Aberdeen & Grampian Chamber of Commerce

Oil and Gas Survey

33rd Survey: May 2021

Research Chamber

UNIVERSITY of STRATHCLYDE FRASER OF ALLANDER INSTITUTE

KPMG

Survey context

After over a year of dealing with the pandemic and associated economic fallout, we look ahead to a new future with hope that the vaccine programme will lead to a return to normality at some point during 2021. With furlough schemes now in place into the autumn, it is clear that the economy will continue to need support as the recovery gets under way.

Of course, the forthcoming economic recovery could take many shapes, and policymakers in all levels in government will have a role in shaping the recovery.

The Scottish economy has been through an unprecedented year: the contractions we have seen during lockdown periods are enormous by historical standards. Despite the economy starting to open up in the Spring, the economy is still significantly below pre-pandemic levels of output. We can also expect unemployment to rise as government support is removed.

We have seen that the economic impacts of the pandemic have not been evenly spread. The oil and gas sector has been hard hit, and the early signs are that the labour market in the North East of Scotland have been disproportionately impacted.

During the course of the Scottish Parliament Election campaign, all parties set out their visions for a transition to a low carbon future for Scotland. This includes policies on the just transition of the sector, recognising the important role the sector has to play in the contribution to net zero.

Workers in the North East and the oil and gas supply chain will be looking to the newly elected government to ensure they are supported to transition successfully, so that we are able to make the most of this skilled workforce in the new opportunities that greener technologies bring.

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KPMG foreword

The 33rd Oil & Gas Survey, produced by the Aberdeen & Grampian Chamber of Commerce, and sponsored by KPMG UK, is arguably the most important report to date. That may seem rather hyperbolic, but the findings follow a period of profound instability and uncertainty. The Covid-19 pandemic left almost no industry untouched. For the energy sector, the impact was felt in every aspect of daily life – from the logistics of transporting workers to and from offshore installations to the economic impact created by the sudden global drop in demand for oil and gas.

We may see light at the end of the Covid tunnel, but we now stand ready for what has the potential to be either a major difficulty or a significant opportunity for Scotland's oil and gas firms. It needs to be the latter. The countdown to COP26 in Glasgow has buoyed political leaders across the UK. Language has shifted and – to some extent – the pandemic has created a new sense of political confidence for policy makers grappling with energy transition. The industry is on the cusp of transformation and much of our findings reflect the collective sense of anticipation. It certainly feels that in Aberdeen we are heading towards the 'new normal' after a long period of reliance on carbon-based energy sources.

75% of contractors interviewed for the survey told us they're likely to become more involved in UKCS renewables work over the coming three to five-year period. That's the highest level recorded since the question was introduced in 2015. Contractors also told us oil and gas activity would account for less than three quarters of their business activity by 2025 – down from the current average of 86%.

It shouldn't come as too much of a surprise to see the acknowledgement from the sector that a complete transformation is required. Policy decisions both here and globally are forcing political and business leaders to act. In many ways, oil and gas has been at the forefront of the race to net zero. Often singled out by campaigners and political decision-makers as the 'source of the problem', the industry has marched forward with its own radical agenda for change. As countries like Denmark implement a ban on future exploration projects, a concept that the UK has rightly shied away from, the sector has identified its own solutions with examples like North Sea operator Lundin Energy recently trading the world's first ever certified, carbon neutral oil. This is but one example of significant industry activity that will deliver real change and help to navigate the sector into a truly transformative future.

Despite the sense of optimism and the real leadership being shown in the oil and gas sector, it would be irresponsible to ignore the reality that faces the industry over the coming months and years. As we emerge from the pandemic, we're facing a new set of challenges, driven by policy makers and an increasingly impatient public. It's incredibly reassuring that our survey found contractor confidence in the UKCS has significantly improved from -76% six months ago to +6% today. This, combined with the fact that almost half of respondents plan to hire new talent in the coming year, shows that the industry remains resilient and proactive.

The global climate crisis is no longer a niche subject, devolved to scientists and fringe campaigners. It is our next Covid-19. Significant steps have been taken to address the great challenges we face in the future, but they are just initial steps. It's essential that we play our role in driving positive change and ensure Scotland's oil and gas sector is at the heart of the emerging worldwide energy transformation.

Martin Findlay
senior partner
KPMG Aberdeen

Chamber viewpoint

Welcome to the 33rd edition of the Aberdeen & Grampian Chamber of Commerce Oil and Gas survey, conducted in partnership with KPMG and supported by the Fraser of Allander Institute.

In this survey, in addition to our regular review of industry sentiment and activity, we aimed to further examine the progress and challenges surrounding the energy transition while also exploring the continuing impact of COVID-19 on the industry and on future planning.

It has now been over a year since the pandemic began and the industry faced a sharp and sustained decline in commodity prices. With prices now returning to pre-pandemic levels and major transition initiatives beginning to crystalise, this survey highlights early signs of recovery for the sector with a positive outlook for the future, however it is evident that businesses are still operating in challenging market conditions and continue to face challenges and oil price decline.

The net balance of +6% in business confidence highlights the easing levels of concern among contractors compared to the -76% reported six months ago. The returning confidence is significantly more pronounced when reviewing international business which has risen from -61% reported in the last survey to +41%.

The challenges faced over the past year are also reflected in the reduced level of reported activity in production and exploration related work. The net balance reported for production related activity (-15%) indicates a continued overall decline although has eased from the -47% reported in 2020.

As expected with this reduced level of activity, employment has suffered over the course of the year with 43% of contractors reporting a decline in their workforce, 25% of which are reporting reductions by more than 10% of their workforce. However, buoyed by improved sentiment around market conditions, it's positive to report that 49% of contractors are expecting to increase their workforce over the next 12 months, 23% of which expect an increase of more than 10%.

We are seeing positive signs that businesses are taking steps to diversify their operations with contractors expecting that oil and gas activity will account for 68% of their activity by 2025 compared to the current average of 86%. We have also reported the highest proportion of contractors expecting involvement in UKCS renewables work since we introduced this question in 2015, now at 75%.

The industry's continued efforts to diversify and play a leading role in the energy transition in the face of a challenging year are commendable and it is clear that the supply chain are moving in the right direction to ensure longevity of the sector and keep the region at the forefront of the global energy market.

Indeed, our broader survey results illustrate a sector that isn't only driving forward the energy transition, but one which is amidst a number of others. With both the UK & Scottish governments pledging to back the sector's role in the delivery of net-zero with initiatives like the North Sea Transition Deal, it was positive to see that many firms in the supply chain are committed to reducing their own emissions. Our research also highlights the increasing role that defining such targets may play in securing contracts in the future. Furthermore, it seems clear that firms are considering substantial changes to how they work post-COVID, with enhanced flexible working and shifts in office use, which drives home the need for concerted action to reflect the wider economic transition taking place post-pandemic.

As we approach COP26, new partnerships like the North Sea Transition Deal give the sector the foundation which will allow the accelerated ambitions showcased here to translate into meaningful action. Ensuring that the oil and gas sector, and the skills and talent in the communities that power it, will be central to delivering our national net-zero ambitions.

Shane Taylor
policy manager
Aberdeen & Grampian Chamber of Commerce

Key findings

The net balance of **+41%** in contractors' current confidence for international business is up significantly from **-61%** reported six months ago and above the 10-year average of **+27%.**

43%

of businesses will be exploring a reduction to their office footprint following the end of COVID-19 restrictions

-37%

A net balance of **-37%** expect that the Government's removal of overseas fossil fuel support will have a negative impact for their business's export activity

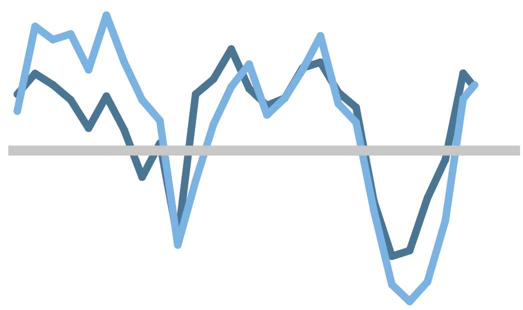
By 2025, contractors expect that oil and gas activity will account for **68%** of their business's activity, compared to the current average of **86%**

Over the next 12 months, **49%** of contractors expect their total workforce to increase, and only **6%** expect to reduce

27% of businesses have set, or have already achieved, a deadline to achieve carbon neutrality

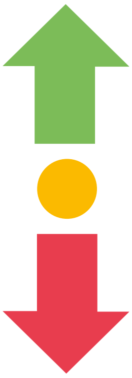
75%

say they will definitely/possibly become more involved in UKCS renewables work over the coming three to five year period – the highest figure since the question was introduced in autumn 2015



Contractors' confidence in the UKCS has significantly improved, with a net balance of **+6%** up from **-76%** reported six months ago and roughly in line with the 10-year average net balance of +7%

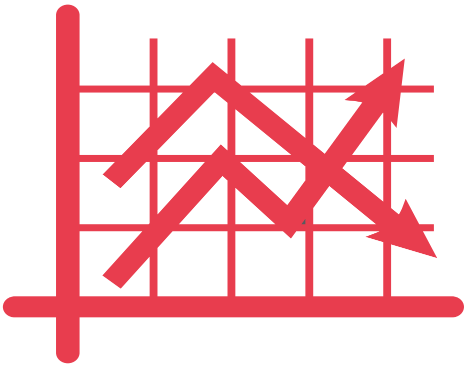
60% of firms are expecting an increase in revenue compared to 2020; 28% anticipating a decline, and 11% expect no change



60% better

11% no change

28% worse



28% of contractors report working at, or above optimum levels in their UKCS operations, up slightly from **13%**, although remains below the 10-year average of **41%**

Contractors vacancy rate:

1.32 per 100 jobs

(up from 0.93 per 100 jobs reported six months ago)

34%

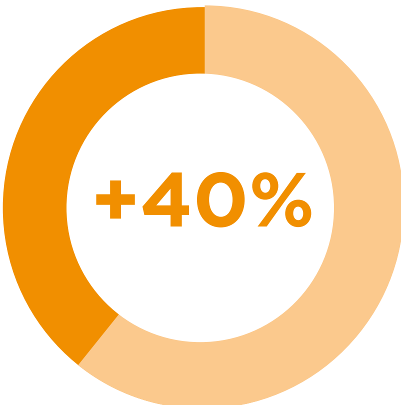
of contractors reported decreasing investment spend in the UKCS in the last 12 months and only **16%** increased spend

Which sectors do contractors expect to operate in over the next three to five years?

60% Decommissioning

51% Offshore wind

45% Carbon capture & storage



The value of UKCS production-related work is anticipated to improve drastically over the next year, rising to a net balance of **+40%**, up from expectations reported six months ago (**-3%**)

Business optimism

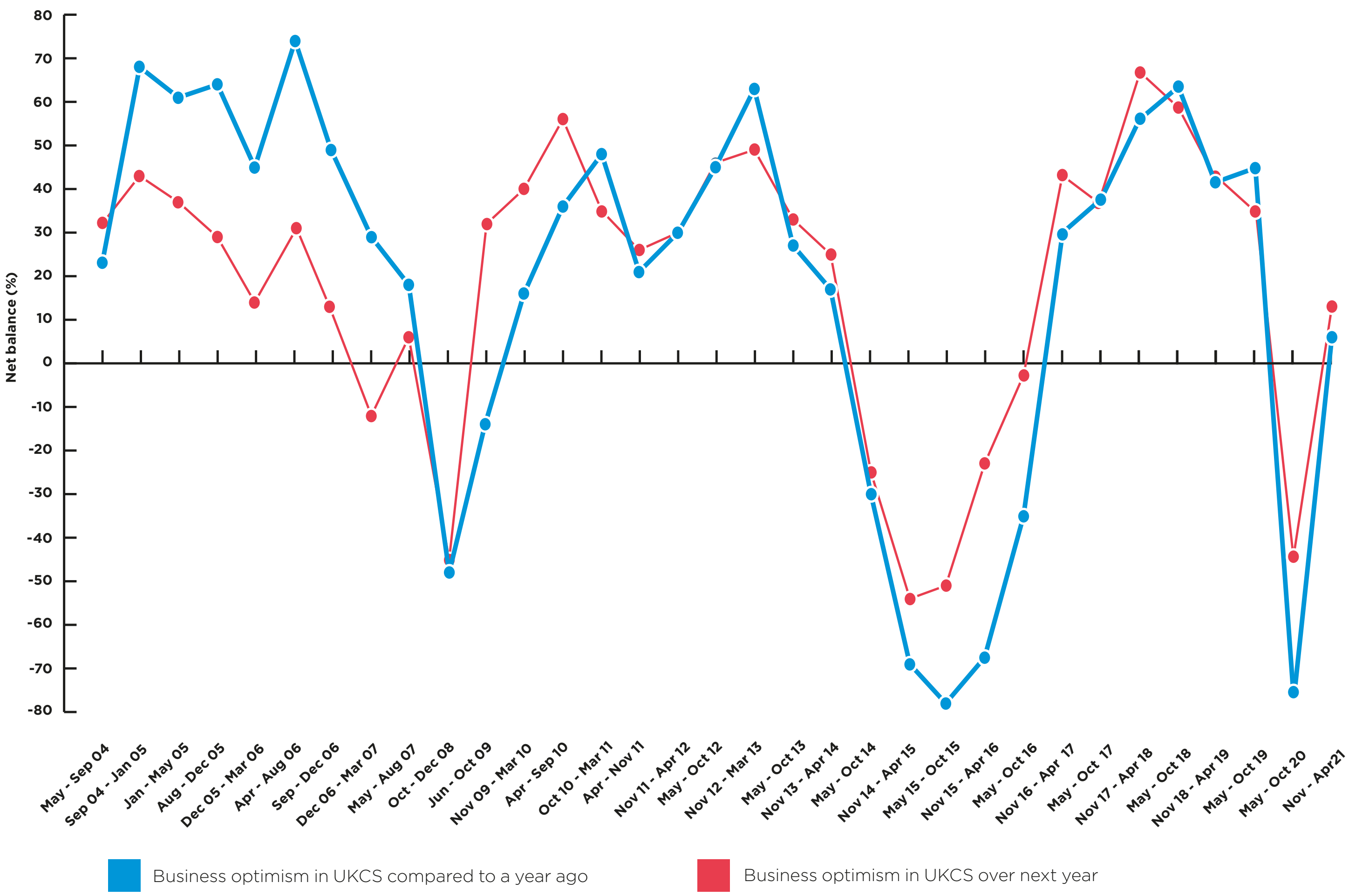
"As we emerge from the pandemic, we're facing a new set of climate-related challenges, driven by policy makers and an increasingly impatient public. With that in mind, it's incredibly reassuring that our survey found contractor confidence in the UKCS has significantly improved from -76% six months ago to +6%."

KPMG viewpoint

United Kingdom Continental Shelf

In 2020 we reported that contractors had indicated a significant decline in business confidence, recording similar levels to those reported in 2015 following the previous oil price downturn. It is encouraging to note a return to positive confidence levels in this latest survey, with a net balance of +6% up from -76% reported in the previous survey and roughly in line with the 10-year average net balance of +7%. During the current survey period – the six months to April 2021 – 39% reported being more confident compared to a year ago, while 33% were less confident. This is a welcome improvement from the expected forecast reported six months ago where 58% of contractors expected the outlook to worsen and only 14% were confident that the situation would improve.

Figure 1: Contractors: business confidence in UKCS (net balances)



Looking a year ahead 38% of contractors are confident that the outlook will improve and only 24% expect that the situation will worsen, resulting in a net balance of +13% [1]. This has improved significantly from forecasts recorded six months ago (-43%) for the year ahead.

Licensees and operators also report similar confidence levels for both the current situation and looking to the year ahead.

The net balance is the proportion of respondents reporting a rise minus those reporting a fall, therefore a positive net balance indicates an overall increase while a negative net balance indicates an overall decline.

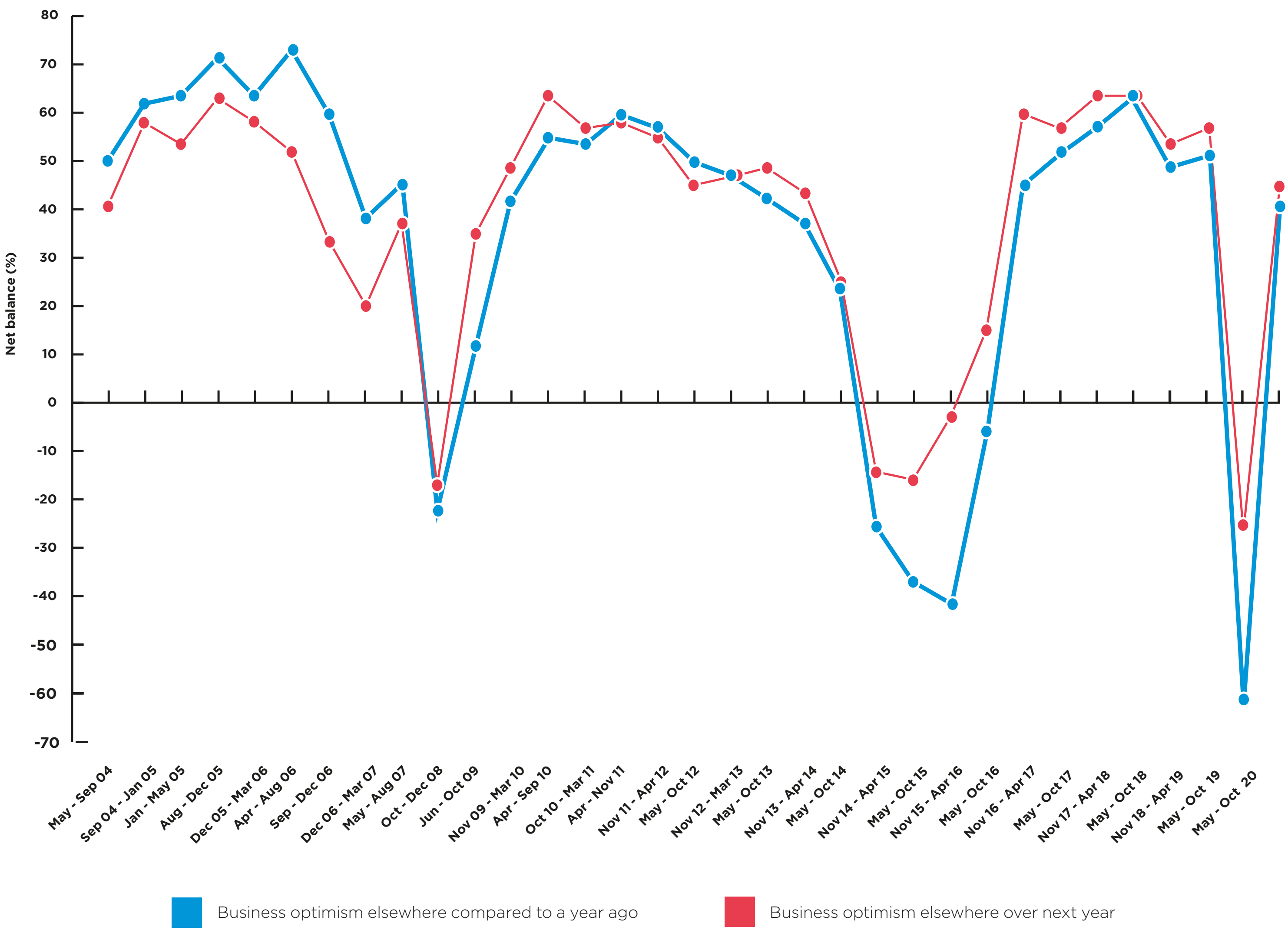
[1] *Percentages may not sum due to rounding*

International

Contractors typically report higher levels of optimism in international markets compared to the UKCS, and this remains the case in this survey with confidence levels rising significantly, indicating a more positive overseas recovery following the lowest recorded levels of international confidence reported in the previous survey. Contractors, on balance, report and expect positive trends for both actual and expected optimism over the coming 12 months.

Over the past 12 months optimism in the international oil and gas sector increased for more than half of contractors (54%) with 13% reporting a decline. The net balance of +41% in contractors' current international confidence is up significantly from -61% reported six months ago and above the 10-year average of +27%.

Figure 2: Contractors - business confidence in international markets (net balances)



Over the next 12 months, 53% of contractors are more confident about the business situation and only 9% are less confident. The resulting net of +44% shows that contractors expect this upward trend to continue over the year ahead.

Akin to the trends in UKCS activity, licensees and operators recorded and expect an improvement in optimism around the oil and gas industry outside of the UKCS.

Trends in business activity

Trends in business activity

Moving from confidence to the specific activities of firms in this year and over future periods. Firstly, firms were asked questions concerning the actual and expected value of their organisation's work in the UKCS in production related work, decommissioning work and exploration activities (see Figures 3 and 4). Secondly, they were asked the same questions regarding their international activities

Production-related activity

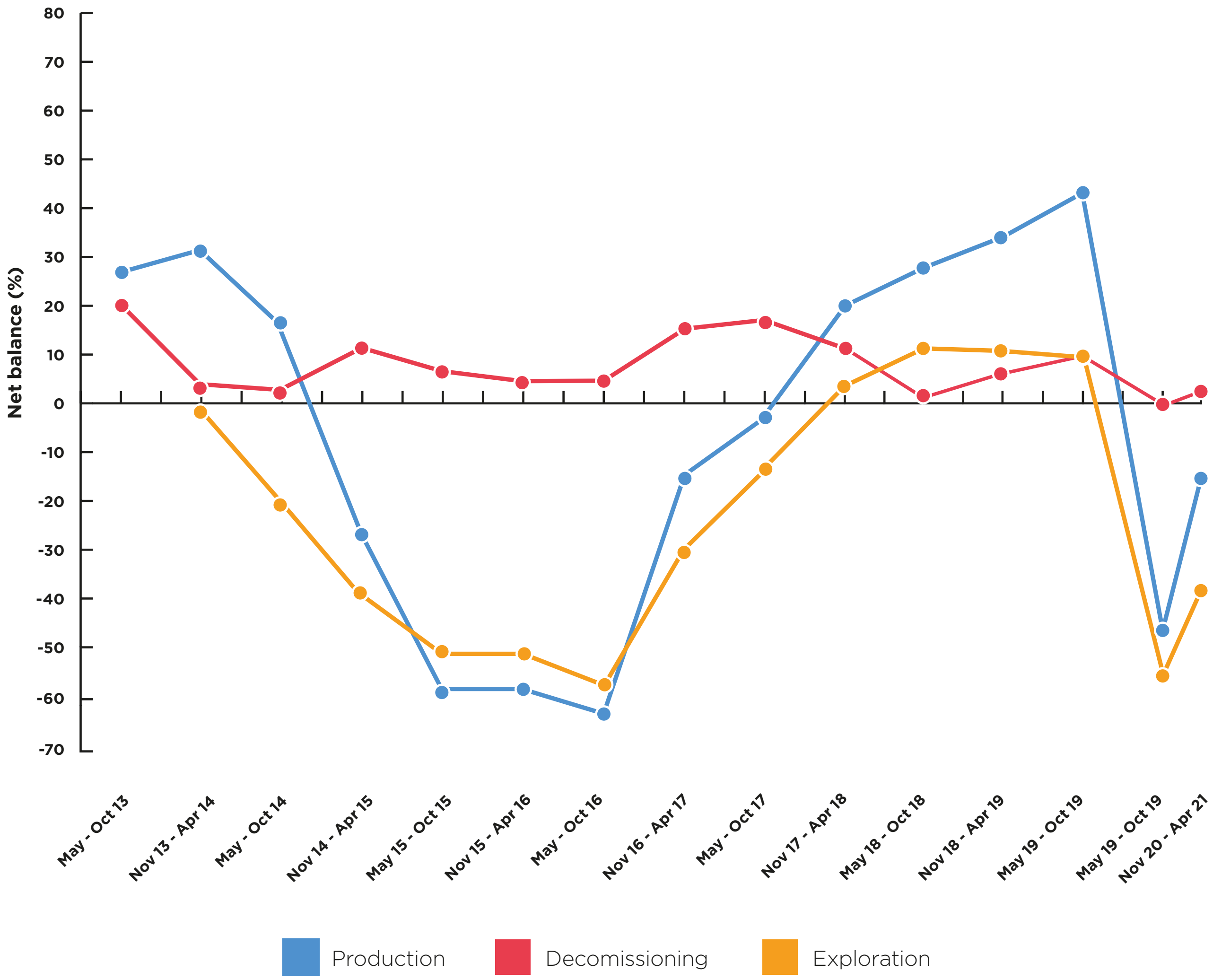
Through 2015 until the first half of 2017, contractors consistently reported net negative trends in the value of production-related work in the UKCS. However, this trend had been improving since and the net balance peaked at +43% in 2019. In the previous survey this trend had declined sharply and fell to -47%, and while this has improved in this latest survey, the net balance remains in negative territory (-15%) due to 22% reporting a rise and 37% reporting a decline. This is anticipated to improve drastically over the next year, rising to a net balance of +40%, up from expectations reported six months ago (-3%).

Licensees/operators reported stable levels of activity for the last twelve months with similar levels of improvements over the next twelve months as contractors.

Turning now to the value of production work outside the UKCS, 33% of contractors reported a decline and 19% reported an increase – a net balance of -14%, which has eased from the previous balance of -31% reported six months ago. This is expected to improve significantly over the next year with a net balance of +51% predicting a rise.

Licensees/operators reported a small net increase in international activity over the past year with further expectations of rising activity for the year ahead.

Figure 3: Contractors - trends in UKCS activity in the last 12 months - net balances



Decommissioning-related activity

Due to the evolving nature of the oil and gas industry in the UK, decommissioning is increasingly taking its place alongside exploration and production activity and the trend (see Figure 3) has remained relatively stable since introducing this question in 2013.

Decommissioning activity was not relevant for 45% of contracting firms and of the remainder, 19% reported an increase in the value of the work and 16% reported a fall, resulting in a net balance of +2%[2]. Decommissioning activity is set to increase during the coming year with 36% of contractors expecting an increase in the value of UKCS decommissioning work and 4% forecasting a decline in the value of such work (+33%).

A net balance of -1% of contractors reported a decline in international decommissioning-related activity in the past year with an expected rise over the next year (+30%).

Exploration-related activity

The trend in the value of UKCS exploration-related work amongst contractors was negative from 2014 through to 2017, dipping to its lowest point in autumn 2016. Since then it had remained positive, recording +9% in 2019. In the May-Oct 2020 survey period this had dropped dramatically to -55% and while this trend has slightly eased in the latest survey (-38%) the net balance remains firmly in negative territory and indicates an overall decline. The outlook over the next year is more positive with +11% anticipating a rise, up from -27% reported six months ago.

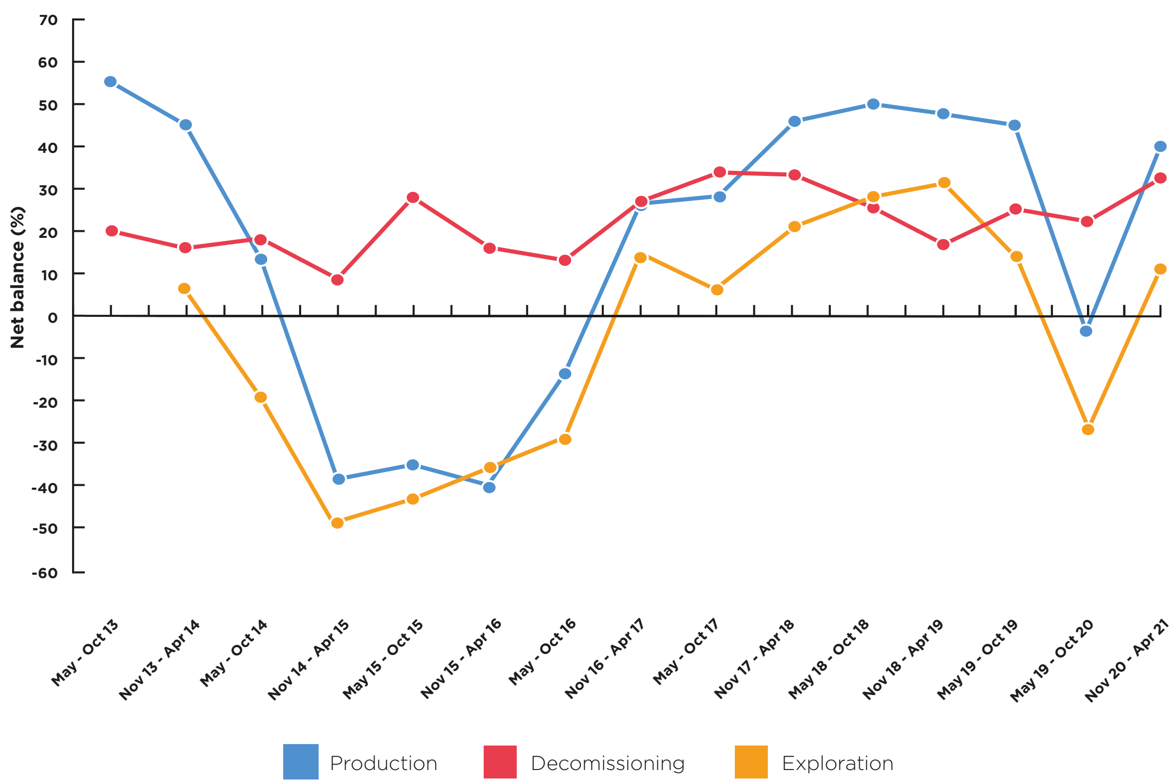
Similarly, the value of international exploration work was, on balance, negative with -27% reporting a decline in the past 12 months, although similarly the outlook is projected to improve with +28% expecting a rise.

Licensees/operators also recorded a decline in the trend in the value of exploration work in the last 12 months and a net balance are expecting a rise over the next year. These trends were identified both domestically and internationally.

Renewables-related activity

A question on renewables-related activity was introduced in this survey and a net of +16% of contractors reported a rise in the past 12 months with +45% anticipating an increase over the next year. These trends were replicated in international activity with +14% reporting a rise and +45% expecting a further rise in the next 12 months.

Figure 4: Contractors - scheduled/expected trends in UKCS activity in the next 12 months - net balances



[2] Percentages may not sum due to rounding

Trends in business activity

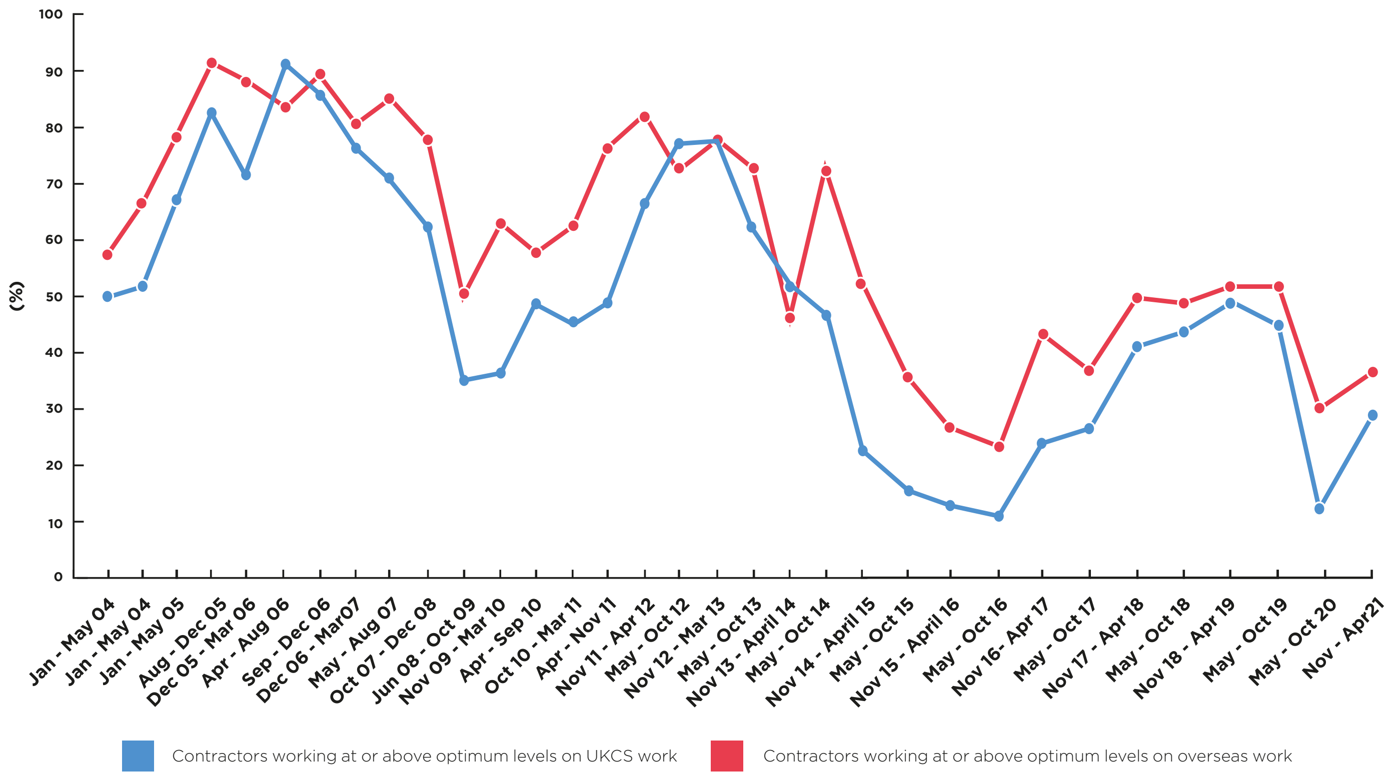
Activity levels

Figure 5 illustrates the percentage of contractors working at or above optimum levels over the period since the survey started in 2004.

The share of contractors working at, or above, optimum levels in their UKCS operations peaked at 79% in the spring of 2013, it declined steadily over the three years until the May-October 2016 survey when it stood at 12% (the lowest figure since the survey began). Since then it had been rising steadily and was recorded at 45% in the May-October 2019 survey. In the previous survey this figure had declined significantly to 13% reporting working at, or above optimum levels in their UKCS operations. This has improved slightly and now stands at 28%, although remains below the 10-year average of 41%.

Since 2014 contractors have consistently reported stronger activity in their overseas portfolios compared to their UKCS portfolios. Once again this is evident in this latest survey with 36% of contractor firms involved in overseas work working at or above optimum levels, a small increase from the 30% reported in the previous survey.

Figure 5 - Percentage of contractors reporting working at or above optimum levels



Business trends

Decommissioning

The survey questioned firms about trends in production, exploration and decommissioning both in the UKCS and in international markets. We also enquired about firms' expectations of involvement in specific activities over the medium term (defined in the survey as the next three to five years). The survey asks firms about their activities in decommissioning, renewables, unconventional oil and gas extraction and carbon capture.

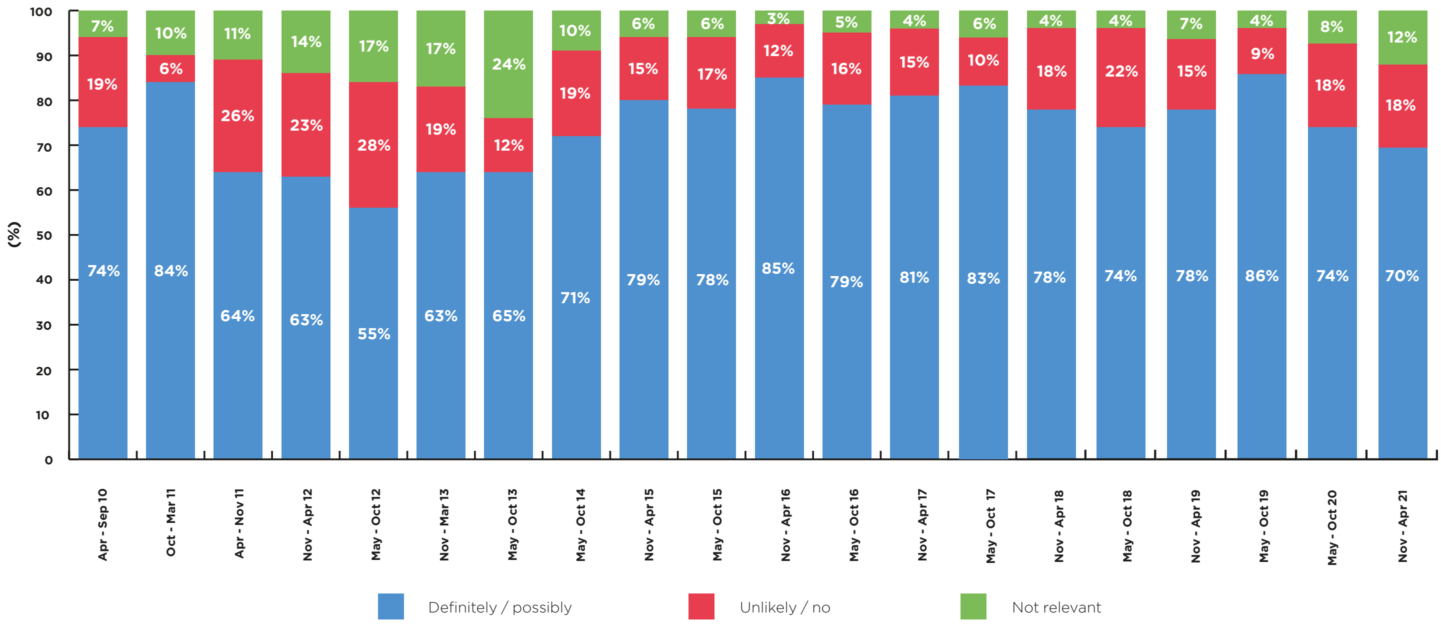
Figure 6 shows a slight decline in contractors' expectations of involvement in decommissioning activity over the medium term, however the vast majority continue to report potential involvement.

In the previous survey, a total of 74% reported that they were "definitely" or "possibly" likely to be more involved in decommissioning and now, in this latest survey this has fallen slightly to 70%. We find:

• 31% (fewer than the 37% in the previous survey) reported they would definitely be more involved in decommissioning

• 38% (38% in the previous survey) reported they would possibly be more involved in decommissioning

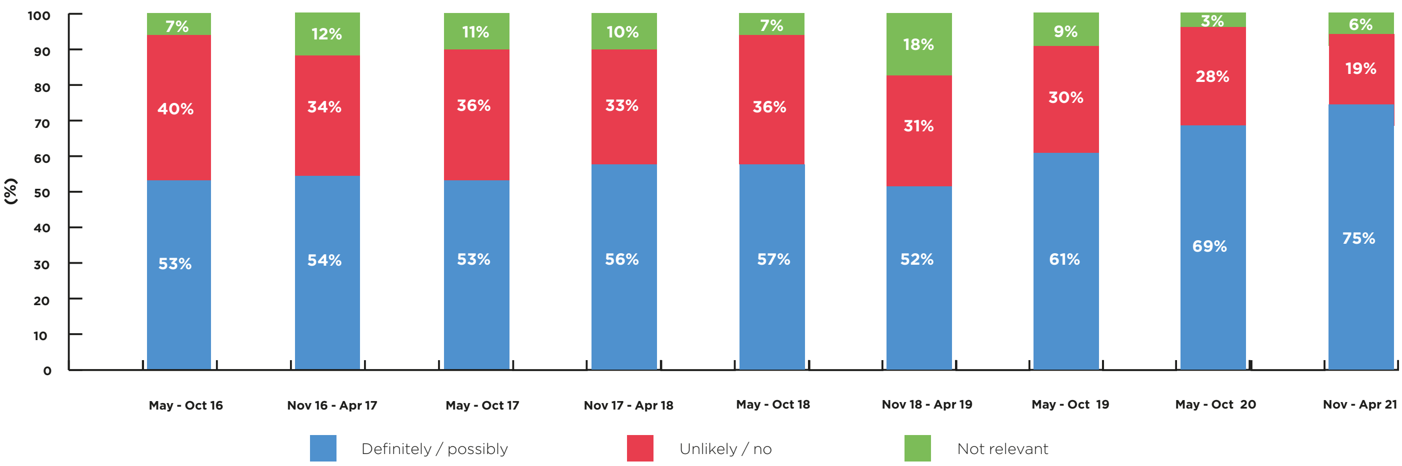
Figure 6: Contractors – involvement in decommissioning activity in the next three to five years



UKCS renewables

Turning now to renewables, this latest survey has shown an upswing in the proportion of contractors indicating that they will definitely/possibly become more involved in UKCS renewables work over the coming three to five year period. The proportion jumped from 61% to 69% in the previous survey, which was the highest proportion prior to this latest survey. This has now risen further to 75% with almost half of contractors (49%) foreseeing a definite involvement – the highest figure since the question was introduced in autumn 2015. Involvement in UKCS renewables activity also appears to be of greater interest to licensees/operators compared to the previous survey.

Figure 7: Contractors - involvement in renewables in the next three to five years



UKCS unconventional activity

The proportion of contractors (60%) expecting to either definitely (18%) or possibly (42%) be involved in UKCS unconventional oil and gas activity in the medium term has risen slightly compared to the 53% reported in the last survey.

With respect to unconventional activities outside of the UK, 61% of contractors (up from 56% in the previous survey) acknowledge the possibility that their firm could be more involved during the next 3-5 year.

Carbon Capture & Storage

Almost half of contractors (47%) expect to be involved in carbon capture and storage activity in the medium term, similar to the 49% reported in the previous survey, and the majority of licensees / operators also expect some involvement.

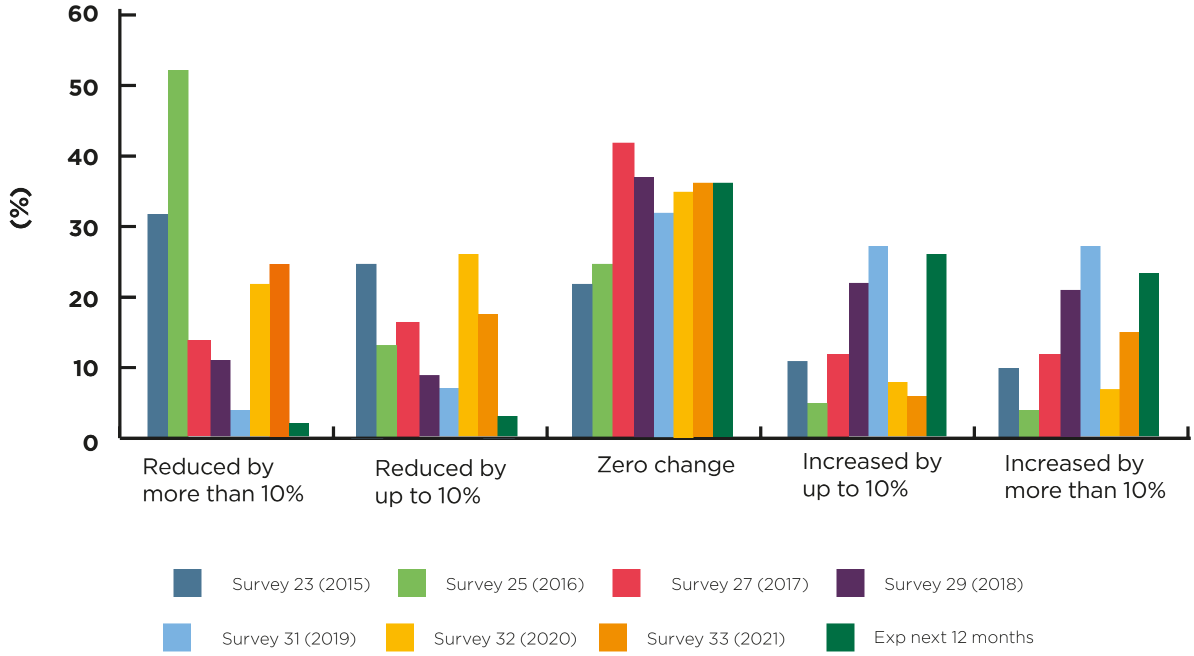
Employment changes

In its Economic Report 2019, OGUK estimated that direct and indirect employment by the oil and gas industry across the UK would be around 150,000 in 2019. The figure includes those directly employed by oil and gas companies and major contractors as well as those from the wider supply chain. The COVID-19 pandemic and reduced oil demand is expected to have a significant impact on employment within the sector with OGUK predicting a loss of up to 30,000 jobs. This survey draws on responses from oil and gas operators and contractors who currently employ more than 27,400 employees in the UK.

We sought information on the current UK-based workforce for each firm, asking what has happened and what they expect to happen to their UK workforce (FTEs). In this survey 19% of contractors increased their employment (FTEs) levels over the past year and 36% reported no change while 43% reported decreasing their workforce.

In this survey 25% of contractors reduced their total workforce by more than 10%, and 18% reduced by up to 10%. Over the next 12 months, 49% of contractors expect their total workforce to increase, 23% expect an increase of more than 10%. Only 6% expect to reduce their workforce over the next 12 months.

Figure 8: Contractors - change in UK workforce in last 12 months and expected next 12 months



Vacancies

Since 2014 we have asked firms for the number of current vacancies within their organisation across the UK.

In this latest survey we find the vacancy rate (i.e. vacancies per 100 jobs) for operators/licensees has decreased slightly and stands at 0.42 compared to 1.01 six months ago. The vacancy rate for contractors has also increased from 0.93 to 1.32.

Future Planning

Following the end of COVID-19 pandemic, and removal of lockdown restrictions, 83% of firms will be considering a more flexible working policy and 80% will be considering replacing some face-to-face activity (i.e. meetings, training, overseas visits) with virtual equivalents. More than two-fifths (44%) will be accelerating their diversification away from oil and gas and 43% will be exploring a reduction to their office footprint.

"The significant shifts in office usage and ways of working make it clear that the Chamber's wider asks for a business rates review, reflecting the impact of the pandemic, need to be taken forward by government to reduce upfront costs and ensure that it remains attractive for firms to take up office space and invest in town and city centres.

Chamber viewpoint

Investment trends

Each Spring, the survey focuses on investment and research and development activity in the oil and gas sector. The focus on investment was introduced in May 2005, and we now have trends of investment indicators for the sector covering more than 15 years however, due to COVID-19, data for 2019 is incomplete and has not been included. In this most recent survey, we repeated questions about firms' scheduled investments in the UKCS, both in aggregate and broken down across different categories.

In this survey we explore trends in investment in the last 12 months and scheduled investment plans over the next two years.

On measures of investment spend, the overall picture is significantly more negative than in previous years. For contractors, the net balance of total investment spend for the UKCS area in the last 12 months declined with more contractors decreasing investment spend in the UKCS area (34%) than increasing spend (16%) while more than a third of contractors (34%) reported no change to their investment spend. This balance of -17% compares to the positive net balances of +38% in 2018 and +9% in 2017.

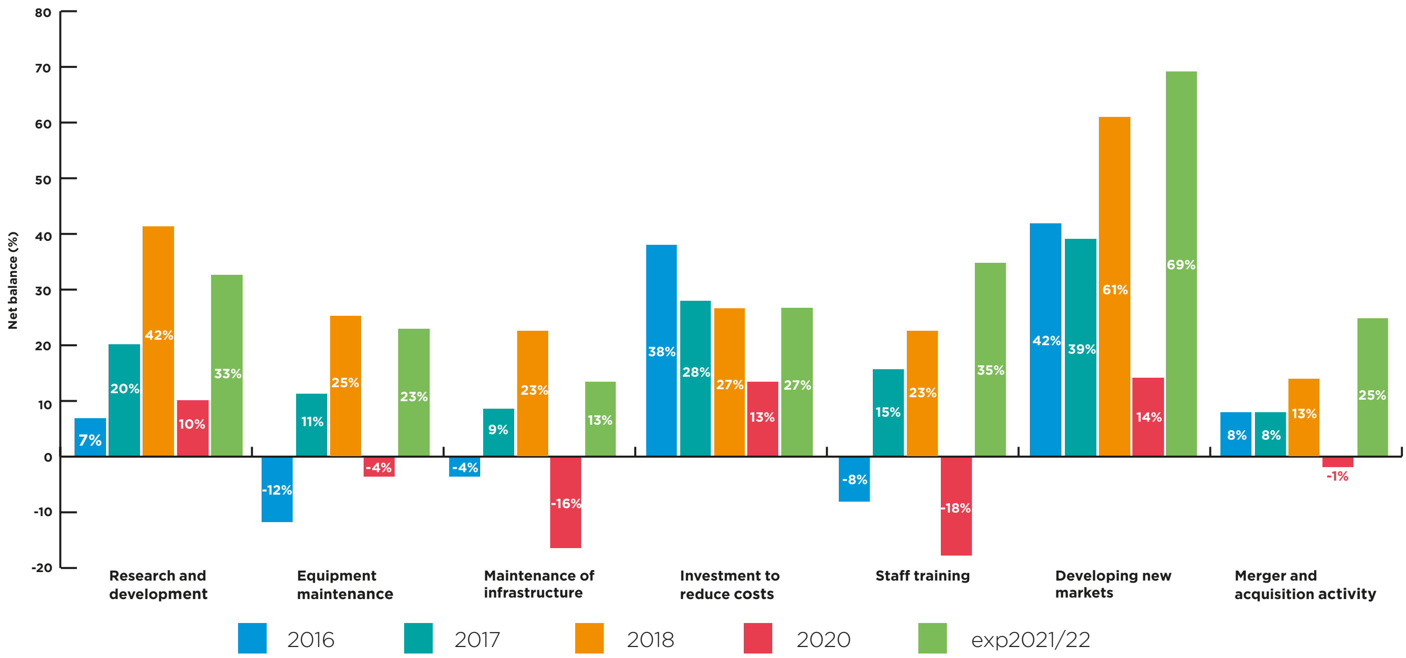
The outlook for the next two years is significantly more positive with more contractors expecting to increase investment (45%) than reduce (9%) while almost a third of contractors (31%) are forecasting no change to their investment spend (+36%).

Equal proportions of operators and licensees reported a rise and fall in investment spend in the last 12 months, however the majority expect a rise over the next 24 months and the remainder expect no change.

Figure 9 shows the net balance between those contractors reporting an upward and those reporting a downward trend in each category of investment spending (i.e. the share of contractors reporting an increase in spending in this category minus the share of contractors reporting a decrease in spending).

In 2016, staff training, equipment maintenance and maintenance of infrastructure had been negative, and this has also been reported in the latest survey for 2020. Positive net balances were evident in investment to develop new markets, to reduce costs and for research and development. All categories expect to see increased investment over the next 24 months.

Figure 9: Contractors - direction of investment spend in 2016-2020 and scheduled trend for 2021/22



In this latest survey, a net balance of -18% of contractors reported a decline in spend on staff training in the last 12 months, compared to +23% reporting a rise in spend in the 2018/19 survey. This trend is expected to reverse over the next 24 months with a net of +35% anticipating an increase in spend. Likewise, maintenance of infrastructure declined for a net of -16% in the last 12 months but is also set to rise over the next two years, as reported by a net balance of +13%.

On balance, contractors have reported increased investment spend with respect to R & D (+10%) and developing new markets (+14%) in the last 12 months, although this trend was more subtle than reported for 2018 where net balances of +42% and +61% were recorded. However, these trends are set to improve over the next 24-month period with a net balance of +33% and +69% contractors, respectively, expecting a rise in spend.

Figure 10: Expected trends in investment spend by contractors (2011/12 to 2021/22), net balances

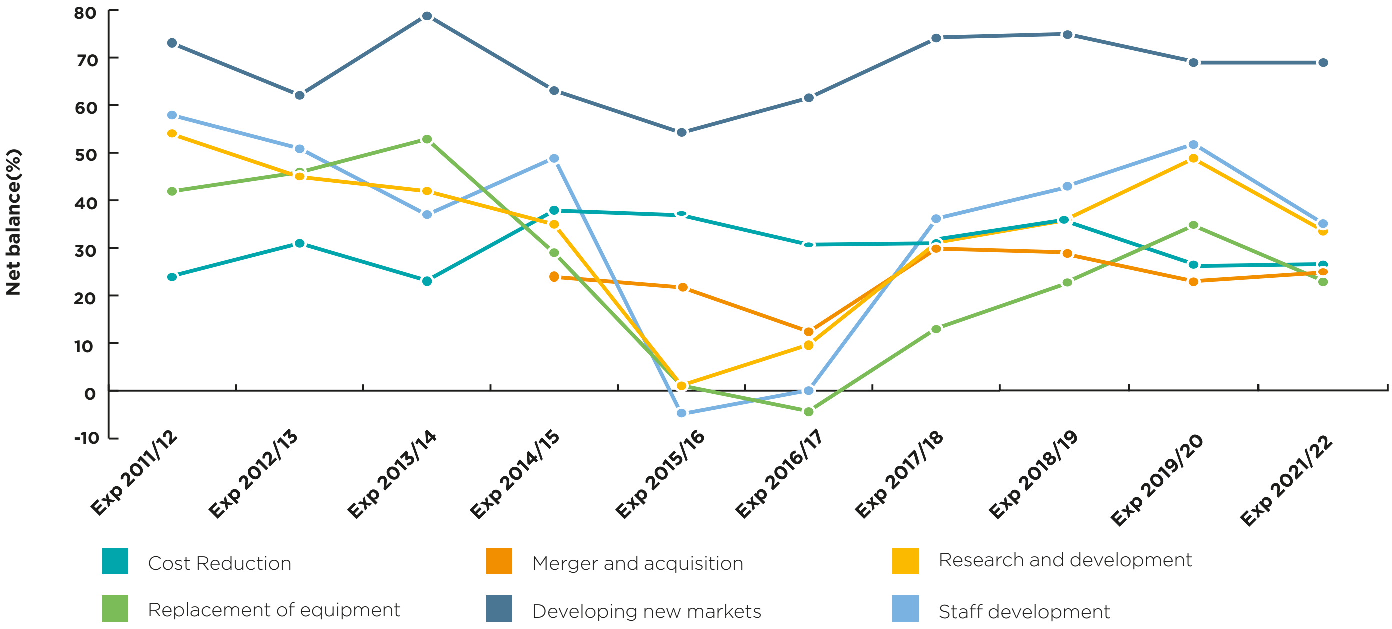
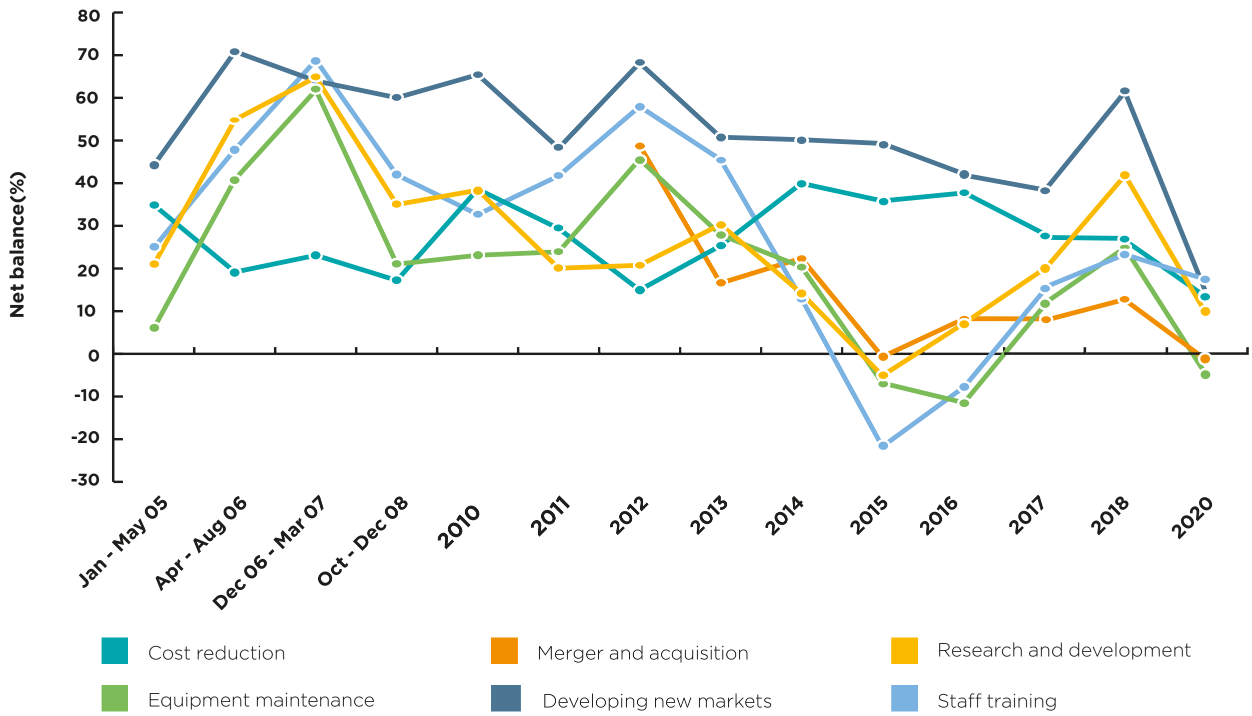


Figure 11 - Actual trends in investment by contractors, 2005 to 2020



Investment to reduce costs also continued to rise for a net balance of contractors though the rising trend eased from a net of +27% in the last survey to a net of +13% in this current survey. Merger and acquisition investment was not relevant for the majority of contractors (58%) but for the remaining proportion, this trend fell into negative territory (-1%) for the first time although is expected to rise for a net of +25% over the next 24 months.

With regards to specific R & D activities undertaken by all firms, developing new equipment (63%), developing new services (44%), developing new processes (43%) and developing new software (31%) were once again the most commonly cited. Fourteen percent of firms reported active involvement in decommissioning and 21% reported being involved in developing renewables activities, up from 10% reporting involvement two years ago. Improving extraction yields and extraction processes were noted by 9% and 6%.

Almost 1 in 5 firms reported no R & D activity.

In this survey we repeated the question designed to ascertain the extent to which firms used UK/EU funding or associated tax incentives for their R & D activity. The results indicate that more than a third of all firms (37%) said that the availability of R&D funding or tax incentives had influenced their company's decision to invest in R&D in the UK.

In this latest survey we found that 24% of firms (relatively unchanged from 25% previously) have used UK/EU grants from, for example Scottish Enterprise, Highland and Islands Enterprise or Innovate UK. The proportion of firms making use of UK Tax Incentives such as R&D Tax Credits and Allowances has increased from 33% to 46%. Almost half of firms (49%) indicated that they had not made use of any EU/UK funding or tax relief, similar to the 43% reporting this previously.

Business constraints

Business constraints

This section explores the specific factors influencing UKCS activity and the actions firms are taking in order to retain a competitive advantage.

Since 2005, we have asked respondents to our spring surveys to indicate (from a list) which factors they thought were most likely to limit their activity over the coming year in the UKCS and elsewhere. The list of factors has evolved slightly over time.

Once again, the level of demand is the most pressing concern for contractors, remaining a very important concern for the majority of contractors (75%). Commodity prices, on the other hand, while remaining a notable limiting factor, the extent to which firms cite it as a very important factor, likely to constrain their activities, has been declining since 2015, and lessened again in this survey falling from 51% to 47%.

Figure 12 - Contractors reporting specific demand and economic factors as limiting UKCS activity

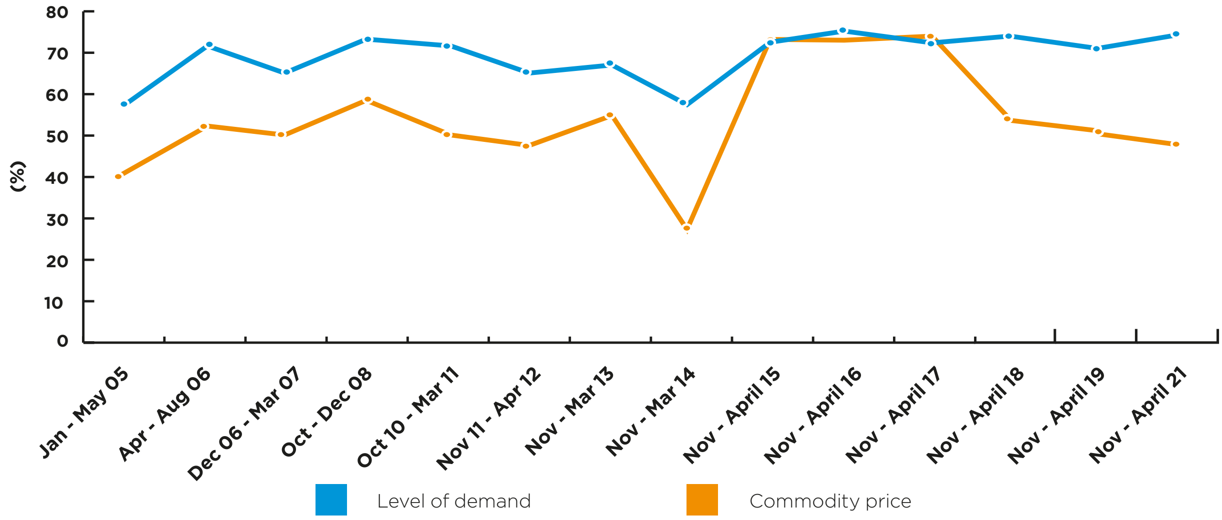
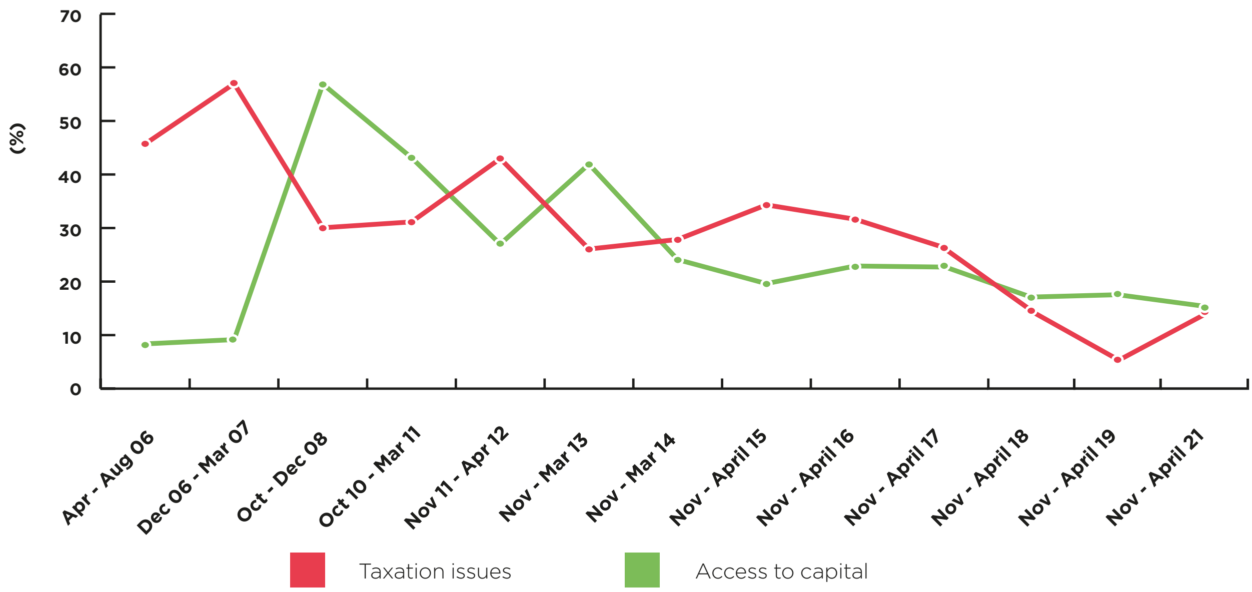


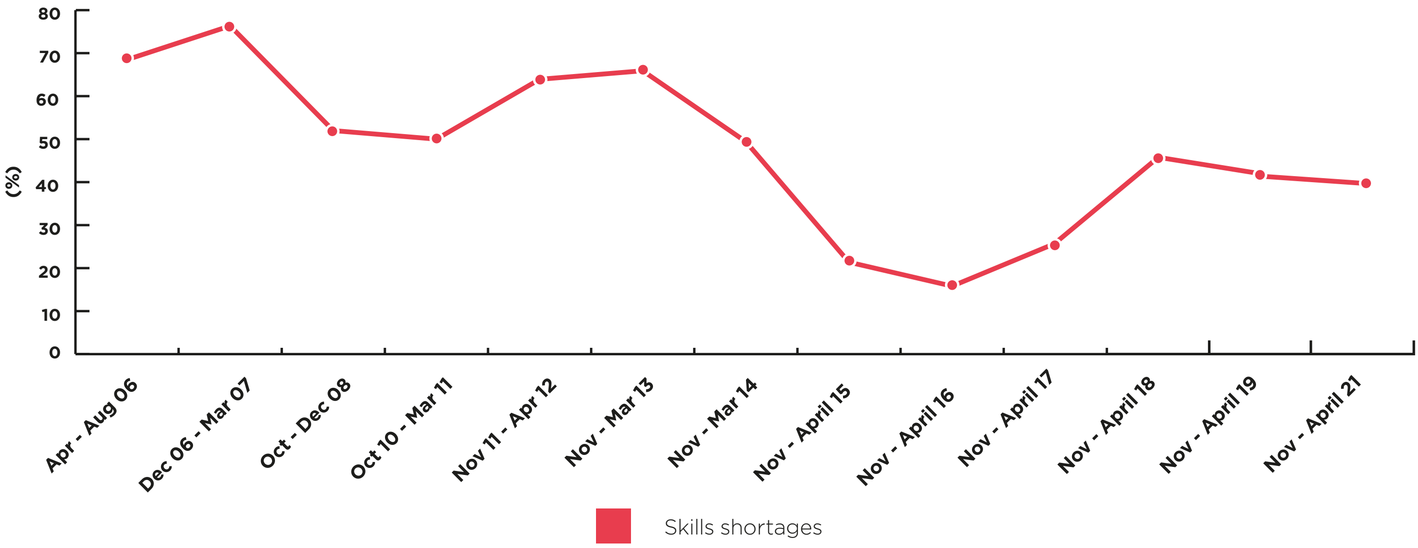
Figure 13 illustrates how the importance attached to tax relief/capital allowances in limiting contractors' UKCS activity has been lessening since 2015 where 34% of contractors cited it as a very important factor. This fell to lows of 6% two years ago but has risen slightly to 14% in this current survey however, this still remains a lower priority concern for contractors in limiting activity. Similarly concerns around access to capital have also been easing and this is now considered to be a very important concern for just 15% of contractors and at the lowest level recorded since 2007.

Figure 13 – Contractors reporting specific cost and taxation factors as limiting UKCS activity



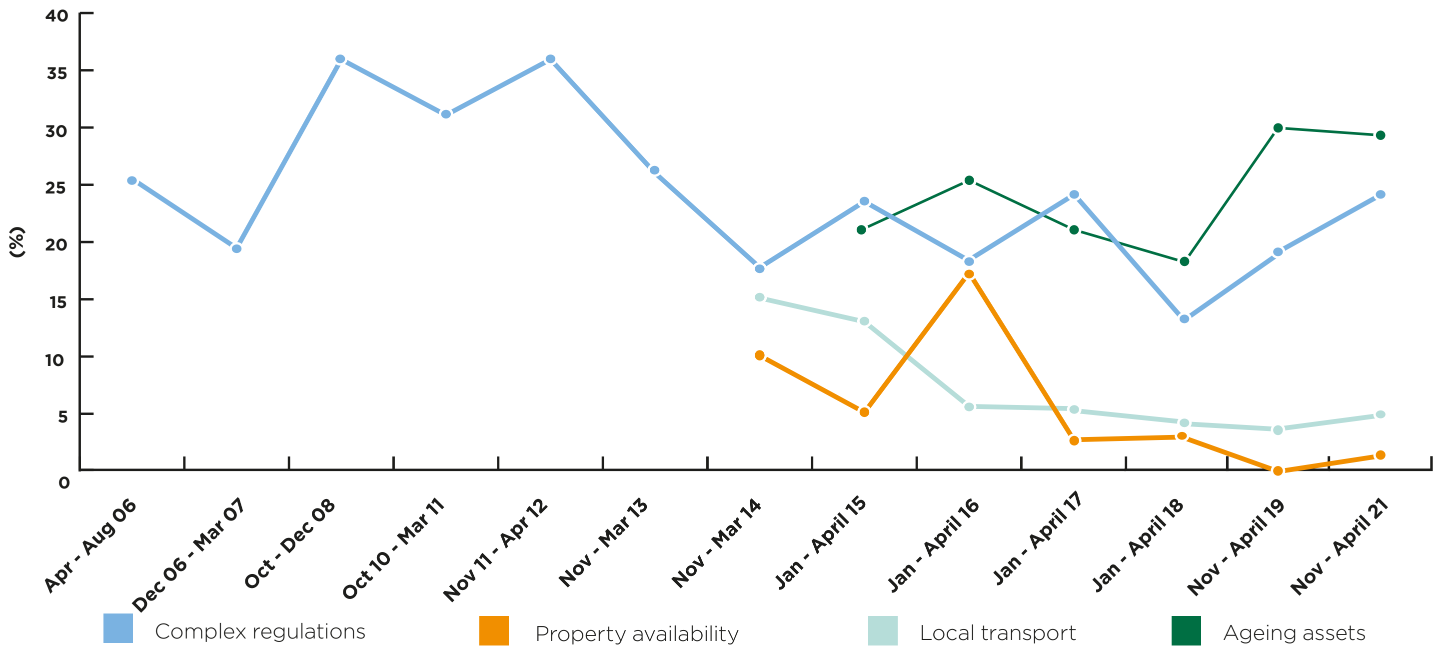
The extent to which skills remain, as a major constraint on firms' activities is shown in Figure 14. In this latest survey, 40% of contractors cited skill shortages as a very important factor, although this was slightly down from two years ago when 43% considered it a factor likely to limit activity.

Figure 14 - The percentage of contractors reporting specific employment factors as limiting UKCS activity



The changing views of contractors on regulatory and infrastructure issues can be seen in Figure 15. Ageing assets was cited as a very important factor likely to limit business activity by 29% of contractors, similar to the 30% reporting this two years ago. The proportion of contractors reporting regulations as a very important concern has risen slightly to 24%, compared to 18% previously. Local transport and property issues were cited by 5% and 2% of contractors, respectively, and therefore not likely to limit activity.

Figure 15 - Contractors reporting specific infrastructural and regulatory factors as limiting UKCS activity



Revenue

We asked firms to what extent their organisation's 2021 revenue was expected to change compared to previous years. Three-fifths (60%) of firms are expecting an increase compared to 2020; 33% anticipate an increase by up to 25% and 18% expect this increase to be by between 26-50%, with 9% expecting an increase by more than 50%. More than one quarter (28%) are expecting a decline compared to 2020; 17% of firms expect a decline by up to 25%, 9% expect this decline to be between 26-50% and 2% expect a greater decline. One in ten (11%) expect no change to revenue.

When compared to 2019 revenue, 47% of firms are expecting a decline to revenue in 2021 and 35% are anticipating an increase, while 17% expect no change.

Energy transition

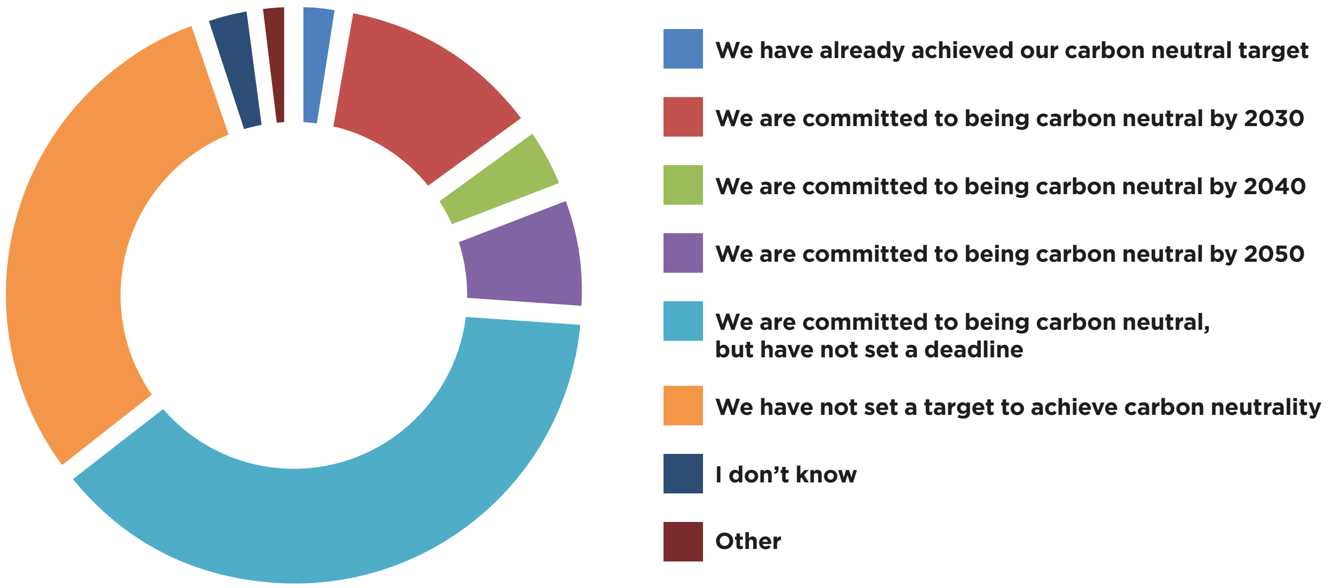
"The common misconception is that oil and gas is the cause of much of the climate crisis we face, when it's actually often the driving force behind a potential renewables revolution. 75% of contractors interviewed for the survey told us they're likely to become more involved in UKCS renewables work over the coming three to five-year period. That's the highest level recorded since the question was introduced in 2015."

KPMG viewpoint

Energy transition

When asked to indicate the statement/category which most accurately described organisation's plans for achieving carbon neutrality, almost two-fifths (38%) indicated that whilst they were committed to being carbon neutral they had not set a deadline for achieving this and a further 30% do not have a carbon neutral target. Around a quarter of firms (27%) had set a target; 3% have already achieved their carbon neutral target, 12% have committed to do so by 2030, 4% have aimed to reach carbon neutrality by 2040 and the remaining 7% by 2050.

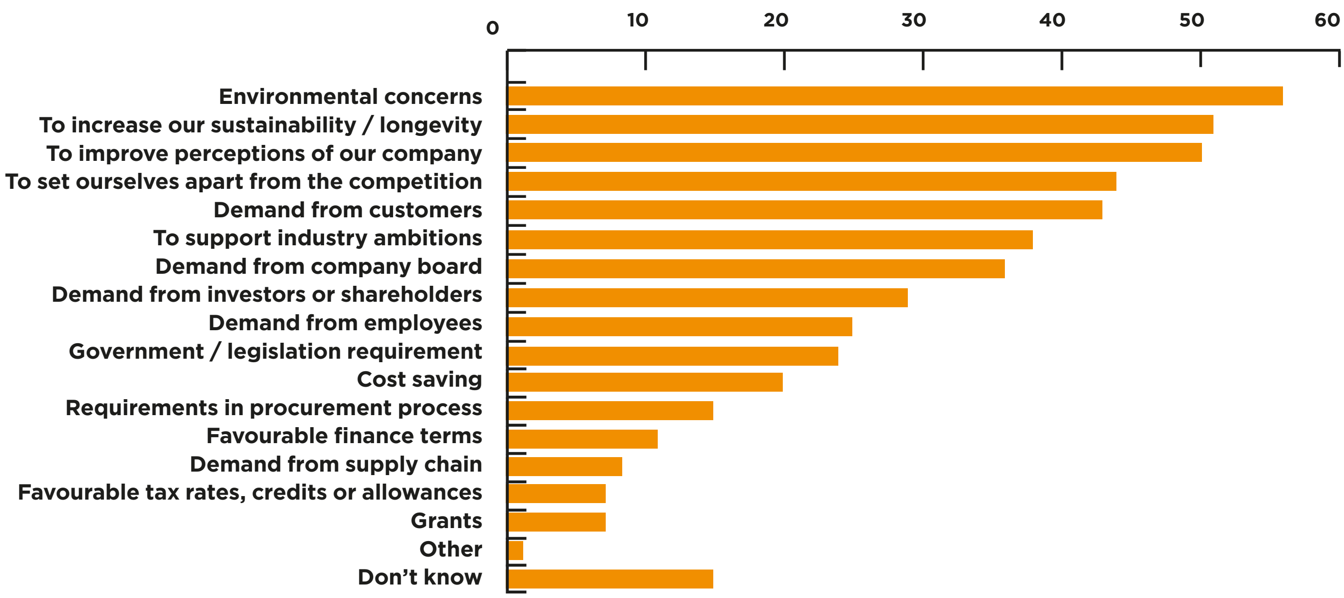
Figure 16: Carbon neutral targets



Over the next 12 months, 37% of firms expect to evaluate their suppliers' carbon footprints when awarding or renewing contracts, while 33% do not anticipate doing this. The remaining 30% were not sure whether or not this would become part of their procedures.

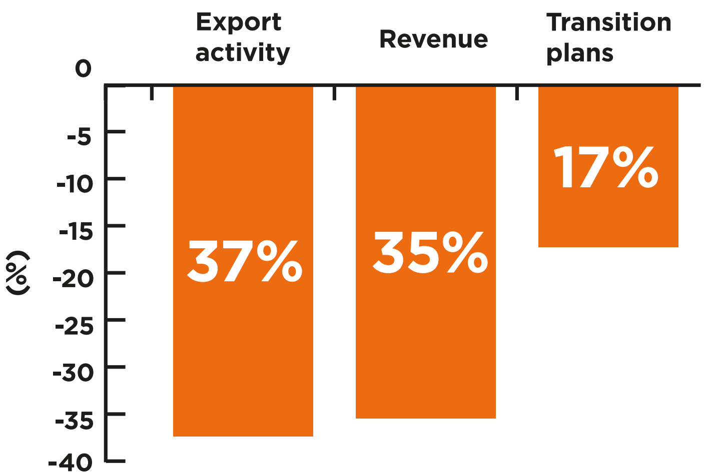
When asked if firms were being encouraged to diversify or set carbon neutral targets for any of the below reasons, 56% cited environmental concerns, 51% wanted to increase their sustainability or longevity as a company and 50% were driven to improve perceptions of the company.

Figure 17: Drivers behind diversification and carbon neutral targets



In December 2020, the UK Government announced that it will end financing and support for overseas fossil fuel projects and align its support to enable clean energy exports in the build up to COP26 in 2021. Firms were asked what impact this would have for them in 2021, and a net balance[3] of -37% expect this will have a negative impact on their export activity, -35% anticipate a negative impact on revenue and -17% predict a negative impact on their transition plans.

Figure 18: Removal of fossil fuel export support



In January, the Scottish Government also outlined their intention to withdraw support for overseas activity solely focused on fossil fuel goods and services by COP26. Subsequent to the research, we've seen governments look to progress with these plans, while also putting forward transition measures which may mitigate some of the impact, particularly on small supply chain firms. Although these measures are additionally balanced by investment in the sector through initiatives like the North Sea Transition Deal, we must continue to monitor carefully any effect they have on the sustainability of supply chain companies going forward.

Chamber viewpoint

Percentage of business in oil and gas activities

In 2018 we introduced a question asking contractors what sectors the remaining proportion of their activities were if their business was not 100% in oil and gas activity. On average, 86% (compared to 82% reported six months ago) of contractors' business was in oil and gas activities. They were then asked what percentage of their business they expect to be within oil and gas activities by 2025 and here the average fell to 68% (70% six months ago). Looking in more detail around a third of contractors (34%) reported that all of their business was in oil and gas with a further 39% saying that between 80% and 99% of activity was oil and gas related. By 2025 just 44% of contractors expect at least 80% of their activity to be in oil and gas whereas 17% expect oil and gas to account for less than half of their activity.

%	2018 Autumn	2019 Spring	2019 Autumn	2020 Autumn	2021 Spring	Expected by 2025
100%	48%	48%	41%	38%	34%	25%
80-99%	31%	32%	36%	32%	39%	18%
50-79%	12%	10%	15%	24%	24%	39%
0-49%	9%	9%	7%	7%	3%	17%

The most common sectors outside of oil and gas that contractors reported operating in were offshore wind, other general engineering, other renewables and decommissioning. On average these sectors accounted for between 5% and 15% of activity.

When asked which sectors contractors expect to operate in over the next three to five years, decommissioning (60%), offshore wind (51%), and carbon capture & storage (45%) were the most frequently cited.

[3] Proportion of firms reporting a positive impact minus the proportion of firms reporting a negative impact

Appendix

The Oil and Gas Survey is conducted by the Research Chamber in partnership with KPMG and Aberdeen & Grampian Chamber of Commerce and supported by Strathclyde University's Fraser of Allander Institute.

Methodology

The Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey seeks evidence of changing trends and uses net balances as the principal survey statistic. Most questions of this nature ask the respondent to indicate whether the trend over the past four months and expected trend over the next 12 months is either 'up', 'level' or 'down'.

The net balance for such survey questions is defined as the number of 'up' responses minus the number of 'down' responses to each survey question. Hence a positive net balance indicates a rising trend, and a negative net balance a declining trend.

Generally, the net balance can be expected to reflect the direction of change of the variable it purports to measure. Thus, for example, a positive net balance with respect to orders indicates that orders are rising. So typically, the balance statistics are assessed by comparing them with growth rates, not levels of official data series [Treasury Bulletin Vol. 4 no. 2 Summer 1993]. A total of 100 firms in the oil and gas sector employing 27,400 workers in the UK (and over 183,000 globally) responded to the online survey in March 2021.

We would like to thank all survey participants. Without your time and input 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.

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