



Media Release

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Confidence crisis for North Sea oil and gas industry

- *Confidence and activity levels on the UK Continental Shelf at record lows*
- *Redundancies predicted to continue, with warnings of risking the loss of key skills and competitive advantage*
- *Firms considering alternative revenue streams from decommissioning to unconventional oil and gas or renewables*

The confidence of North Sea oil and gas contractors is at an all-time low, according to a new industry report¹ released today (Thursday).

Four in five contractors (79 per cent) surveyed say they are less confident in their prospects than a year ago, compared to just one per cent that are more confident.

The findings, from the 23rd Oil and Gas Survey, conducted by Aberdeen & Grampian Chamber of Commerce in partnership with the Fraser of Allander Institute and sponsored by law firm Bond Dickinson, also reveal the lowest level of firms working at or above optimum levels in the UK Continental Shelf ("UKCS") since the survey began in 2004.

Just 16 per cent of contractors report working at or above optimum levels, down from 21 per cent in the previous survey.

Confidence has not been helped by a high level of recent redundancies in the industry. Some 64 per cent of firms have reduced their workforce in 2015 compared to just 14 per cent who increased numbers.

Response to the wave of redundancies across the sector is mixed.

While over half of firms (54 per cent) agree that redundancies were a strategic response to make the industry fit for the future, a similar percentage (58 per cent) also believe the level of redundancies was excessive, and risks losing key skills and competitive advantage.

Indeed, the most common destination of qualified staff leaving contracting companies is to leave the industry altogether (31 per cent), followed by retirement (29 per cent).

Worryingly, 85 per cent of respondents think the job losses will continue over the next year.

James Bream, research and policy director at Aberdeen & Grampian Chamber of Commerce said: "The low confidence levels being reported come as no surprise and the outlook suggests there will be more pain ahead for the sector.

"However, if we are not complacent, a long-term future still exists for the sector and players such as the Oil & Gas Authority will have a major role alongside the industry itself.

"The fact is that the UKCS is a frontier basin and always has been. This provides a unique set of opportunities which can continue to allow our supply chain to be active around the globe, but this success is not guaranteed."

"Unusual" issues

North Sea firms responding to the survey report a range of unusual challenges that are currently posing them problems.

Four in five firms (80 per cent) says they are seeing an abnormal increase in the number of projects being cancelled.

Seventy-six per cent are seeing an unusual increase in the time taken to make procurement decisions, and 45 per cent have noticed a particular spike in late payments.

In the face of this challenging economic environment, North Sea businesses are giving serious consideration to alternative revenue streams.

Seventy-eight per cent of all firms questioned expect to be more involved in decommissioning work in the next three to five years; two-thirds (67 per cent) of firms expect greater involvement in unconventional oil & gas activities; and nearly half (46 per cent) expect greater involvement in renewables work.

Firms report that the attributes most in demand over the coming three years would be decommissioning experience, followed by international experience and project management skills.

Uisdean Vass, oil and gas partner at Bond Dickinson, said: "This is probably the most negative survey we have ever had and while there is little to be positive about in the short term, there are some glimmers of hope.

"Over the next three years 28 per cent of contractors expect their numbers of core staff to increase. Neither contractors nor operators see the North Sea disappearing.

"They believe the industry can survive at \$50 a barrel and that there will be a price upswing over the next three years with more room for oil company profitability because of enhanced efficiency. Contractors will also benefit from enhanced efficiency.

“As the old saying goes, 'What doesn't kill you makes you stronger'.

"Firms identified decommissioning experience as the number one skill required over the next three years which is a bitter-sweet positive.

“An increase in decommissioning activity will inevitably herald a decline in offshore exploration and production so in a certain sense the industry will feed on the body of infrastructure which supports it.”

Other key findings from the survey include:

- **Activity levels overseas:** The activity picture is slightly healthier in overseas markets, with 36 per cent of contractors reporting working at or above optimum levels, though this is still a significant decrease from 52 per cent in the previous survey.
- **Role of the OGA unclear:** Forty seven per cent of respondents don't feel the role of the Oil & Gas Authority (“OGA”) has been explained well enough to them, a lack of clarity felt particularly amongst contractors. Twenty two per cent of firms are not confident that the OGA has the powers it requires to protect the future of the UKCS and 62% are uncertain.
- **Training high on the agenda:** Training of existing staff is the most likely route to acquire the skills needed over the coming years, cited by 58 per cent of respondents, followed by increasing their use of contractors (37 per cent); recruiting from other UKCS firms (27 per cent); and recruiting from other industries (22 per cent).

Ends

Notes to editor

- ¹ 23rd Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey. The survey is independently conducted by the Fraser of Allander Institute. Established in 2004, the 23rd survey was carried out between September 7 and 25, 2015 and represents the views of 139 firms employing a total of 78,000 employees in the UK.
- The full Aberdeen & Grampian Chamber of Commerce 23rd Oil and Gas Survey is available under embargo upon request.
- Uisdean Vass, Oil and Gas expert from Bond Dickinson and James Bream from AGCC are available for media interviews. Please contact the relevant contact below.
- Grant Allan from Fraser of Allander is also available for phone interviews.
- Aberdeen & Grampian Chamber of Commerce (AGCC) is North-east Scotland's leading private sector, member-focused, business organisation. The Chamber represents more than 1,350 businesses with almost 130,000 employees in the private sector covering all industry sectors, ranging in size from sole traders to multi-national corporations.

- Bond Dickinson is a leading UK law firm providing a comprehensive legal service to clients across a wide range of sectors, from seven cities across the UK including London. Its Oil and Gas team is one of the most respected in the sector, with specialist lawyers providing cutting edge advice on all Exploration and Production activities as well as on all aspects of law affecting oil & gas service companies in their day-to-day activities. Clients include super-majors to large independents, AIM-listed companies and SMEs in both the upstream Exploration & Production (E&P) arena and the service sector.
- 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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