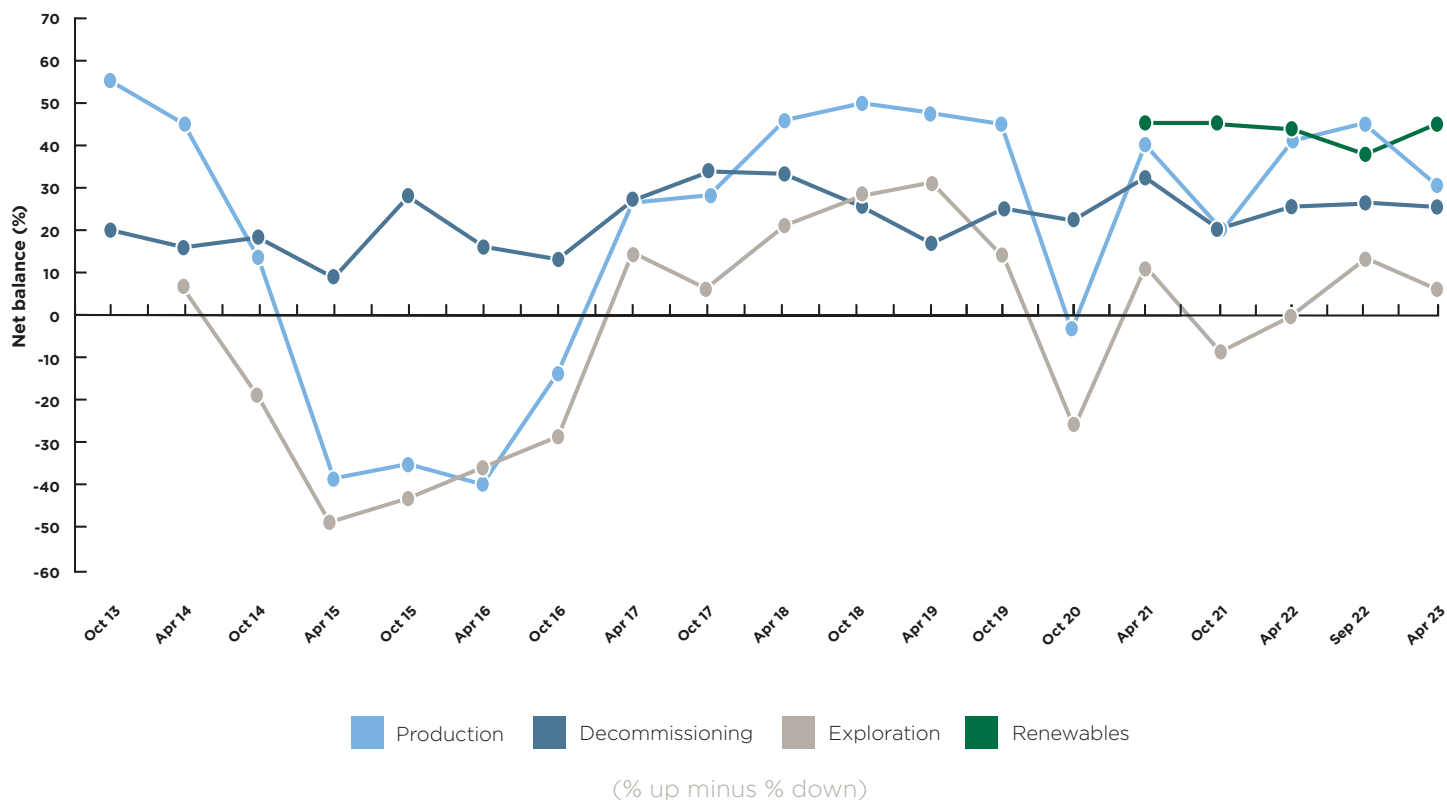
Q: To what extent do you expect your organisation's profit to change in 2023, compared to 2022:



(% sector view of revenue/profit change v previous year)

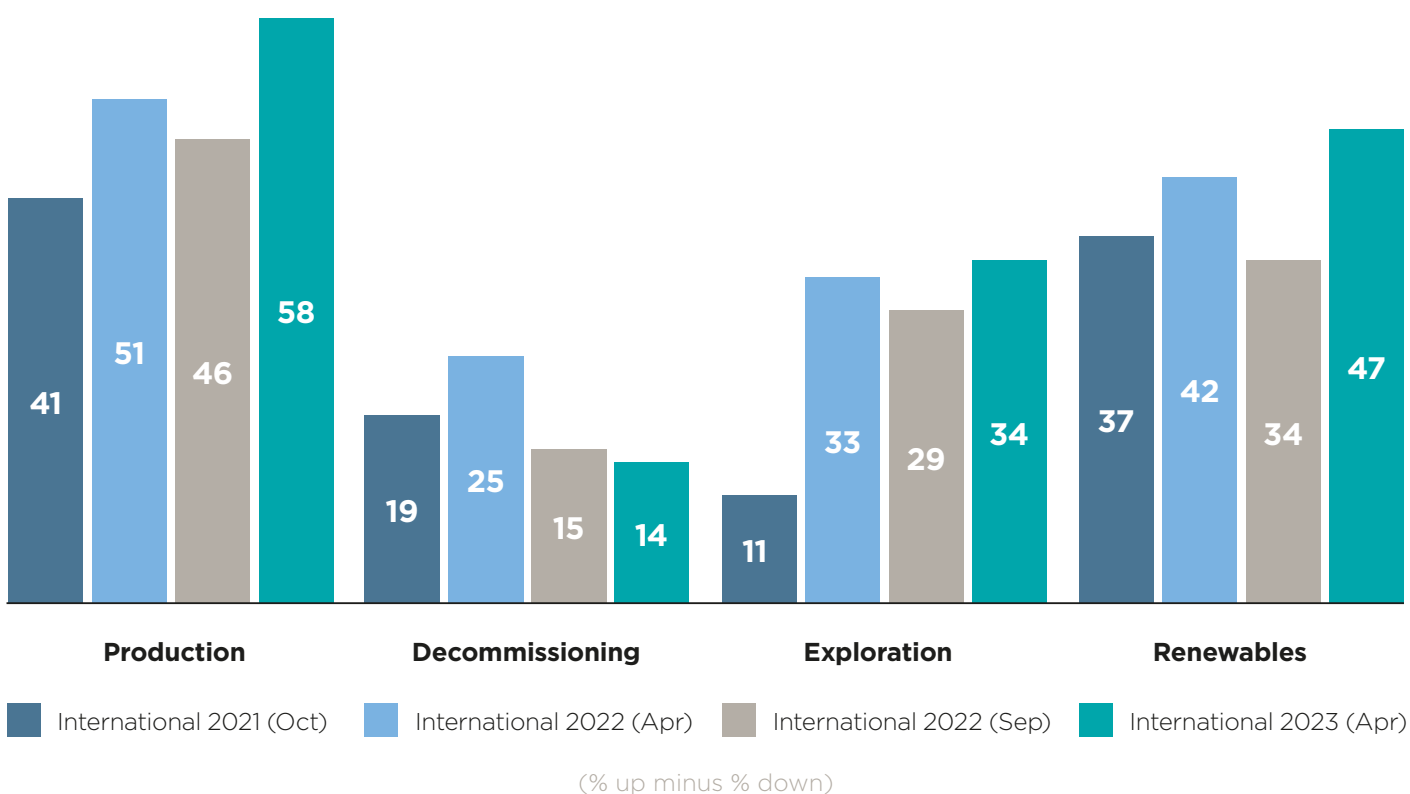
## 2. Declines forecast in UKCS exploration and production work but an uplift in renewables activity.

Q: What are the trends in the total value of your organisation's work in the UKCS of:



## 3. Increases forecast in the value of international work, specifically in production, exploration and renewables.

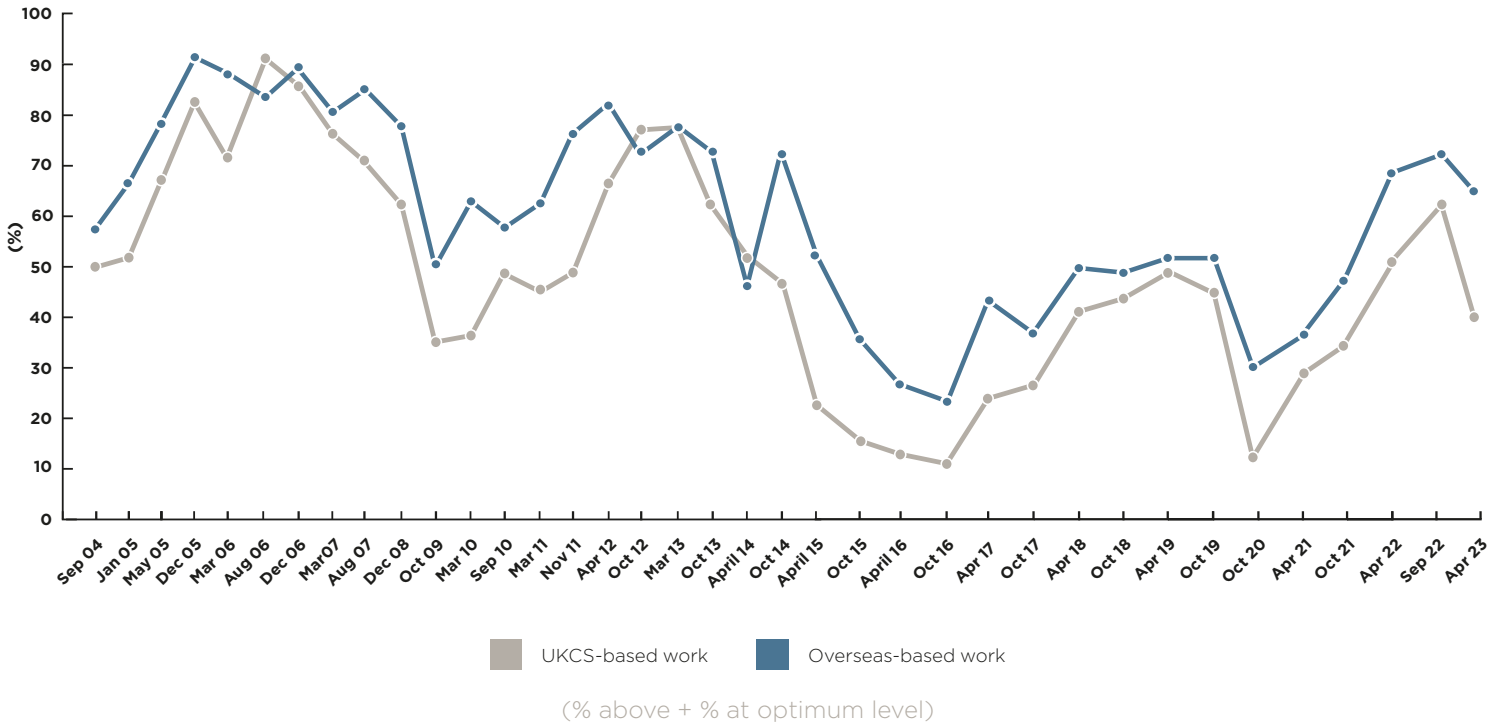
Q: What are the trends in the total value of your organisation's work internationally:





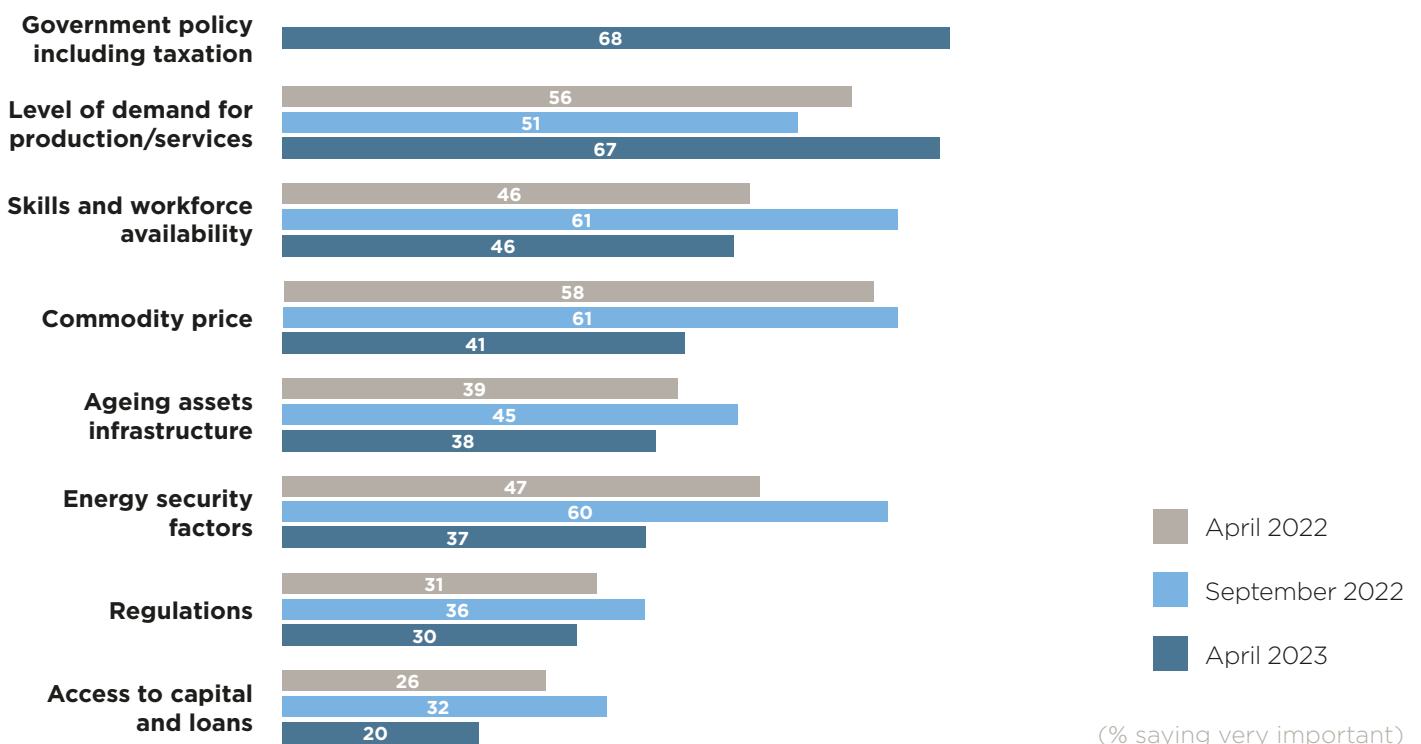
## 4. Percentage of businesses working at or above optimum levels sharply dropped in both the UKCS and internationally.

Q: Is the level of UKCS-based/overseas-based work leading to you operating at above or below optimum levels?



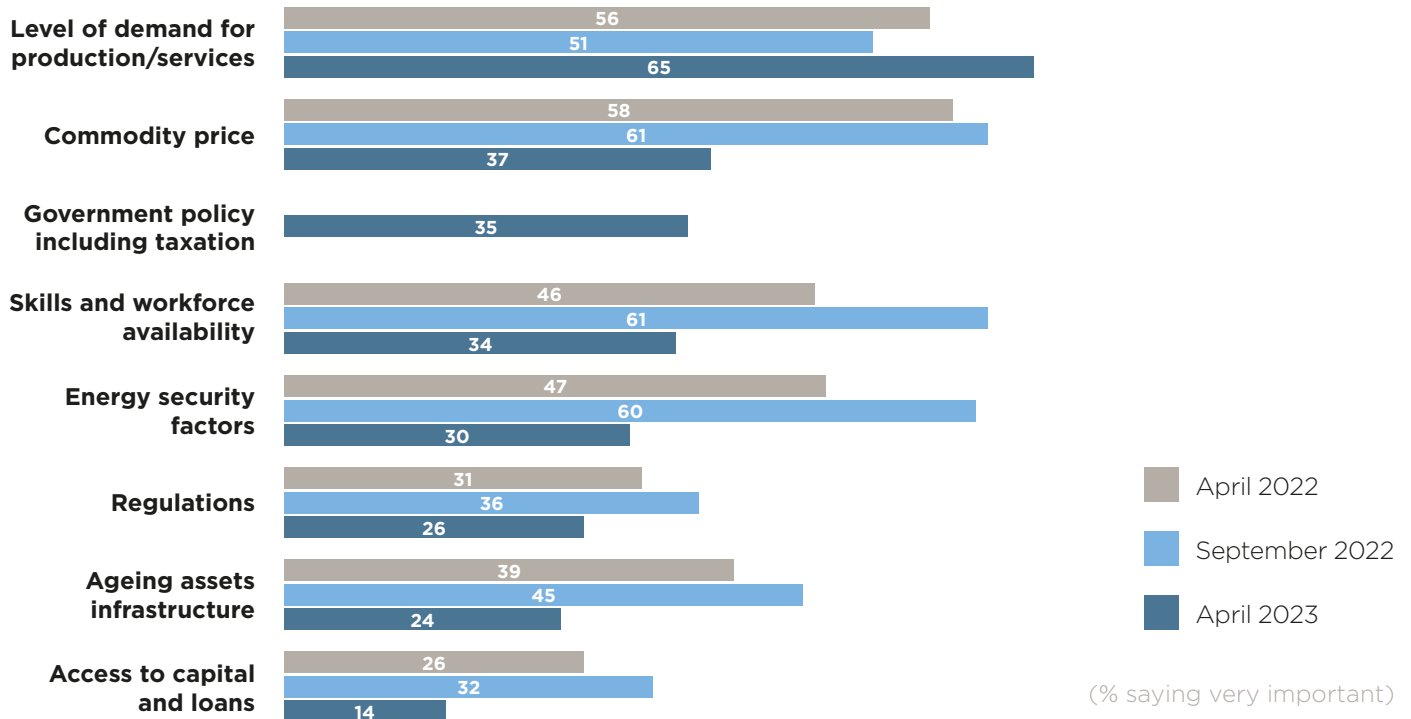
## 5. Government policy including taxation, level of demand and skills availability are top three factors in determining UKCS activity levels over next 12 months.

Q: UKCS; How important are the following factors in the level of activity over the next year?



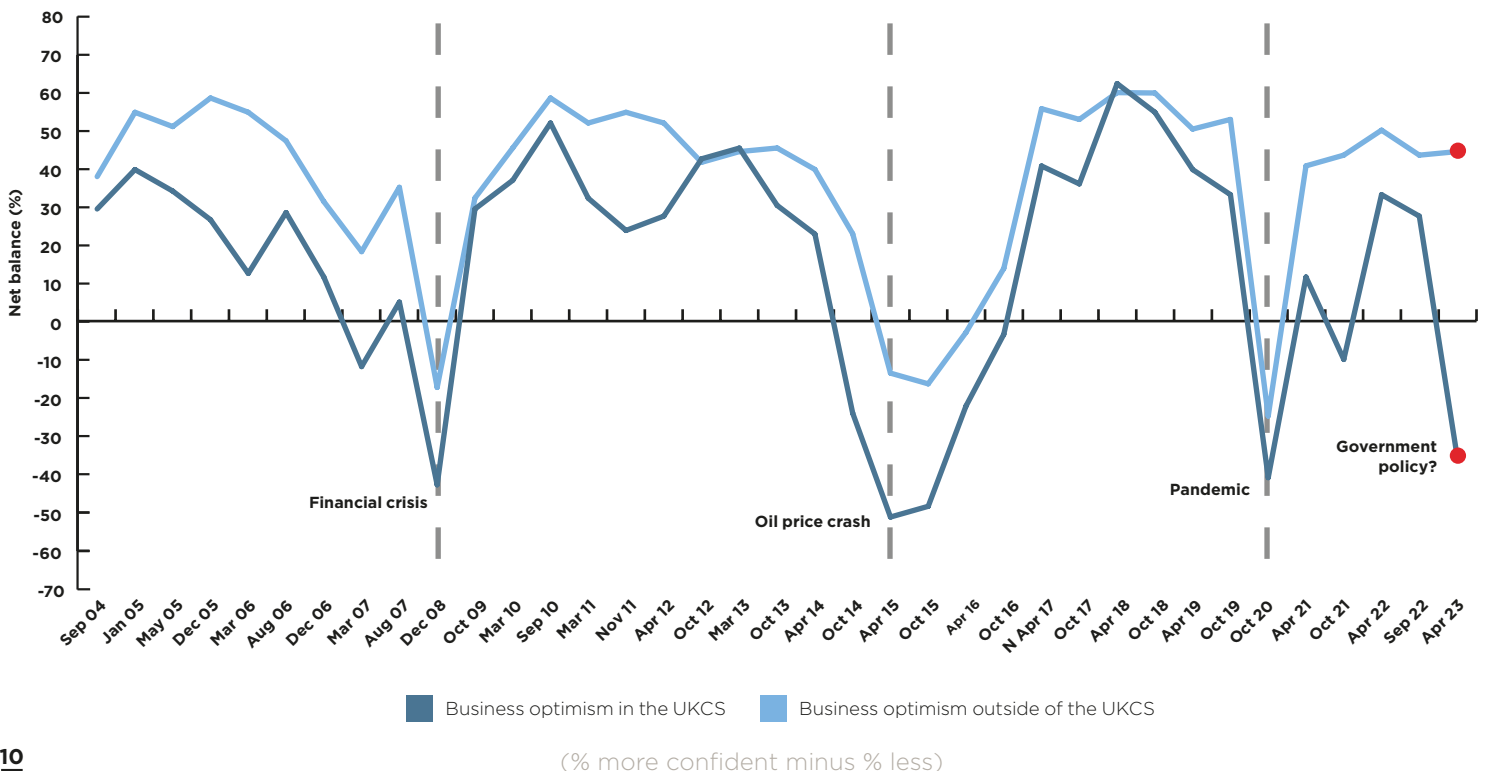
## 6. Key factor in overseas activity levels is service demand with the relative importance of other factors less marked than previously backing up increased work levels trend.

Q: Outside UKCS; How important are the following factors in the level of activity over the next year?



## 7. Clear divergence in confidence levels UKCS v international operations.

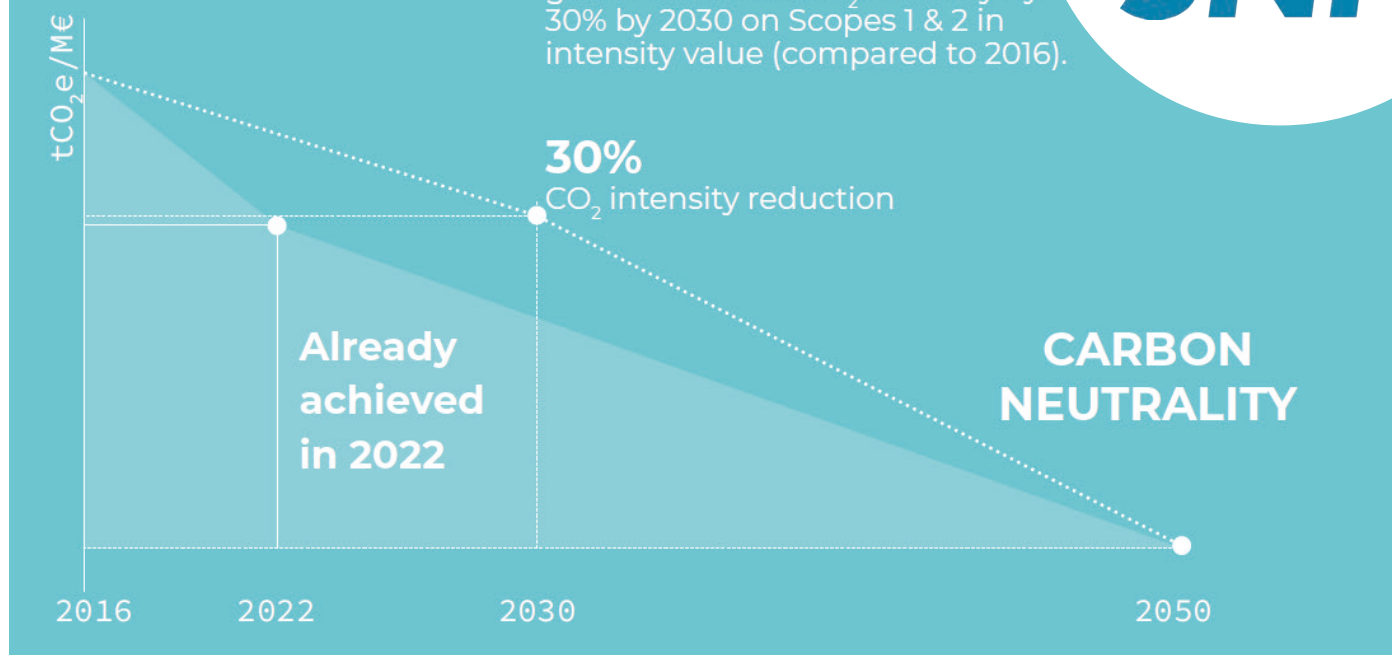
Q: Compared to 12 months ago, how confident are you about the business situation in the oil & gas sector in the UKCS and outside of the UKCS over the next year?



# Energy Transition Case Study - SNF

# SNF

To reach Net Zero by 2050, our goal is to reduce CO<sub>2</sub> intensity by 30% by 2030 on Scopes 1 & 2 in intensity value (compared to 2016).



## Tell us a little bit about your business?

SNF is a market-leading chemical manufacturing company specialising in water science with back-integrated deployment engineering capability. Operating globally, we have facilities in all oil and gas producing regions, notably in the UK where the company has recently added manufacturing capability and capacity dedicated to serve the UKCS. This investment was made to add value via low-cost supply chain and logistics and contributing positively to support Net-Zero targets. We are the global leader in providing EOR (Enhanced Oil Recovery) polymers and application engineering. The company is engaged with many oil and gas operating companies in the application of polymer EOR technology to enable increases in oil production with the corresponding benefit of reducing operational carbon intensity (emitted kgCO<sub>2</sub>e/barrel oil produced) by up to 80% over waterflooding alone.

## Can you tell us about the transition journey your business has been on?

The company has made significant advances in reducing its carbon footprint, emissions, and energy consumption across the supply

chain. This is in recognition of both regulatory requirements, and the drive by the company to excel in environmental stewardship. It comes from a cultural drive to always do the right thing, but also to keep in-step with our customers goals and aspirations. The oil and gas sector has, perhaps, the most focused lens in terms of carbon footprint of any industry right now, so it is imperative that we continue to strive to be ahead of the curve and try to exceed our internal Net Zero goals where possible, without risk to the health of the company and our employees. We quickly aligned our strategy to the UN sustainability goals to provide the framework with which to build our transition journey around. Our latest environmental impact figures from 2022 show that we have already reached our 2030 target to reduce overall emissions by 30%, 8 years ahead of schedule. This has resulted in the company achieving an 'A1' rating from Moody's on our ESG performance and 'Gold' by EcoVadis which puts SNF in the top 2% on these metrics. Additionally, SNF started a new wind-solar hybrid project in India, in partnership with Continuum Trinethra Renewables, combining 32.4 MW of wind power with 17.5 MW of photovoltaic energy which will power our polymer production facility.

## What advice would you give to businesses embarking on a similar transition journey?

The first step in bringing about any policy change is cultural buy-in. Making sure that every one of your employees is on board with the company ethos and strategy is key to a successful transition. It's also important to ensure that the transition exercise is not treated as a sideline but is embedded within the company operations and driven by a dedicated sponsor or team. Finally, going after the 'low-hanging fruit' is all very well and good, but a top-down strategy to identify all areas of the business where emissions can be reduced as quickly as possible is key to meeting targets. We all know the first 30% reduction is likely to be much easier, and cheaper, than full Net Zero so long-term planning is an absolute pre-requisite.

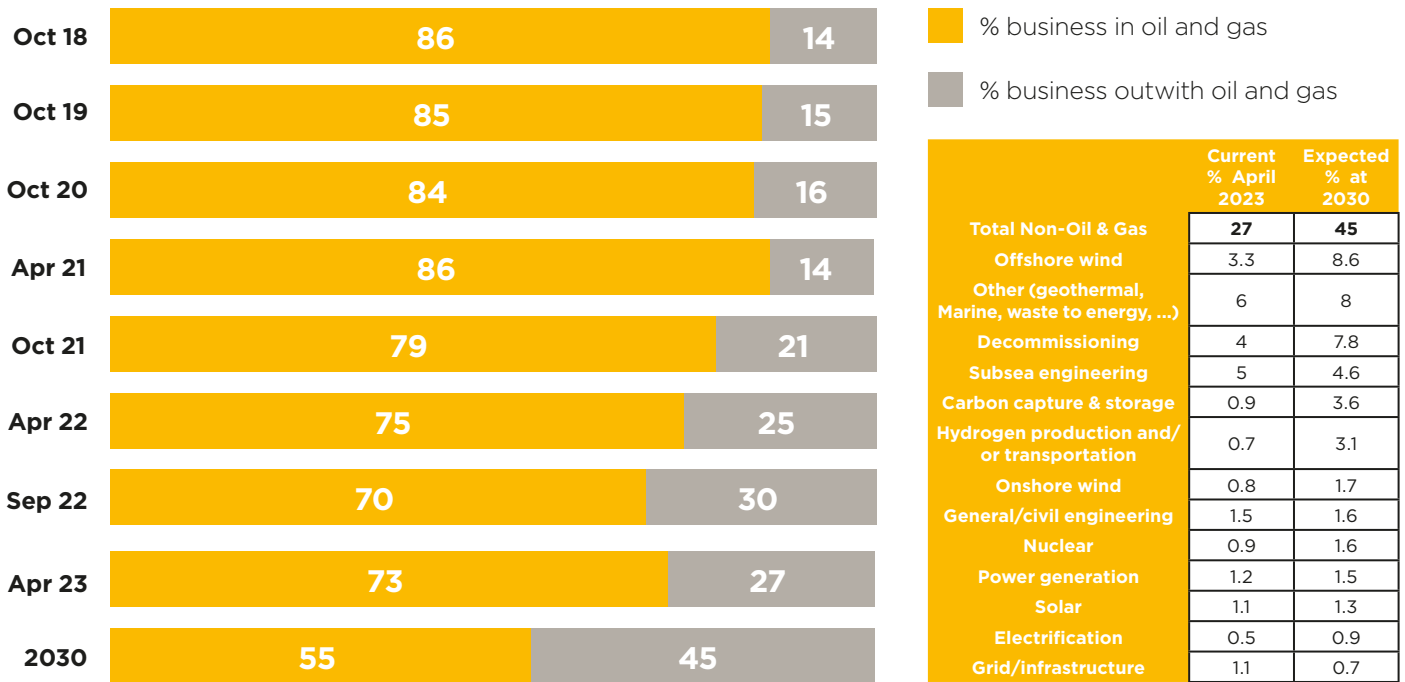


# Sector diversification talking points

- Slowdown in focus away from oil & gas reflecting energy security issues / greater opportunities in traditional work
- Greatest growth forecast in decommissioning, offshore & onshore wind, CCUS, hydrogen and other activities inc. geothermal at 2030
- Around half of respondents are making active efforts to diversify their operations, however oil & gas continues to offer profitable opportunities and barriers remain- lower margins and no visibility on ROI of investment in new equipment
- Market stability, diversification challenges, employment costs & recruitment issues and the political and taxation environment are the biggest long-term concerns for sector businesses
- Significant reduction in level of long-term concerns around climate change and emission targets since October 2021 survey (COP26)
- Profitability/ROI is the top barrier to diversification. Closely followed by industry behaviours, pricing & payment terms and availability of experience/skills
- Apparent reduction in concerns around access to capital/lack of funding
- Nearly all businesses believe the Aberdeen/ North East energy sector play an important role in providing UK energy security and leading the UK's energy transition ambitions.
- Although it's clear that renewable activities are likely to be more geographically agnostic, so a risk to Aberdeen's energy capital status
- However, there are only cautious levels of optimism about the Aberdeen region, Scotland and UK becoming a globally recognised renewable energy hub

## 8. Slowdown in focus away from oil & gas. Greatest growth forecast in decommissioning, offshore and onshore wind, CCUS, hydrogen and other activities inc. geothermal at 2030.

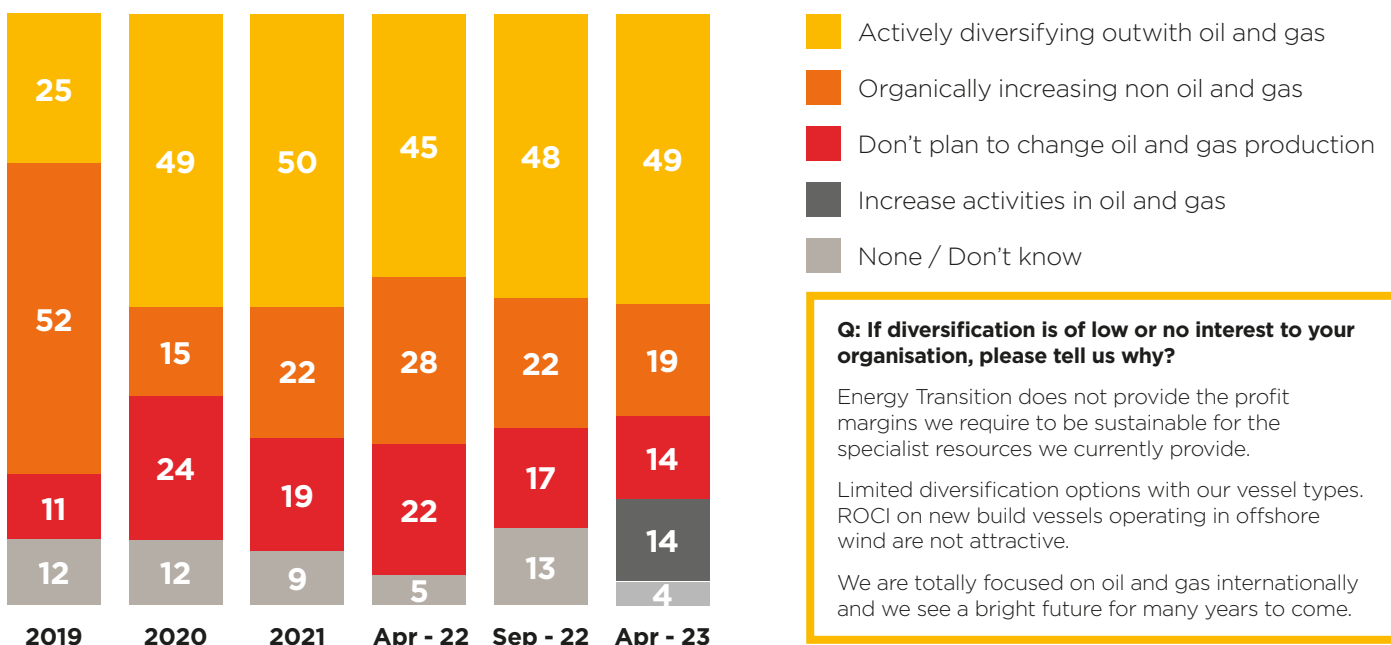
Q- What is the breakdown of your business activities today and forecast at 2030?



Note: 2030 data drawn from the April 2023 survey. Data is the mean.

## 9. Around half of respondents are making active efforts to diversify their operations, however barriers remain as oil and gas continues to offer profitable opportunities.

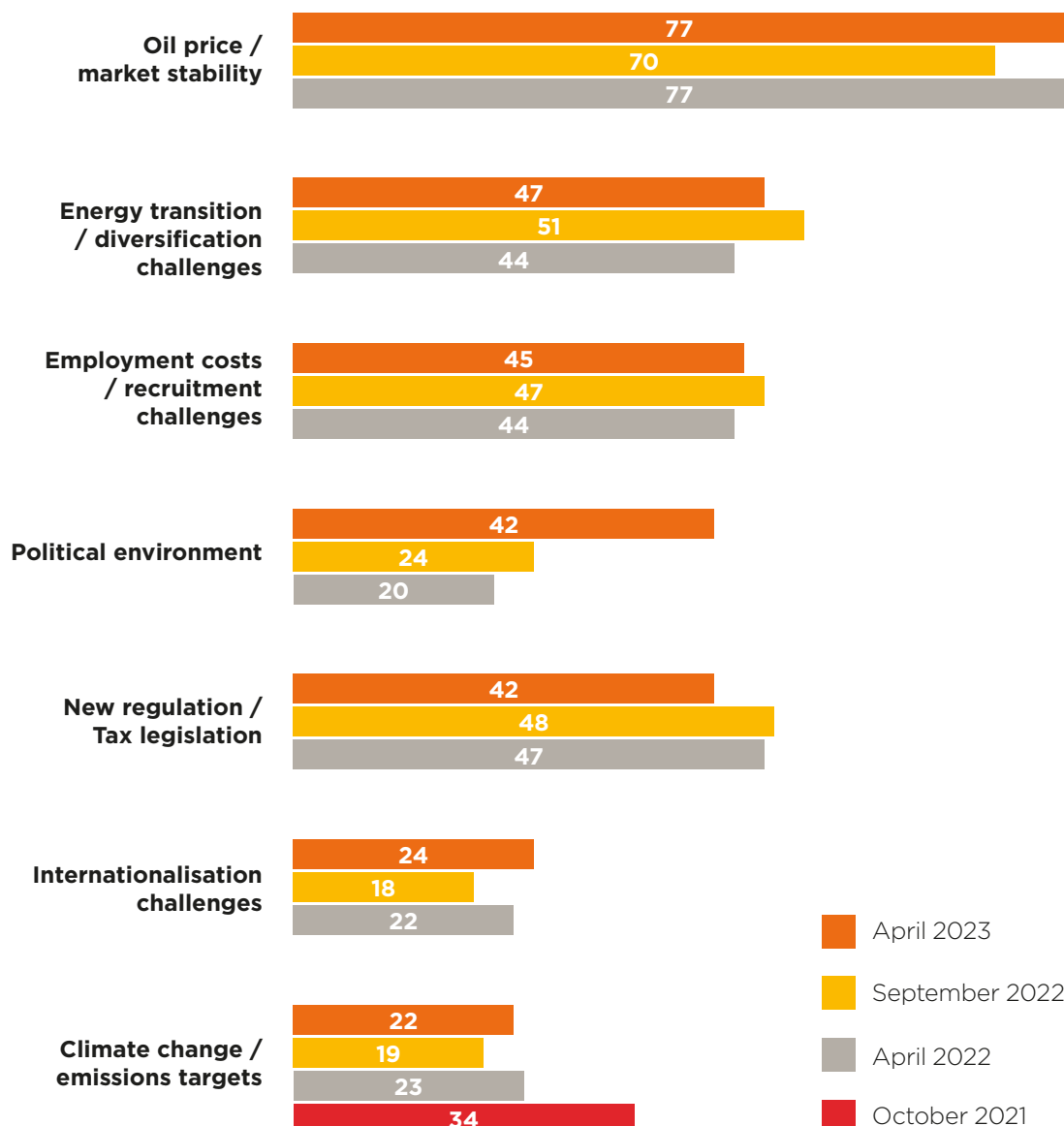
Q: Which of the following best describes your business' strategy and approach to energy transition?



# 10. Market stability, diversification challenges, employment costs & recruitment issues and the political and taxation environment are the biggest long-term concerns for sector businesses.

Q: What are the top three concerns for your organisation's long-term future (i.e. next 10 years)?

	Top priority	2nd	3rd	Total
Oil price / market stability	37%	26%	14%	77%
Energy transition and diversification challenges	18%	13%	16%	47%
Employment costs and recruitment challenges	13%	17%	15%	45%
Political environment	11%	15%	17%	42%
New regulation / tax legislation	10%	18%	14%	42%
Internationalisation challenges	6%	5%	14%	24%
Climate change and emissions targets	5%	6%	12%	22%
Other	1%	0%	1%	2%

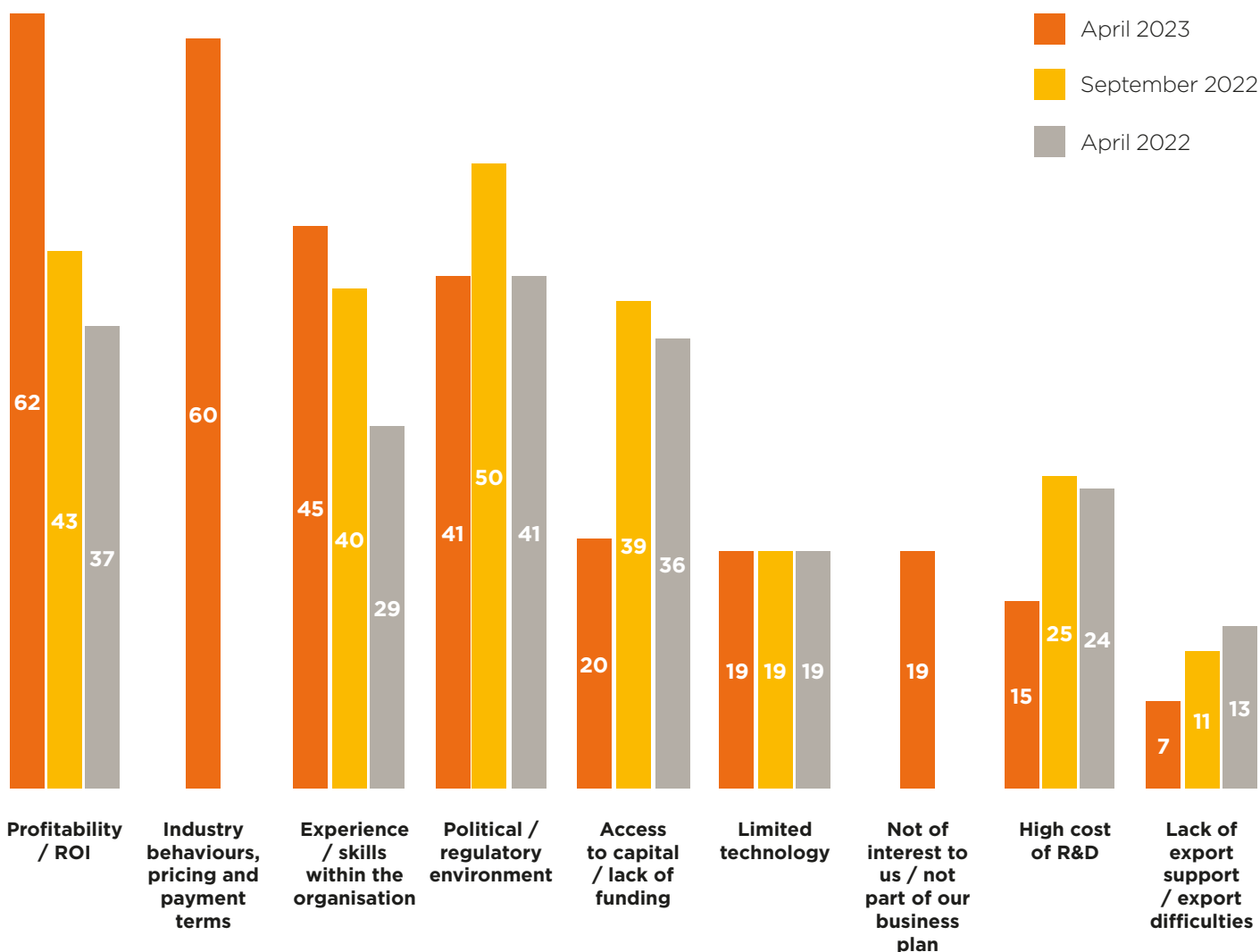




# 11. Profitability/ROI is the top barrier to diversification. Closely followed by industry behaviours, pricing and payment terms and payment terms and availability of experience/skills.

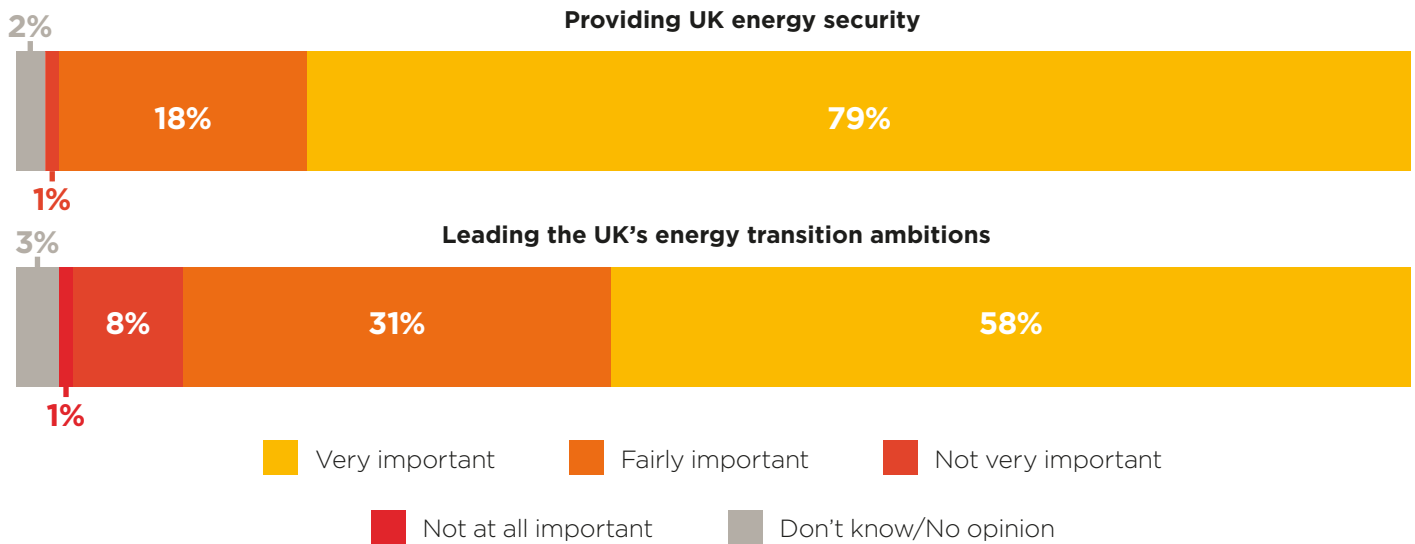
Q: Which of the following do you consider as the main barriers / challenges to diversification into renewable energy?

	Top priority	2nd	3rd	Total
Profitability / ROI	21%	24%	17%	62%
Industry behaviours, pricing and payment terms	16%	20%	24%	60%
Experience / skills within the organisation	13%	14%	18%	45%
Political / regulatory environment	20%	11%	10%	41%
Access to capital / lack of funding	11%	7%	3%	20%
Limited technology	2%	9%	9%	19%
Not of interest to us / not part of our business plan	13%	1%	6%	19%
High cost of R&D	2%	9%	4%	15%
Other	3%	4%	5%	12%
Lack of export support / export difficulties	0%	2%	5%	7%



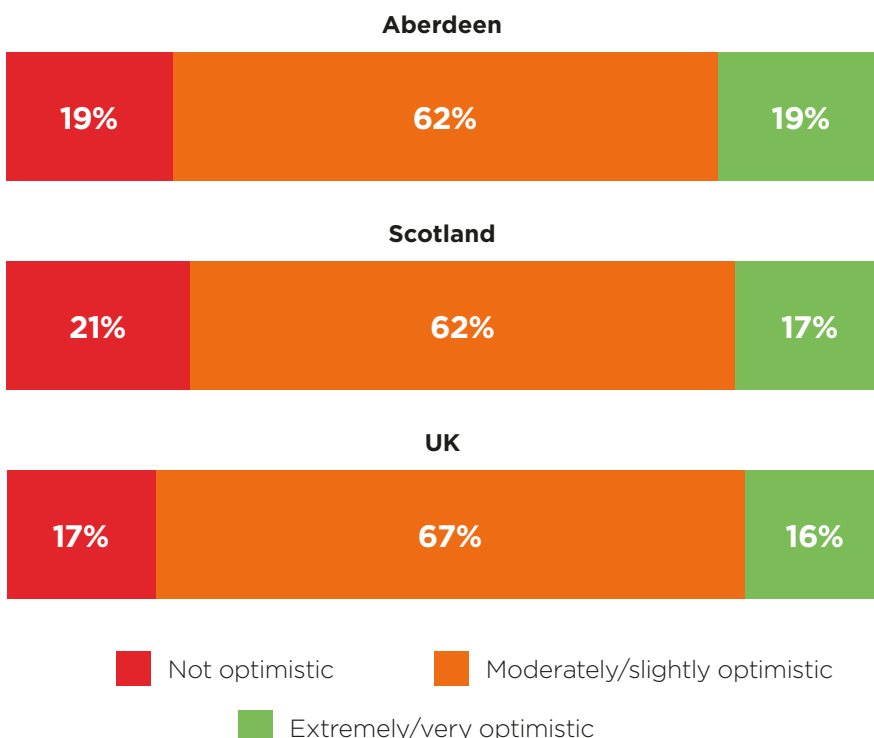
## 12. Nearly all respondents believe the Aberdeen/ North East energy sector will play an important role in providing UK energy security and leading the UK's energy transition ambitions.

Q: How important do you view the Aberdeen and North East energy sector's role in providing UK energy security and leading the UK's energy transition ambitions



## 13. However there are only cautious levels of optimism about the Aberdeen region, Scotland and UK becoming a globally recognised renewable energy hub.

Q: How optimistic are you about the long-term future of a) Aberdeen, b) Scotland, & c) UK as leading the way as an integrated globally recognised energy hub focused on the delivery of net zero?



### Q: Why do you say that?

Aberdeen, Scotland and the UK are well established as an energy hub and there is every reason to expect them to continue in that role.

We have good technical competence in place as well as political targets to meet.

The government both in Scotland and UK need to stop talking about the stop of production in the north sea and start to support the companies to ensure we can keep employment in the area and still invest in the north sea.

Policy is crazy and demonstrates that policymakers have very little knowledge of energy or industry

Such as windfall taxing is the latest attempt to shut down the Oil and Gas industry in Aberdeen. Other methods will follow. I am so glad I am nearing the end of my career- I worry about my kids

# 13. However there are only cautious levels of optimism about the Aberdeen region, Scotland and UK becoming a globally recognised renewable energy hub.

Why do you say that?		
Aberdeen	Scotland	UK
<p>Aberdeen is a major hub for energy both within and without the UK. There are a good number of people that understand the energy business and the need for ongoing development of oil and gas.</p> <p>The role of Aberdeen as global energy hub in the energy transition is not guaranteed. There will be stiff competition both in the UK and across Europe.</p> <p>For some reason Aberdeen has adopted a corrosive attitude of self-entitlement that will work against the part it can play in the future.</p>	<p>Scotland is in a potentially strong place with an abundance of renewable energies but needs to work on harnessing and storing.</p> <p>Scotland needs to figure out a better way to attract and support businesses. The various government tax policies and support provided aren't making it any more attractive.</p> <p>The political landscape in Scotland vs UK is not where it should or needs to be!</p>	<p>There is UK policy in place to do this - it just needs enacting.</p> <p>Slow moving initiatives are risking the UK and Scotland's position as a global leader in Offshore Renewable energy.</p> <p>Both the UK and Scottish governments have little or no idea about the overall UK and global impact of transferring to a net zero economy and they damage the UK as a global hub.</p>





# Energy Transition Case Study - Tymor Marine



## Tell us a little bit about your business?

At Tymor Marine, we specialise in providing exceptional marine technology and naval architecture consultancy services. Since our establishment, we have strived to develop our marine technology. To get started and establish our credibility, we concentrated on offering naval architecture services as the building blocks for our current achievements.

## Can you tell us about the transition journey your business has been on?

Initially, our focus was on offshore renewables when we launched in 2012. However, after a few high-profile projects faced issues due to customers entering administration, we shifted our focus back to the oil and gas industry, which was thriving at the time. As the years passed, and the industry experienced its inevitable downturn, we began exploring ways to reduce our reliance on the boom and bust cycle of oil and gas. After experiencing significant setbacks due to bad debt, we began to look again at offshore renewables and traditional mainstream shipping, leveraging our naval architecture skills in those sectors.

Since 2014, we have noticed an increase in ex-oil and gas professionals transitioning to renewable energy. As a result of the relationships, we established early on, they have approached us for assistance with various projects, which in the early days typically involved seafastening services for boulder clearing systems, ROV launch and recovery systems, and other project equipment.

Our recent projects have been more specialised, such as creating a ballast water management plan for a floating wind turbine, which had never been done before. We were also heavily involved in mooring analysis for both heavy transport vessels bringing in turbine foundations and barges transporting the foundations to the wind farm site. Additionally, we faced challenges in designing a subsea mooring system that would allow larger vessels to use other quays and fender arrangements, enabling foundations to be rolled on and off the vessel.

We also work with ship operators on carbon reduction projects by analysing their data and making changes based on our findings. We then collect further data to demonstrate the improvements made to vessel performance.

At Tymor, we have always been interested in applying our motion and stability technology to renewables. Traditional offshore wind turbines rarely required our assistance, but with the emergence of floating offshore wind, we are developing technology to analyse unit motion for increased uptime and decreased repair costs. This technology also aids in data-driven decision-making during installation and maintenance planning.

## What advice would you give to businesses embarking on a similar transition journey?

We have learned from the challenges we faced in the early days of offshore renewables, and since then, the industry has undergone significant changes. More contractors have entered the field, and we have gained valuable insights from previous projects. It's important to understand that offshore renewable projects are not the same as onshore wind or oil and gas projects. The industry requires a diverse range of expertise, and there are now more opportunities for collaboration than ever before. While the opportunity for heavy industry may have moved overseas, there are still opportunities for contractors, engineers, and technology providers that need to be acted upon before it's too late!

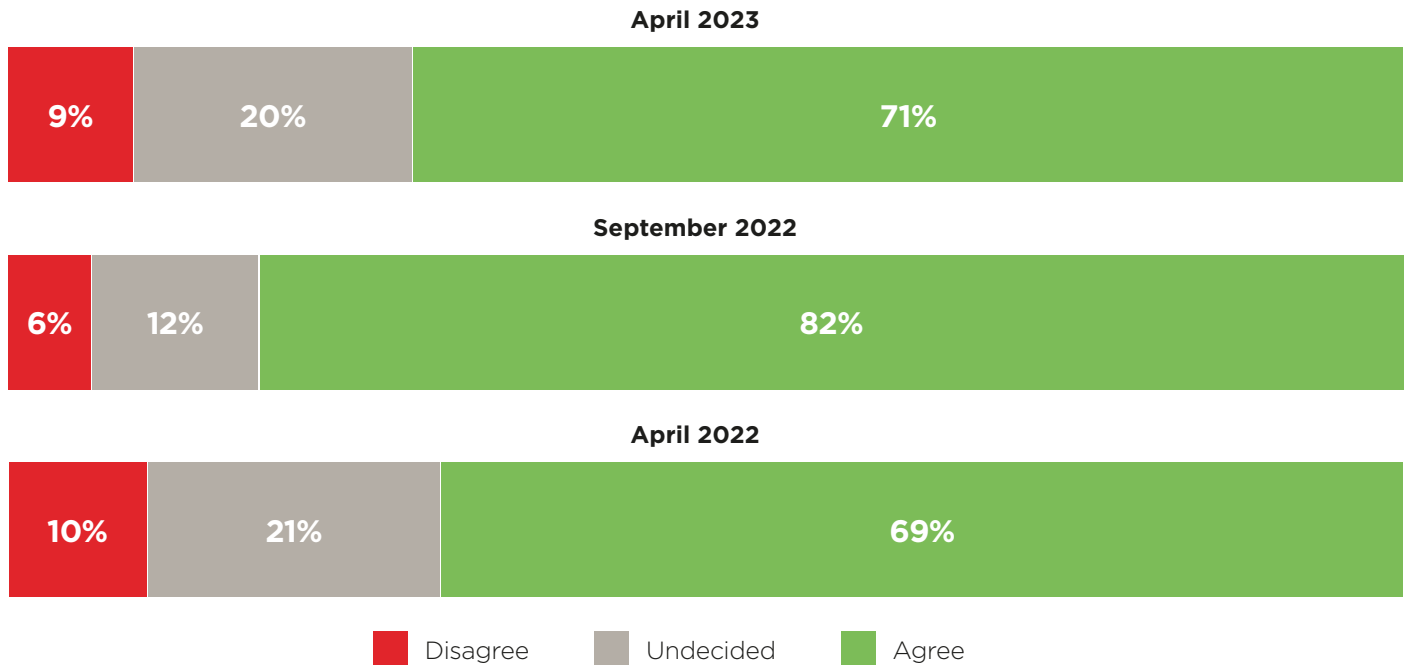
# Net zero and ESG strategies talking points



- Vast majority of the sector believes that energy transition credentials are critical to their long-term success however markedly lower than Sept 2022
- Over 60% of the sector has committed to put in place a net zero strategy, but many still without a deadline
- There appears to be a decline in companies saying their net zero targets have already been achieved. This could be a sampling anomaly or reflect progressively more ambitious targets
- Of the businesses that have developed a net zero strategy, only one in three believe that it is on track on the RAG rating
- We are, however, seeing an acceleration of efforts in this area over the last 6 months with progress being measured in a variety of ways
- There was a spectrum of responses when companies were asked about their ESG strategies but nearly a fifth of firms don't have anything in place with no plans to develop one
- Difficulties include knowing how to get started, the 'how' (not the what), knowing how to measure progress and the investment required at a time of challenged liquidity
- Three in four customers requiring validation of supplier's commitment to net zero/ESG strategies

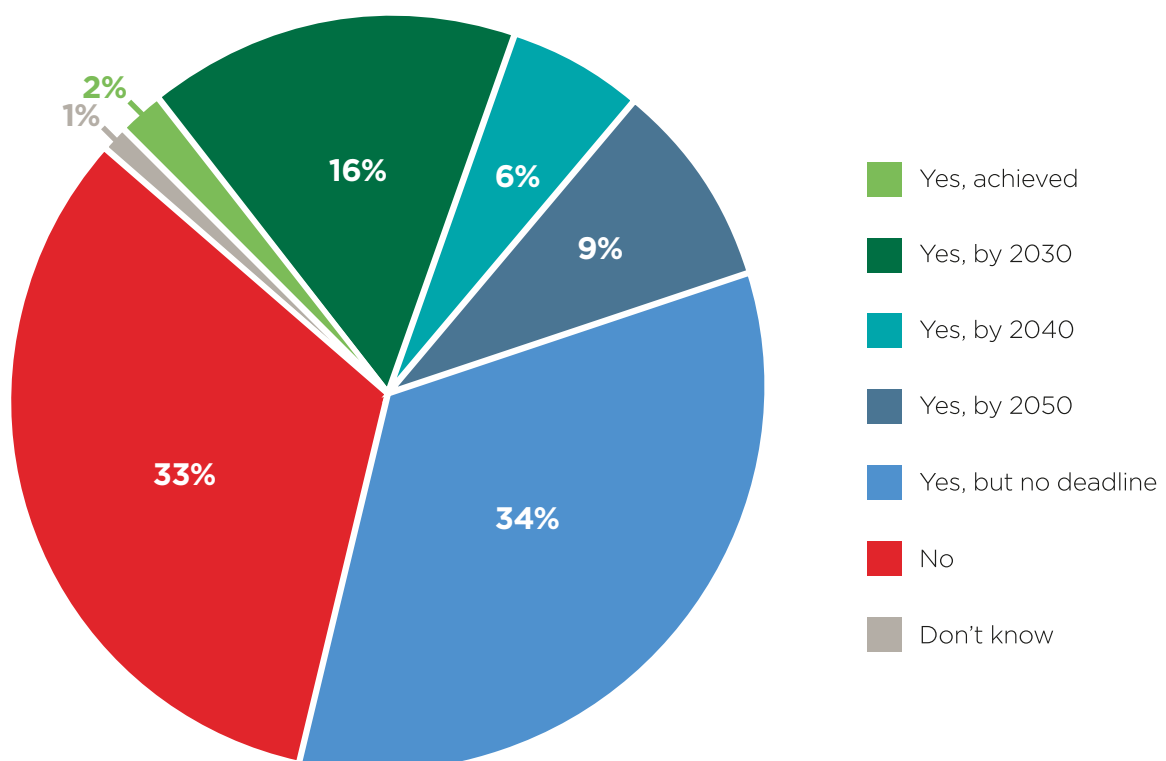
## 14. Vast majority of the sector believes that energy transition credentials are critical to their long-term success however markedly lower than Sept 2022.

Q: To what extent would you agree that energy transition credentials are critical to your long-term success.



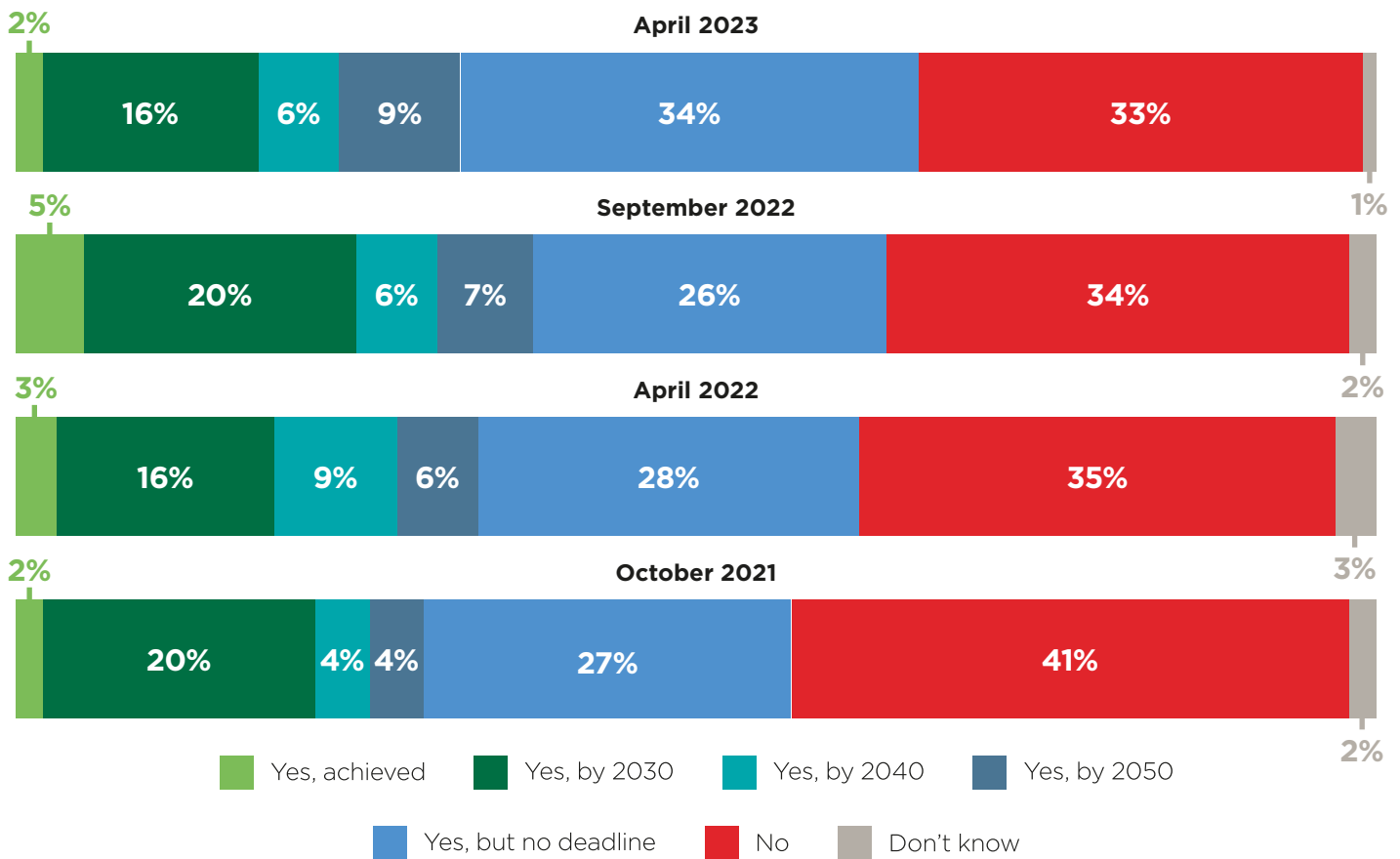
## 15. Over 60% of the sector has committed to put in place a net zero strategy, but many still without a deadline.

Q: Has your business developed a specific net-zero strategy?



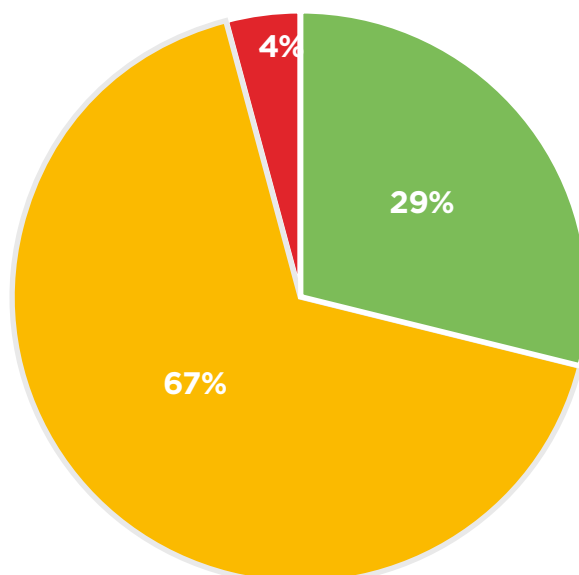
## 15. Over 60% of the sector has committed to put in place a net zero strategy, but many still without a deadline.

Q: Has your business developed a specific net-zero strategy?



## 16. Of the businesses that have developed a net zero strategy, only one in three believe that it is on track.

Q: On a RAG rating, do you feel that your business is on track with your net-zero strategy/strategy to reduce your carbon footprint?



### Q: Why do you say that?

Broadly on track but targets get progressively more ambitious.

Unsure of the policies and initiatives in place to facilitate reaching that goal.

There are plans in place but some of the elements thereof require investment and this may be difficult to achieve in an environment of challenged profitability/liquidity.

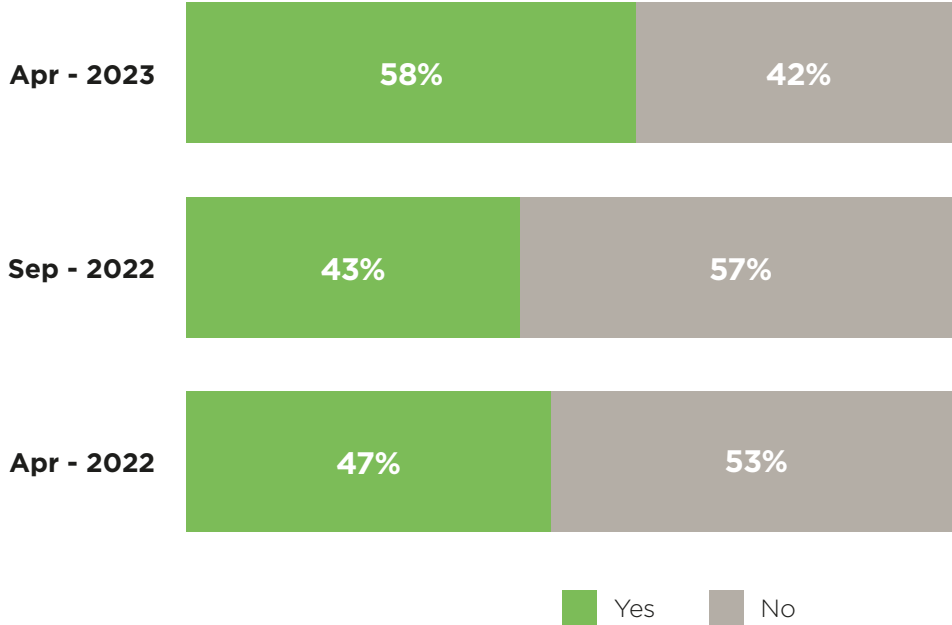
Difficult to see how infrastructure can support it.

We have goals and objectives, but no clear roadmap developed yet as to "how" we are going to achieve our aspirations.



# 17. We are seeing an acceleration of efforts in this area over the last 6 months with companies measuring progress through a range of tools.

Q: Have you accelerated your (net zero) plans in the last year?

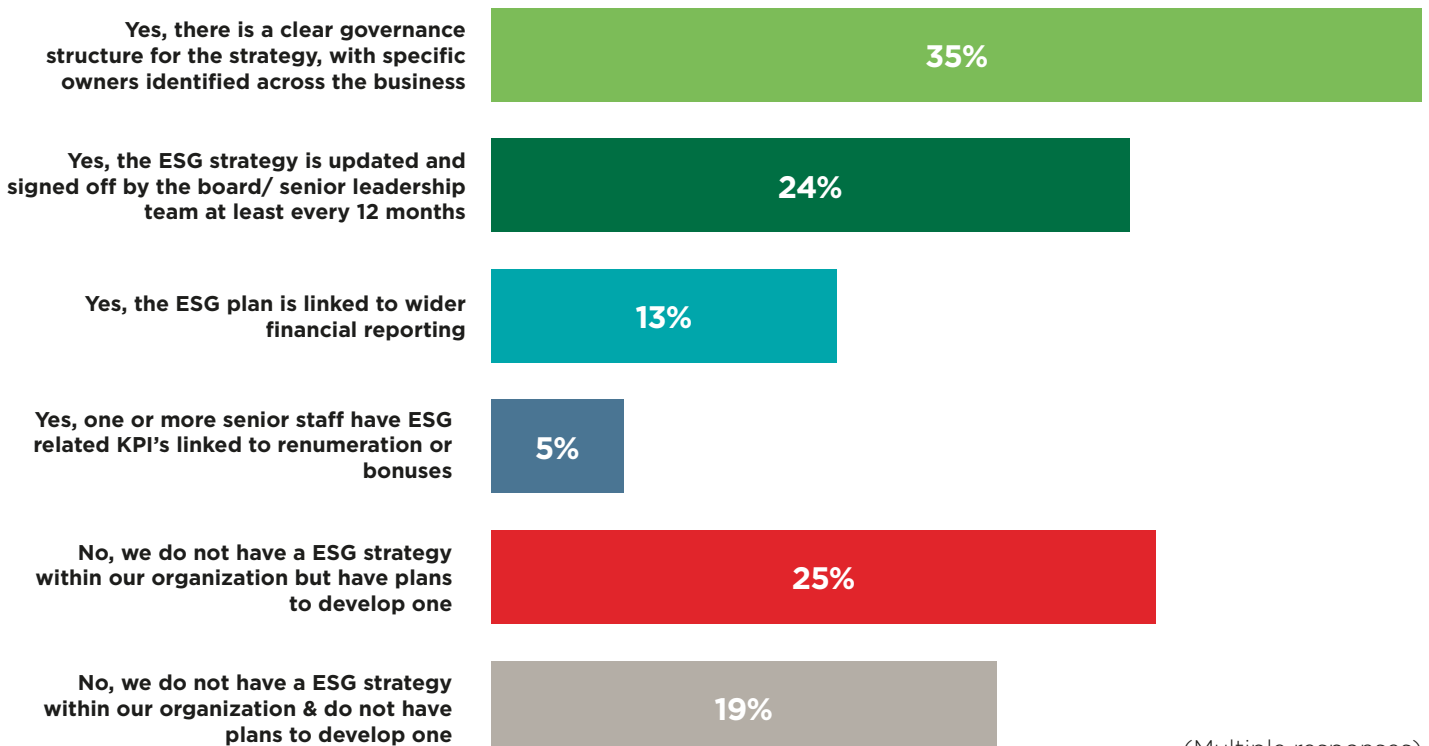


**Q: How are you tracking progress?**

- Constant monitoring by QHSE department.
- Against industry standards and internal ESG management.
- Annual approved plan set that is then monitored monthly at Board level.
- Following the set guidelines, KPI reports and include this as part of quarterly announcements on company portals.

# 18. There was a spectrum of responses when companies were asked about their ESG strategies.

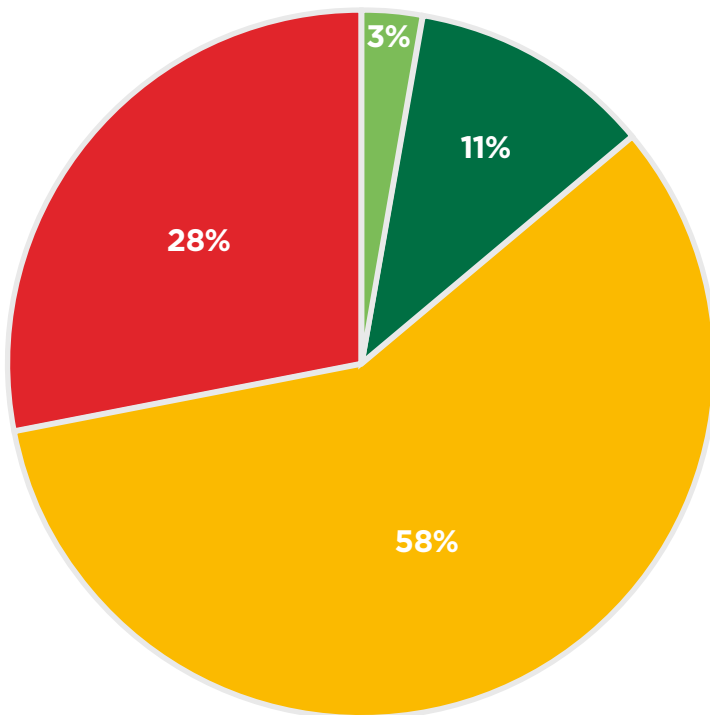
Q: Do you have an Environmental Social Governance (ESG) strategy within your organisation, that has board/senior leadership level support?



(Multiple responses)

## 19. Three in four customers requiring validation of supplier's commitment to net zero/ESG strategies.

Q: To what extent are your customers requesting validation of your approach to net zero / other ESG commitments?



**Q: Please specify what level of evidence / assurance customers are seeking?**

Questionnaires in tenders.

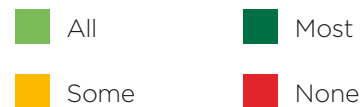
Accreditation/ audit policy document.

CDP rating, ESG goals and ESG report.

Company policy, awareness, activities noted in RFIs/Tenders.

Written responses to questionnaires and inclusion in annual audit programme.

Clear and published plans / evidence of progress against targets / demonstrable investment in low carbon & renewables activity.



# Energy Transition Case Study – NZTC



## Tell us a little bit about your business?

The Net Zero Technology Centre is a delivery-oriented global technology centre with net zero at its core. Our purpose is to develop and deploy technology for an affordable net zero energy industry.

We aim to accelerate the energy transition by closing the gap in net zero technologies that will reduce emissions from existing facilities, unlock the full potential of an integrated energy system, propel the energy industry towards a digital, automated future and champion clean energy start-ups to build a thriving supply chain.

Founded in 2017, the Centre was created as part of the Aberdeen City Region Deal, with £180 million of UK and Scottish government funding to maximise the potential of the North Sea. By co-investing with industry and working in partnership with the public and private sectors, we are funding R&D, driving investment, building a clean energy eco-system and influencing policy.

More than £236 million has been co-invested with industry in technologies from effective well plugging and abandonment and asset integrity, to autonomous robotics and renewable power systems. We have screened over

1820+ exciting new technologies, completed or progressed 175+ field trials, over 33 technologies have been commercialised, supported 45 tech start-ups through our TechX Accelerator Programme and have helped generate £10-£15 billion GVA potential for the UK economy.

We're immersed in innovation and technology trends and through our Technology Services we provide unparalleled insight and foresight on current and emerging technologies.

## Can you tell us about the transition journey your business has been on?

In terms of sustainability, this is at the core of our operation, and we are aligned with eight of the UN Sustainable Development Goals. Our entire purpose is centred around net zero and helping the industry achieve that affordably, efficiently, and quickly. In relation to strategy we have, and will continue to, evolve ours and pursue opportunities to grow, whilst staying true to our core mission and purpose.

## What advice would you give to businesses embarking on a similar transition journey?

There is no single solution. Technologies can't be developed and

deployed in isolation. An integrated energy vision is needed and adopting a systems approach to the energy transition requires thinking about the different forms of power together instead of first hydrogen, then wind etc.

We work with industry and organisations to navigate this complex landscape, breaking down the barriers to technology development, deployment, adoption and investment. A decarbonisation plan and technology roadmap will help organisations to leverage technology to support their emissions reduction and business growth strategies; helping them build robust business cases to not only maintain their licence to operate, but secure future investment.

Investing in innovation can be complex, from ascertaining legitimacy of the technology, to its true technology readiness level, to where it sits in the lifecycle of industry. Technology due diligence helps investors take the guess work and risk out of selecting their next technology investment.

The urgency to achieve net zero carbon emissions cannot be overstated. The time to act is now.



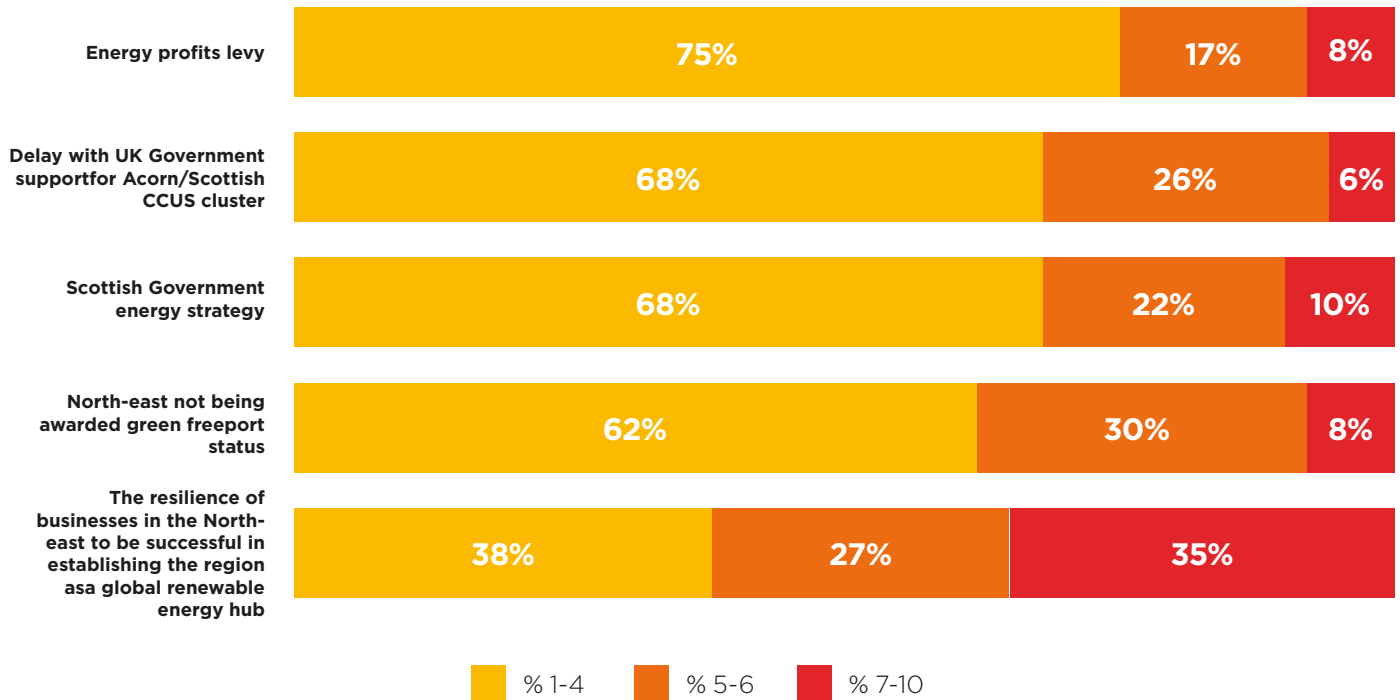
# Government policy and regulatory environment talking points

- Three in four businesses think the EPL has the most negative impact on energy sector/ investor confidence
- Other barriers to the sector realising its potential/ambitions are delays with the Scottish CCUS cluster, Scottish Government's draft energy strategy and the decision not to award the NE Green Freeport status
- But some belief in the resilience of the region/sector to succeed despite these roadblocks
- Almost two thirds of businesses believe that none of our political parties is delivering the best policies for domestic energy security and energy transition
- It appears that despite the Scottish Government draft energy strategy containing a number of measures that support energy transition, this is not reflected in their 5% approval rating to this question- perhaps overshadowed by the presumption against oil & gas
- The sector firmly believes the right conditions and incentives to give the private sector the necessary confidence to invest in new energy technologies are not being delivered by our governments
- Respondents comments suggest that Scotland/ the UK is falling dangerously behind competitor counties as a result



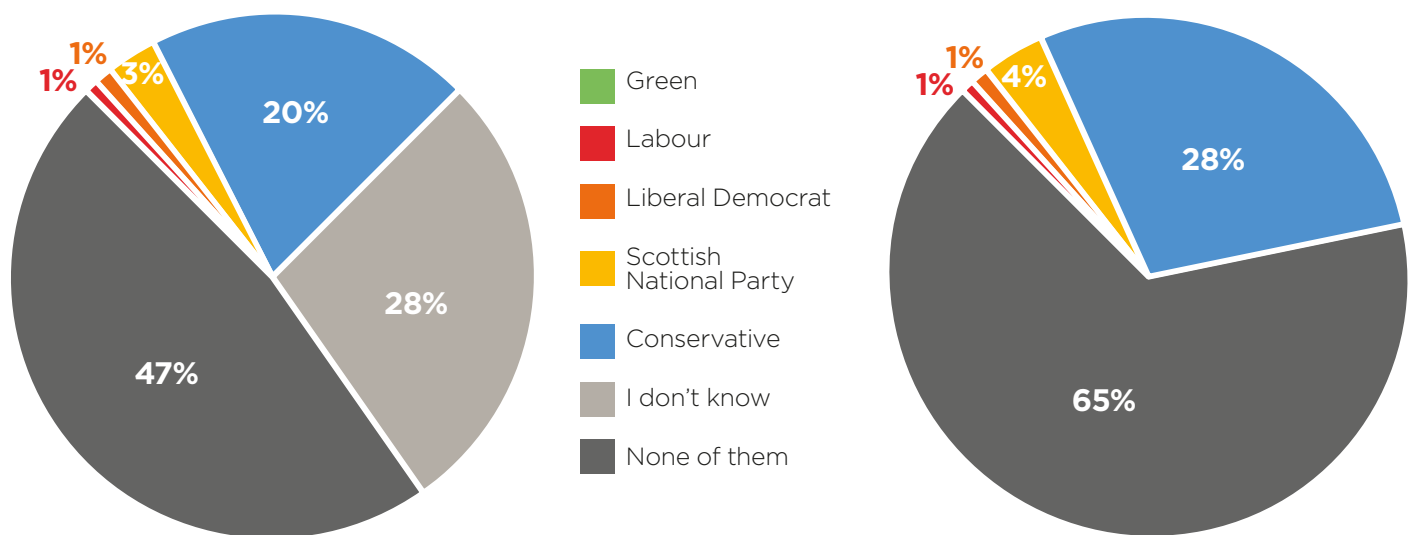
## 20. Three in four businesses think the EPL has the most negative impact on energy sector/investor confidence. But some believe in the resilience of the region/sector to succeed.

Q: On scale of 1 to 10, where 1 is very negative and 10 is very positive, please rate the impact of the following on energy sector / investor confidence.



## 21. Almost two thirds of businesses believe that none of our political parties is delivering the best policies for domestic energy security.

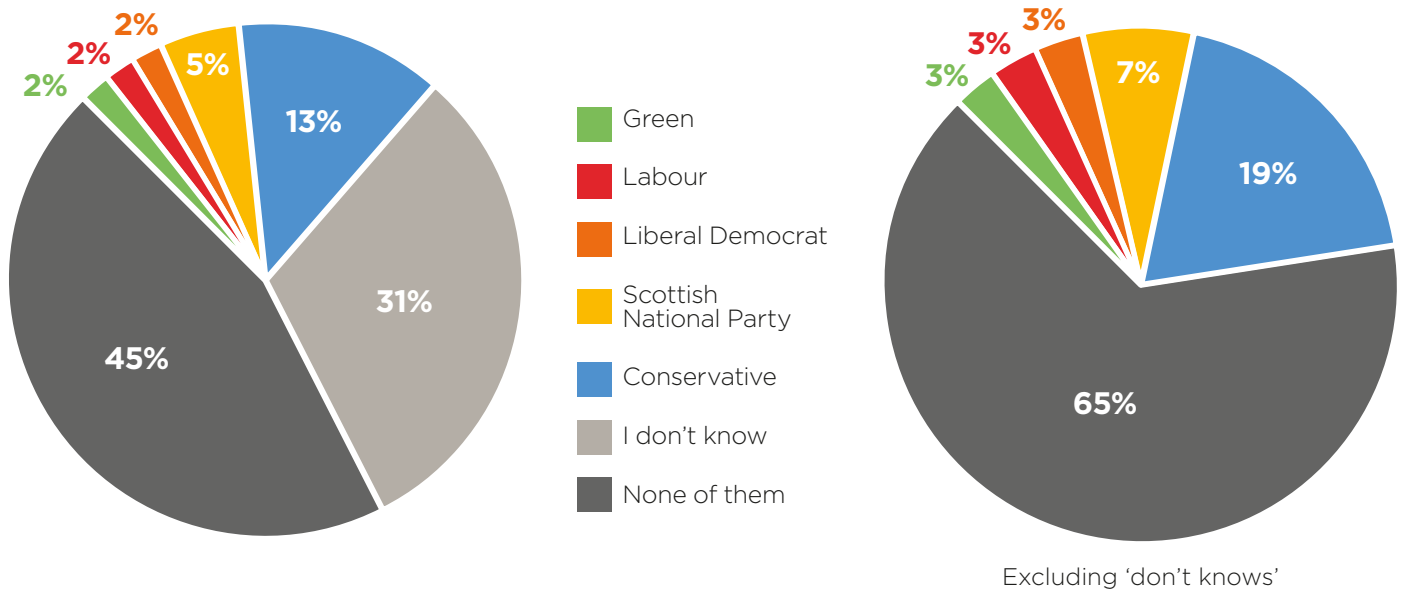
Q: Which political party do you believe is delivering the best policies for domestic energy security?



Excluding 'don't knows'

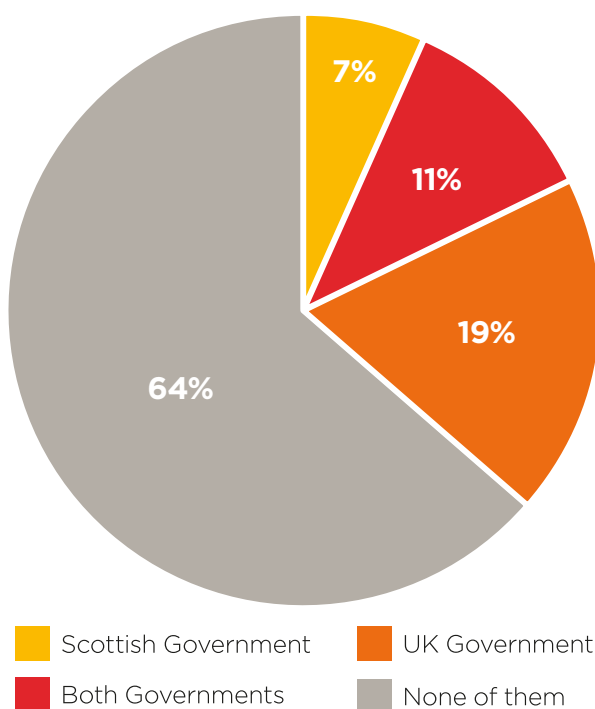
## 22. Almost two thirds of businesses believe that none of our political parties is delivering the best policies for energy transition.

Q: Which political party do you believe is delivering the best policies for energy transition?



## 23. The sector firmly believes the right conditions and incentives to give the private sector the confidence to invest in new energy technologies are not being delivered by our governments.

Q: Who do you believe has put in place the right conditions and incentives to give the private sector the necessary confidence to invest in new energy technologies?



**Q: Why do you say that and what additional interventions do you believe would make a positive difference?**

I don't believe that either UK or Scottish governments have a clear plan for the short to mid term energy crisis.

Governments are more intent on political point scoring and are quickly being left behind in the renewables race.

Whilst we have received significant direct funding support from the Scottish Government to support our Energy transition, the UK is lagging behind Europe in terms of stimulating the Hydrogen market in the UK.

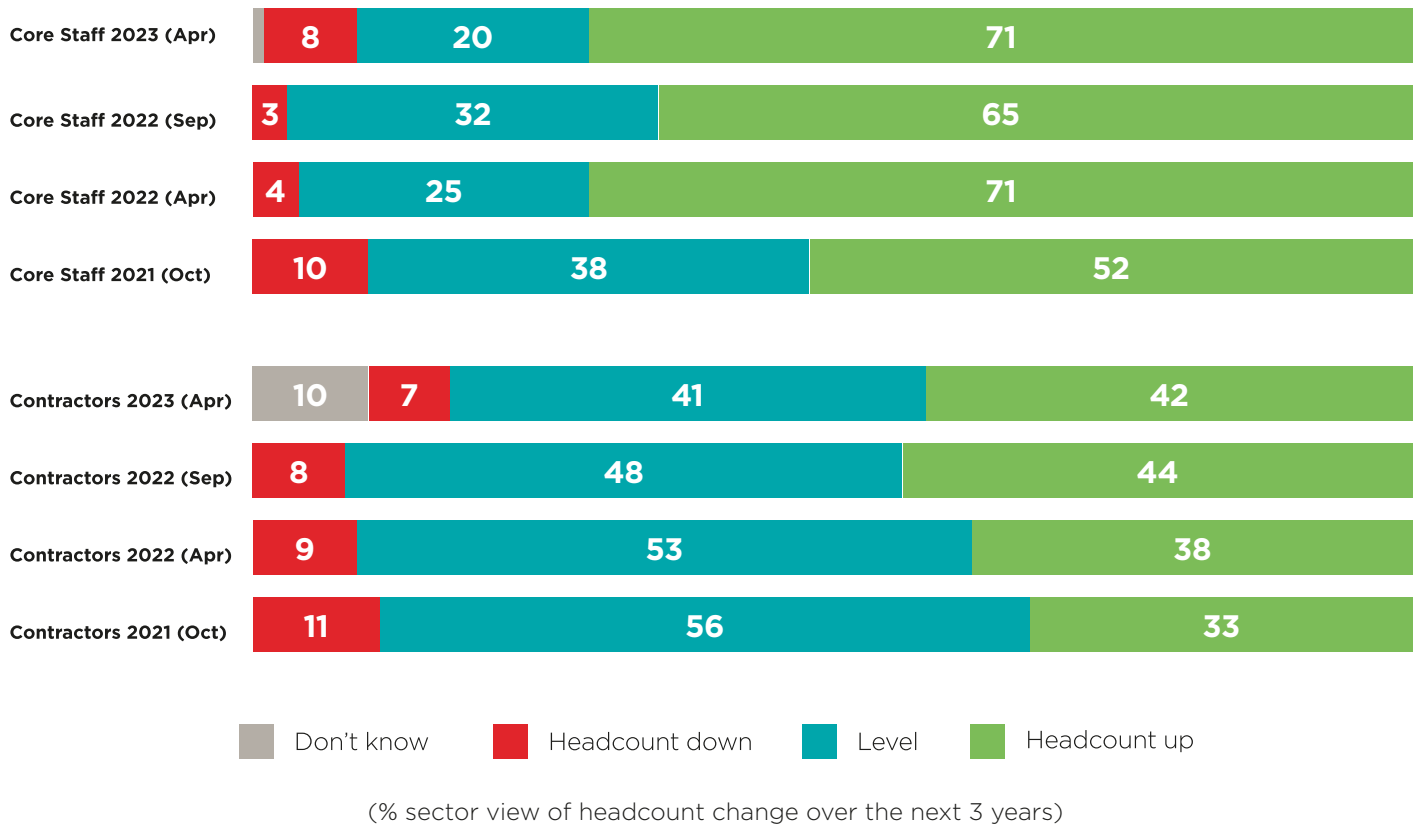
By no means are the UK Govt providing excellent conditions however at least they recognise the challenges. The Scottish Govt and opposition parties are unfortunately posturing but offering nothing of a tangible value add.

# Recruitment and skills gaps talking points

- Headcount forecast to rise over next three years with greater emphasis on core staff rather than contractors, although unsurprisingly still a higher propensity among service/supply chain companies to employ contractors
- Continued significant increases in % of businesses experiencing difficulty in recruiting in the past 12 months. Slight easing for technical skills but big increases for managerial/admin roles
- Recruitment challenges for most businesses are at a similar level to 12 months ago but worsening for a significant minority
- Significantly dropping levels of confidence in securing the necessary traditional and new skills to deliver on long term objectives- putting greater emphasis on JTF initiatives, skills passport and other programmes
- Skills shortages being exacerbated by retirement, staff leaving the sector and overseas job opportunities
- An ageing workforce needs to be mitigated by improving the narrative and efforts to attract young people into the industry
- This is a significant threat to the region/nation realising its ambition of becoming a global renewable energy hub
- The RGU Making the Switch report highlights the threats and opportunities to the regional economy. Currently in the North-east of Scotland alone, 45,000 people are directly employed in the offshore energy sector. One of the scenarios of mistiming the transition is that this figure could fall by an eye-watering 17,000 by 2030. Do the right things now, and it could increase to 54,000. That's the prize

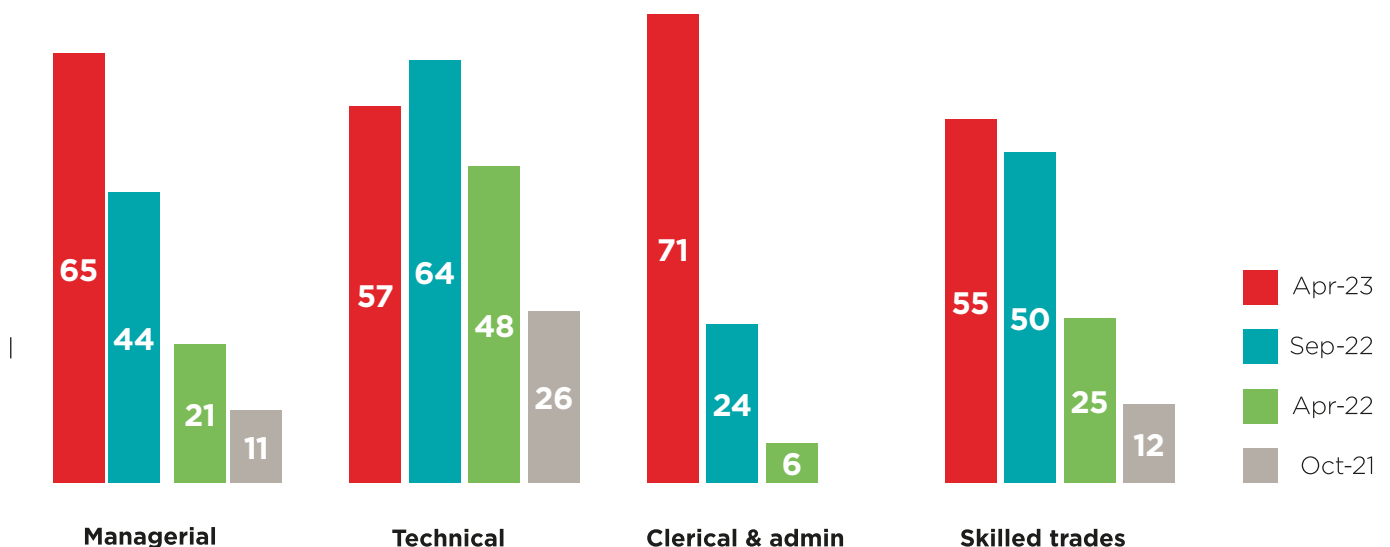
## 24. Headcount forecast to rise over next three years with greater emphasis on core staff rather than contractors.

Q: How do you expect your headcount to change over the next 3 years for...



## 25. Continued significant increases in % of businesses experiencing difficulty in recruiting in the past 12 months. Slight easing for technical skills but big increases for managerial/admin roles.

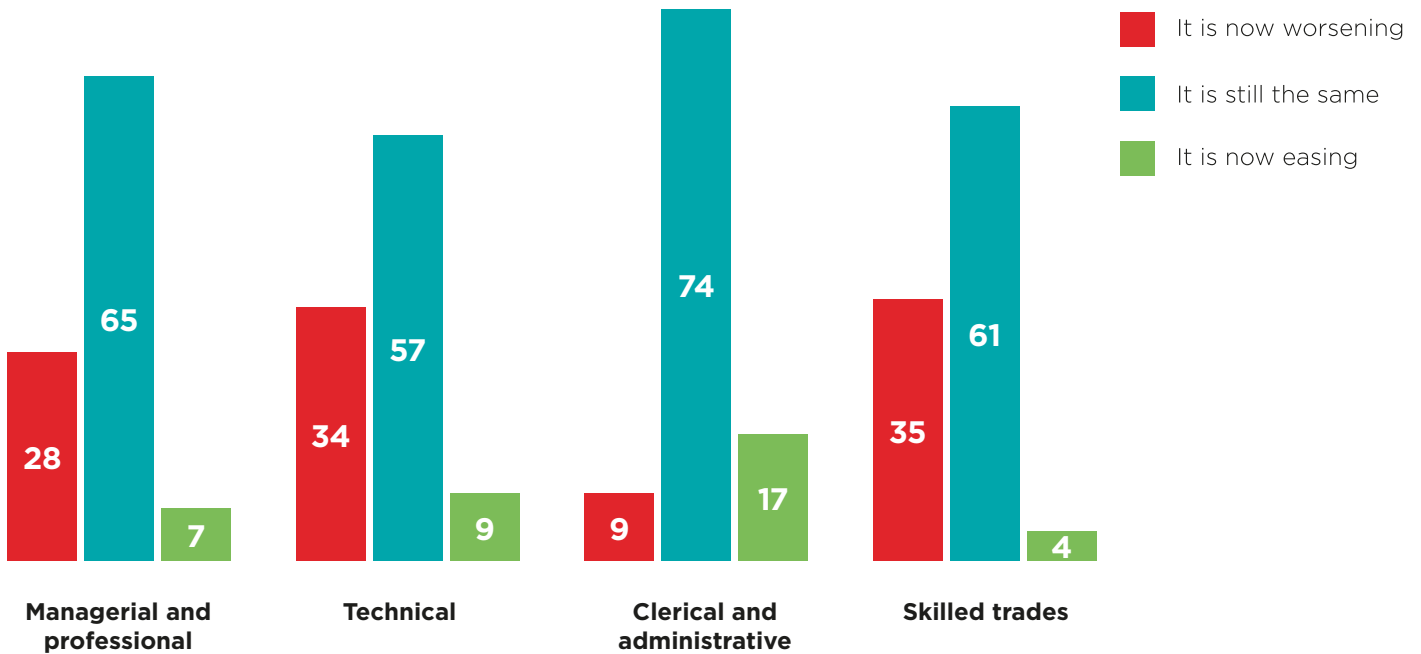
Q: Have you experienced any difficulties in recruiting any of the following roles in the past 12 months?





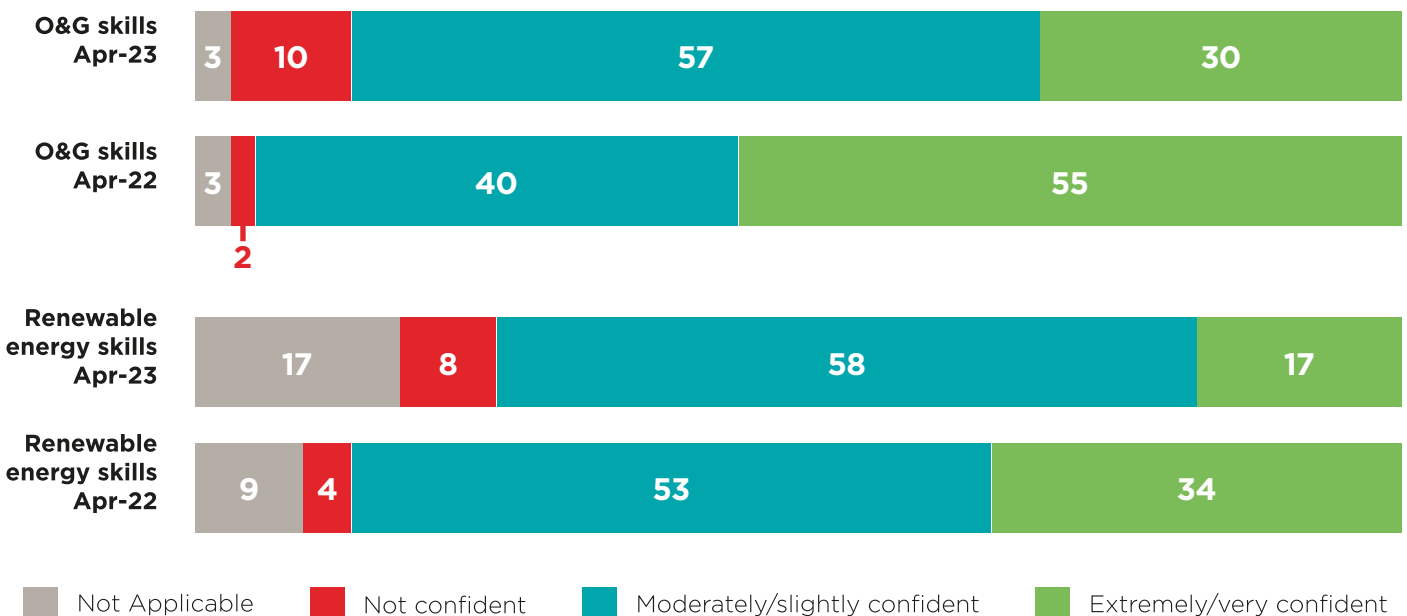
## 26. Recruitment challenges for most businesses are at a similar level to 12 months ago but worsening for a significant minority

Q: Have you experienced any difficulties in recruiting any of the following roles in the past 12 months and what is the status now?



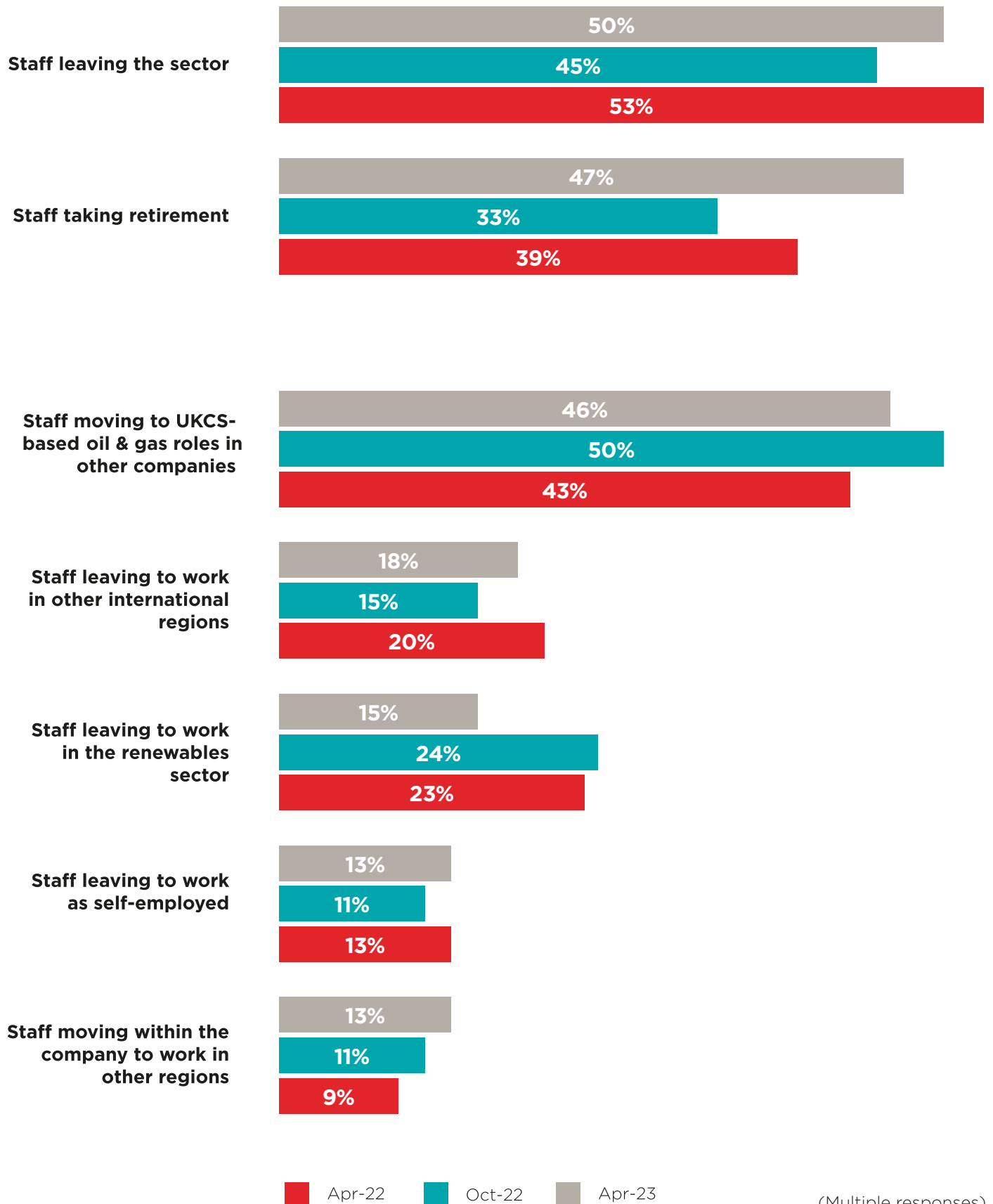
## 27. Significantly dropping levels of confidence in securing the necessary traditional and new skills to deliver on long term objectives.

Q: How confident are you that your businesses will be able to secure the skills you need to deliver your longer-term strategic objectives?



## 28. Skills shortages being exacerbated by retirement, staff leaving the sector and overseas job opportunities.

Q: Are you losing more UK-based qualified staff than usual to any of the following?



(Multiple responses)

# Chamber viewpoint

This bi-annual survey began in 2004 and never before have we seen such seismic changes in the key indicators in such a short period of time.

You'll see, for example, in graph 7 on page 10 that confidence levels in UKCS activity v overseas operations have largely tracked in the previous 36 surveys making the gap that has opened up since September 2022 all the more remarkable. If this isn't a wake-up call for our policy makers, then maybe we should just switch off the lights.

Big declines are forecast in North Sea exploration and production work at a time when UK government messaging is of renewed focus on domestic energy security.

To be clear, this appears to be directly linked to EPL with impacts being seen specifically in investment decisions but also some evidence of job losses too.

Unsurprisingly, this report tells us that Government policy including taxation and skills availability are two of the top three factors in determining UKCS activity levels.

In better news, the world class energy supply chain businesses with bases in the North-east of Scotland are finding export markets for their skills and technologies in other parts of the world. This only reinforces that other nations and basins are offering more favourable business conditions than the UK. And this risks seeing some of our best people and even companies lured away from working in the North Sea, possibly never to return.

Despite our skills base, supply chain and supposed early mover advantage, there are only cautious levels of optimism expressed about the Aberdeen region, Scotland and UK becoming a globally recognised renewable energy hub and this should be a warning that current policy is not creating the conditions that will enable us to meet this ambition.

As you'll see from pages 26 & 27, the majority of businesses believe that none of our political parties is delivering the best policies for domestic energy security and energy transition.

Profitability and ROI are cited as the top barriers to diversification closely followed by low confidence in securing the necessary traditional and new skills to deliver on long term objectives.

Respondents tell us that 73% of their business operations are in oil & gas today but that they expect this to move over time with 45% of operations being in new energy activities by 2030. The most popular areas of growth being in decommissioning, offshore & onshore wind, CCUS, hydrogen production/transportation and geothermal.

Concerns were raised in the study about industry behaviours and pricing & payment terms being of significant concern and this needs to be addressed to remove another potential barrier to a successful transition for the sector.

Aberdeen & Grampian Chamber of Commerce currently has around 1,200 member organisations. 30% of these are engaged in the energy sector and not a single one is in denial about the direction of travel on climate change.

The Scottish Government draft energy strategy says "...unlimited extraction of fossil fuels is not consistent with efforts to decarbonise". A puzzling turn of phrase when not a single voice is asking for unlimited extraction.

The debate is hugely polarised with much of the commentary characterising it as a battle of good versus evil. It is not. Transition is, by definition, a change of state over time. We cannot simply go from where we are today to a fossil fuel free society.

However, the case that does need to be more clearly made is that, as we move to a position where more of our energy needs can be provided from renewable sources, we aim to provide sufficient domestically produced oil & gas to avoid the need to import.

The UK Climate Change Committee accepts that oil and gas will be a part of our energy mix beyond 2050 and an opinion polls regularly show that 85-90% of people in Scotland believe that the fossil fuels we still need in the UK should be produced domestically.

We have a clear choice. To produce as much of our required supply as possible here, with full control over the regulatory environment in which it is extracted, protecting and creating high value jobs. Or to import an increasing amount of our energy, with the heavier carbon toll and supply risks that shipping it from other parts of the world carries. The latter option makes little economic sense, and even less environmental sense.

Currently in the North-east of Scotland alone, 45,000 people are directly employed in the offshore energy sector. One of the scenarios of mistiming the transition is that this figure could fall by an eye-watering 17,000 by 2030. And that doesn't include the resultant loss of induced employment. That is the price to this region of getting it wrong.

The promised green energy jobs are not yet available at scale so a premature end to oil and gas operations will mean we lose both the investment, supply chain and skills needed to ensure we retain the very companies that have the expertise and capital to make this a reality.

Unless our governments take heed of the headwinds demonstrated in this report, they risk the double whammy of failing to achieve their climate targets while allowing the prize of becoming a global green energy hub slip away from Aberdeen, Scotland and the UK. Not a legacy they want, surely?



The logo for the Aberdeen & Grampian Chamber of Commerce, featuring a stylized white wave or 'u' shape above the letters 'M I I C U' in a white, sans-serif font.

**Russell Borthwick**  
Chief Executive,  
Aberdeen & Grampian  
Chamber of Commerce

# Policy recommendations and industry actions

## 1) Urgent changes needed to the Energy Profits Levy

A year in, the Energy Profits Levy (EPL) is now clearly having a detrimental impact on investment in the UKCS and is undermining the UK Government's stated aim of increasing oil and gas production to enhance our domestic energy security. It is clear from our evidence sessions that discretionary capital is moving elsewhere due to the severity and duration of the tax. The experience of operators also suggests that under traditional reserve-based lending mechanisms, the UKCS has become "uninvestible" for many. This needs to be a wake-up call to the UK Government. To mitigate these negative impacts the government should introduce a floor price, i.e. a price of oil measured through an impartial industry price metric, below which the EPL would not apply. This would in line with the government's original policy position from May 2022, namely that the measure will be phased out when oil and gas prices return to historically more normal levels. This proposed approach would also be consistent with the Electricity Generation Levy, where additional tax is levied against 'extraordinary returns', which are defined as the aggregate revenue that generators make in a period from in-scope generation at an average output price above £75/MWh. The headline oil price is not necessarily an indication of the selling price. It is also crucial that the investment allowance attached to the EPL is retained and consideration must be given to how this might be widened to include low carbon related activities that will help accelerate the energy transition.

## 2) Politicians must create a more supportive environment for development of our low carbon future energy system

Very few in the energy sector believe that any of our political parties have the right strategy to guide the UK through the energy transition maze and solve some of the most complex issues this country has ever faced. This is, in part, due to the anti-oil and gas rhetoric coming from some senior politicians in both the UK and Scottish parliament, who have presented the energy transition as a binary, 'good versus evil' issue. It is not, and there is a role and a requirement for both hydrocarbons and renewable energy in the UK's net zero energy mix. We need to see a more positive and informed tone set from the top. In addition, The Scottish Government's draft energy strategy which includes a presumption against oil and gas is unhelpful and should be replaced with a more pragmatic position, one which reflects the lower carbon intensity of extracting from the North Sea, relative to other parts of the world. If the alternative is importing energy from other parts of the world, at a greater carbon cost and putting Scottish jobs at risk then we should always favour domestic production.

## 3) Joint effort to tackle energy skills shortage

Industry, government and academia need to come together and draw up a strategy to tackle what is a growing skills crisis in the UK energy sector. North Sea operators surveyed during this research point to an acute shortage of offshore workers, namely skilled technicians. This is causing a backlog of safety-critical maintenance, which, if left unaddressed, could lead to the shutting down of operations, and therefore security of supply issues. The oil and gas industry will need a new generation of workers as older people retire, but there appears to be an issue attracting young people into the industry. A new industry narrative is required to sell a career in energy to potential new entrants.

## 4) Inject pace into the energy transition and invest in grid capacity

The speed at which renewable projects can proceed, due to the requirement for multiple consents, is frequently raised as an issue. Tangible examples of similar project progressing at pace in Europe risks the UK and Scotland being left behind. Planning processes must be simplified to inject the necessary pace. We are either in a climate emergency or we're not.

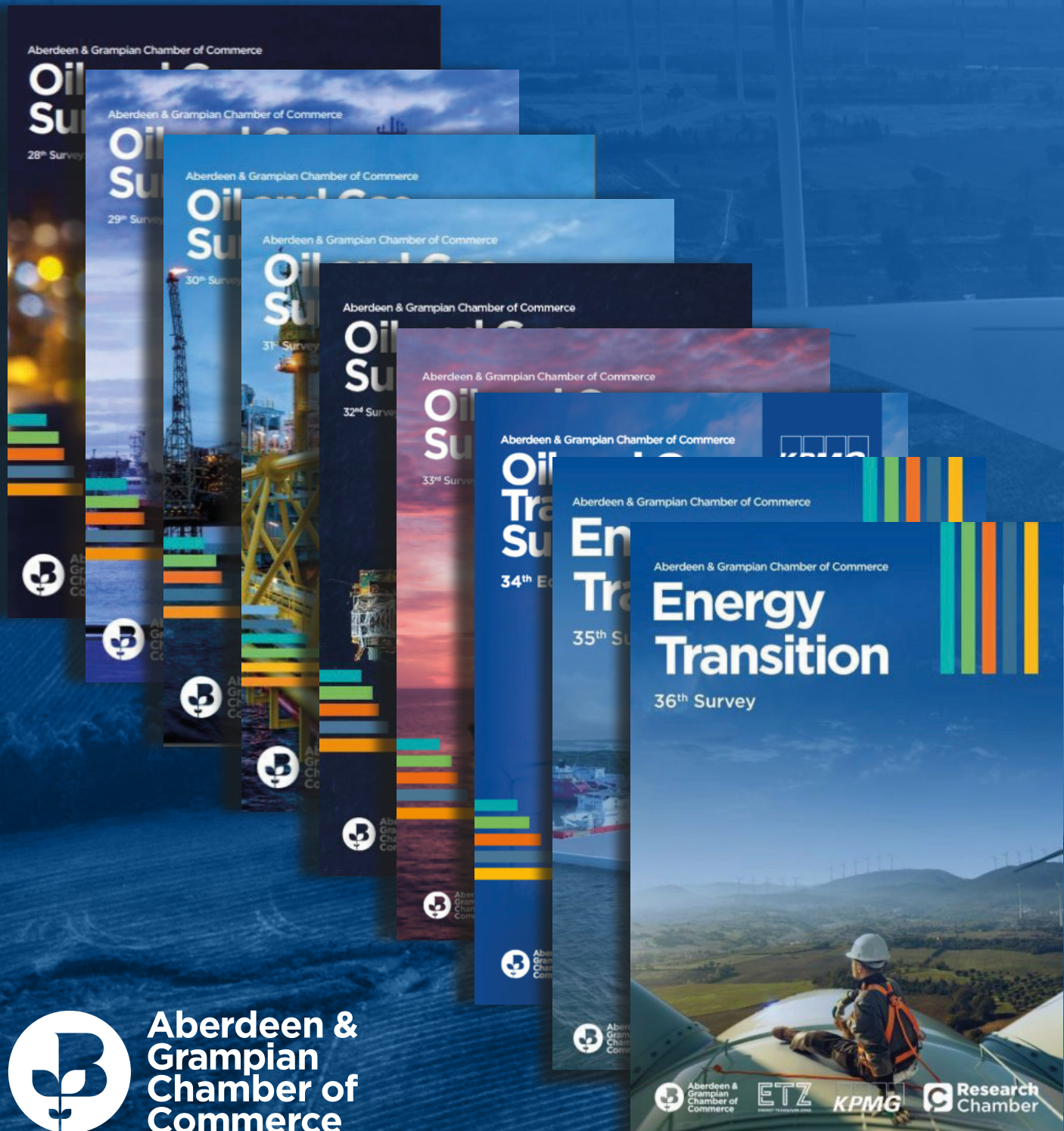
Grid capacity remains a huge concern. The recent ScotWind licensing round has approved developments that will generate 28GW of offshore wind power. Over 70% of the fields are within 100 nautical miles of Aberdeen. Our ports are investing to support the delivery of these huge projects and many of the operators are looking to establish global offshore wind sectors of excellence here. However, this ambition is severely limited by grid capacity which, in terms of current rollout plans, will only reach 11GW by 2030. Urgent investment in addressing this in the North and North East of Scotland is an absolute priority in terms of unlocking offshore renewables potential.



Aberdeen & Grampian Chamber of Commerce

# Energy Transition

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Oil Survey

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Oil Survey

34<sup>th</sup> Survey

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Energy Transition

35<sup>th</sup> Survey

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Energy Transition

36<sup>th</sup> Survey

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# About the survey

The 37th AGCC Energy Transition (previously Oil & Gas) survey is supported by KPMG, our partner since 2017 and Energy Transition Zone. The report has become established as a vital source of industry intelligence for businesses, policy makers and the media and the feedback gathered is instrumental in ensuring that the industry's voice is heard, enabling us to set out the practical challenges faced by the sector and ensure the necessary policy interventions are put in place.

## Research approach

The online survey was updated with partner input to reflect the current environment and was live between 6th March and 7th April 2023. Direct approaches were made to previous responders, sponsor networks, other trade bodies and followed up by telephone calls to key contacts. The survey was promoted more widely through Chamber news channels and in other media. 105 businesses (10 operators and 95 contractors/service companies), collectively employing over 58,000 people in the UK, completed the survey. The survey was managed by Research Chamber, Aberdeen & Grampian Chamber of Commerce's in house commercial research arm.

## Thank you

The Research Chamber/Aberdeen & Grampian Chamber of Commerce would like to thank all energy businesses who responded to this survey. Without their voice, we could not have delivered this research. Your continued support is invaluable to us in meeting our commitment to bring you independent and impartial insights into the key issues facing your business and the wider sector.

We would also like to thank our partners, KPMG UK and ETZ Ltd for their ongoing support of this strategically important research work, helping the sector's voice be heard.

Finally, we also thank a member of our research team, Sarah Akere for her support with this work.

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Contact us at [researchchamber@agcc.co.uk](mailto:researchchamber@agcc.co.uk)