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Media Release

Half of oil and gas firms confident for the first time in four years
-The bottom has been called on the downturn –

- *First time since 2013 half of contractors more confident about UKCS activity*
- *60% of firms believe the sector has reached the bottom of its current cycle*
- *Salary cuts fall and employment improves with 30% increasing employment in the last 12 months*

Contractor confidence in the UK Continental Shelf (UKCS) has risen with almost half being more confident about their prospects for the first time since 2013, according to an industry report released today (Thursday, November 30th).

The findings of the 27th Oil and Gas survey, conducted by Aberdeen & Grampian Chamber of Commerce in partnership with the Fraser of Allander Institute and KPMG, reveal that 49% of contractors surveyed are more optimistic about their activities in the current year, up from 38% since the spring survey.

The survey looked at work in the six months to October 2017, asking firms about their prospects in the year ahead as well as the next three to five years in order to assess trends in exploration and production, decommissioning, renewable and unconventional oil and gas extraction activities both in the UK and international markets.

It found that a net balance of 39% continue to expect a rise in optimism in the year ahead, with almost half (48%) more confident and only 9% less confident; while a net balance of 28% of firms are forecasting an increase in the value of production-related work in the coming year.

The share of contractors working at, or above, optimum levels in their UKCS operations peaked at 79% in 2013 and has been declining steadily over the last three years to a low of 12% last year. However the latest results show this has improved, with 27% of contractors now identifying that they are working at, or above, their optimum levels in the UK.

The survey also indicates contractors' expectations of greater involvement in decommissioning activity over the medium term with 83% reporting potential involvement in the next three to five years. There also appears to be a firming up of opinions on unconventional oil and gas compared to previous years, with 71% of operators/licensees now not predicting any involvement in the UK compared to 40% last year. The number of firms expecting to become more involved in renewables has remained unchanged (54%).

The autumn survey also looked at employment and labour market issues in the oil and gas sector. Less than a quarter (23%, compared to 68% in 2016) of contractors reduced their employment in 2017, while almost half (47%, compared to 24% in 2016) held employment stable. A total of 30% (compared to only 8% in 2016) increased employment. Looking forward, the survey suggests a continued positive outlook with a net balance of contractors (36%) expecting a rise in employment across both permanent and contract staff.

The proportion of firms reporting salary cuts also fell during 2017, from 43% in the previous survey to 25%. While many have remained steady, the number of contractors increasing pay during the period rose 10% overall to 29%. The number of vacancies also remains historically low, suggesting limited prospects for major hiring in the sector, however both operators and contractors are forecasting an increase in the total number of employees going forward.

Meanwhile, the trend in skilled workers leaving the industry continues although figures suggest it has eased marginally, down to 38% from 43% at the same time last year.

Looking further ahead the sector is planning to diversify further with 82% of business currently being undertaken focused on oil and gas, but with an expectation of this figure being 72% by 2025.

James Bream, research and policy director at Aberdeen & Grampian Chamber of Commerce, said: "The underlying data suggests that rather than an industry with 'cautious optimism' we actually see a picture of significant diversity with some companies buoyant and performing well while others remain fragile. It does look like the worst is likely to be over, at an aggregate level, with 60% of firms believing that the industry has already reached the bottom of its current cycle and a further 24% predicting this will happen within the next 12 months. However as activity levels and revenue remain lower for many compared to three years ago business models for some may be simply unsustainable.

"When asked what position businesses expect to be in by January 1, 2019, 54% expect their business to be growing while none expect to be declining. This is a vast improvement on the findings from a year ago and indicates that the businesses which have been able to withstand the downturn are seeing a change in their operating environment and are focused on the potential upside.

“We were perhaps surprised that the expectation is that in 2025 respondents on average felt 72% of revenue would still be from core oil and gas activity. We may need to be more ambitious around diversification to secure growth to retain the scale of the sector at these percentages, unless we see a large increase in UKCS capital investment or a step change in internationalisation. Both of these feel unlikely at the moment with the sector already performing well on the latter measure.”

The survey also sought firms’ perspectives on a number of issues, including the impact of Brexit on talent attraction in the sector, whether businesses have undertaken certain transformational changes; and the industry’s view on when they think the current downturn will bottom-out.

The majority of firms are not overly concerned. Since this time last year, the number of firms reporting an impact on talent attraction has risen 11% to 33%, although 47% believe it will have no impact, down from 54% in 2016. More than half (54%) have changed the structure of their organisation in the last six months with slightly more than quarter starting process change or the application of new technologies (28% and 27% respectively).

When asked to give their predictions as to when the sector will reach the bottom of its current cycle, the majority (60%) felt it already had, compared to 52% in the spring and only 29% this time last year. A further 24% forecast this will happen within the next 12 months and 11% anticipate that it will happen within 1-2 years. Only 6% felt that it would take longer.

Moray Barber, partner at KPMG, said: “We are proud to partner with Aberdeen & Grampian Chamber of Commerce on this survey, which has long been a reliable barometer for the current health and future outlook of the oil and gas industry in the UK. This survey provides some reassurance that the industry, in general, is in a more stable condition. Companies have been fully focused on driving efficiency across all business areas, which has included a period of intense cost cutting and, in some cases, a complete reassessment of the effectiveness of current business models to survive the lower for longer oil price. As a result, the industry has undoubtedly undergone some transformational change to ride out the downturn.

“However, having come through a more productive phase of value creation and new ways of working, it is encouraging to see that 60% of companies in this survey believe that the industry has already reached the bottom of its current cycle. Whilst this indicates a more positive attitude is developing across the industry, there is still a long way to go to get back to 2013 productivity levels, with only 27% of contractors stating that they are working at or above their optimum levels in the UK.

“That said, as the industry shifts its focus to driving increased performance and productivity from the UK Continental Shelf (UKCS), continued investment in recruiting and maintaining the best talent and skills, and making use of available transformational technologies will help to drive the industry forward, and with this survey demonstrating increased confidence for the year ahead, there is every possibility that the industry will continue to show resilience and deliver strong results during 2018 and beyond.”

Mark Andrews, KPMG partner and UK head of oil & gas, said: "With the industry enduring a persistently lower oil price and much uncertainty in recent years, new investment has slowed and both productivity levels and production volumes have taken a hit. However, this latest report on the current situation in the UK oil and gas sector provides some reassuring signs that confidence is growing in the industry.

"To ensure that we drive production efficiency and maximise the recovery from existing producing assets, it is critical that the industry continues to invest in new operating models and transformative technologies, such as digital and intelligent automation. It is encouraging to see that this change is already happening in the industry, with the survey showing that more than half of firms reported changes to the overall structure of their organisation in the last six months, and more than a quarter of firms have implemented process change or applied new technologies. Looking ahead, the survey demonstrates a rising confidence within the industry, and it is welcome news that more than 50% of respondents expect to see growth in UK Continental Shelf over the coming 12 months."

Ends

Notes to editor

- The 27th Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey is independently conducted by the Fraser of Allander Institute. Established in 2004, the 27th survey was conducted in April 2017 and represents the views of 95 firms employing a total of 40,414 employees in the UK.
- Media interviews are available. Please contact the Chamber of KPMG direct to arrange.
- Aberdeen & Grampian Chamber of Commerce (AGCC) is North-east Scotland's leading private sector, member-focused, business organisation. The Chamber represents more than 1,250 businesses with around 125,000 employees covering all industry sectors, ranging in size from sole traders to multi-national corporations.
- The Fraser of Allander Institute is a research unit of the University of Strathclyde in Glasgow and is formally part of the Department of Economics and the Strathclyde Business School. The Institute carries out research on regional issues generally and the Scottish economy in particular,

including forecasting and the analysis of short-term and medium-term movements in Scottish economic activity.

- KPMG LLP, a UK limited liability partnership, operates from 22 offices across the UK with approximately 13,500 partners and staff. The UK firm recorded a revenue of £2.07 billion in the year ended 30 September 2016. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. It operates in 152 countries and has 189,000 professionals working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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