



## Media Release

### **Trends in E&P activity values reach highest levels since 2014**

#### **Gap between UKCS and international market confidence has closed for first time in five years**

- *UKCS contractor investment now outweighing cost reductions*
- *Almost three quarters of firms forecasting profit increases in 2018*
- *Seven in 10 contractors optimistic the upward trend will continue over the next 12 months*

The value of exploration and production activity across the UK Continental Shelf (UKCS) continues to rise with firms also now equally optimistic about the North Sea and international markets for the first time since 2013 according to an industry report released today (Thursday, May 24<sup>th</sup>).

The findings of the 28th Oil and Gas survey, conducted by Aberdeen & Grampian Chamber of Commerce in partnership with the Fraser of Allander Institute and KPMG, reveal that while firms have in recent years looked to international markets for business growth, business confidence is returning to the UKCS in terms of its potential future prosperity.

Overall almost two thirds (64%) of contractors are more confident about doing business than they were a year ago with only 8% indicated being less confident. This net balance of plus 56% is greater than the plus 39% recorded in the previous survey and the highest net balance recorded since spring 2013. Going forward, seven in 10 contractors (71%) expect the upward momentum to continue.

The trend in the value of UKCS exploration-related work, which has been negative since spring 2014 and dipped to its lowest point in autumn 2016, is finally in the black at a net balance of plus 3%. This is expected to rise to 21% in the next 12 months. The value of international exploration work has, on balance, also been negative since spring 2015 however in this latest survey a net balance of plus 4% of contracting firms indicated an increase, with a net balance of plus 18% expecting a further rise during the coming year.

Contractors are also reporting a more positive outlook around production-related work in the UKCS. For the first time since 2014 firms (a net of plus 20%) have expressed a rise in the value of production activities, with 46% forecasting a further increase in the 12 months ahead.

There is further good news when it comes to investment. While 41% of contractors – the highest figure since autumn 2014 – are now working at or above optimum levels in the UKCS, more firms (30%) increased their investment in the region in the last 12 months than those who had reduced their spend (21%). This is a significant shift from the position of two years ago and the trend is expected to continue in the next two years. Operators and licensees, on balance, are also forecasting a rise, suggesting the sector's own outlook is increasingly positive.

The survey looked at work in the six months to March 2018, 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 and other related oil and gas extraction activities both in the UK and international markets.

Moray Barber, partner at KPMG, said: "It is heartening to note the rising confidence the respondents have in the UKCS with nearly three quarters of the firms forecasting an increase in business optimism in the region. Over the last couple of years, the survey has showed us that firms have been more focused on international markets for business growth. However, the latest set of survey results indicates that there is now a rebalancing taking place, with our region becoming just as important again in terms of securing future growth.

"Firms are telling us that whilst commodity prices remain an important factor, the extent to which they might hinder growth has lessened significantly. Perhaps this is a sign that firms now consider themselves to be suitably agile in terms of their business structures.

"The industry generally continues to be more positive. Recovery in market sentiment is steady but challenges remain in terms of skills shortages and cash flow particularly for SMEs. The survey shows that lengthy payment terms continue to be a problem for SMEs. Against a backdrop of the UK's new Payment Practices and Performance Reporting ('PPPR') regulations and Oil & Gas UK's Supply Chain Code of Practice, we need to see improvements in this area if the sector as a whole is to flourish."

The sector also continued to see a slowdown in the rate of job reduction. Whilst operators are, in the main, forecasting a reduced slowdown in job reduction, contractors in the supply chain reported a marginal increase (0.2%) in headcount, indicating the recent trend in net job reduction has halted. The survey also showed 70% of firms are forecasting an increase in profits in 2018.

Russell Borthwick, chief executive of Aberdeen & Grampian Chamber of Commerce, said: “The oil and gas sector has faced up to some significant and structural challenges over recent years and is beginning to emerge fit for the future. Companies across the eco-system have and continue to adapt and adjust their approach to ensure the industry’s future viability with collaboration and co-operation as well as the implementation of new technology to improve efficiency being cited.

“It does appear that a corner has been turned but we must avoid complacency. The future strength of the sector depends on operators, contractors and suppliers continuing to work together in the new way as the climate continues to improve. A steady recovery, not a return to boom and bust is what is required. What is clear is that oil and gas will remain a key contributor to the Scottish and UK economies for many years to come.”

## **Ends**

### **Notes to editor**

- The Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey is independently conducted by the Fraser of Allander Institute. Established in 2004 and the longest-running report of its kind in the UK, the 28<sup>th</sup> survey was conducted in March 2018 and represents the views of firms employing a total of 33,381 employees in the UK.
- Aberdeen & Grampian Chamber of Commerce AGCC is North-east Scotland's leading private sector, member-focused, business organisation. The Chamber represents more than 1,200 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.

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