



Media Release

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Survey reveals bleak picture for North Sea oil and gas industry

- Confidence and activity levels at new lows and projects cancelled due to oil price fall
- Increase in decommissioning “a bittersweet positive”
- “Opportunities exist” for businesses in North Sea and overseas

Two-thirds of North Sea oil and gas industry operators (67 per cent) have been forced to cancel projects because of the recent fall in oil price, according to an industry report¹ published today (Thursday).

The findings, from the 22nd Oil and Gas Survey, conducted by Aberdeen & Grampian Chamber of Commerce in partnership with law firm Bond Dickinson, reveal that half of operators (50 per cent) have been forced to reduce staff training for the same reason.

The fall in oil price has been a contributory factor to a fall in confidence and activity levels in the sector. Contractors’ confidence in the UK Continental Shelf (UKCS) is at its lowest point since the survey began in 2004. Only 7 per cent of contractors are more confident about their UKCS activities than they were a year ago, compared to 76 per cent who are less confident.

The percentage of firms that report working at or above optimum levels in the UKCS has also fallen to its lowest level since the survey began in 2004. Just one in five contractors (21 per cent) is working at or above optimum levels, down from 47 per cent in the previous survey and just over half (52 per cent) report working at or above optimum levels in overseas markets, down from 72 per cent.

Exploration has been a big casualty of the challenges facing the oil and gas industry, with 70 per cent of all firms involved in exploration having seen the value of it fall in the past 12 months, and just 8 per cent of them expecting the value of exploration to increase in the coming year.

One respondent cautioned that although measures in the March 2015 Budget were welcome, further stimulus to exploration and investment is required: “Allowances on producing fields were welcome,

but more was needed to increase exploration drilling, without which there will be no new projects and decommissioning will accelerate, thus removing infrastructure and opportunity for good.”

James Bream, research and policy director at Aberdeen & Grampian Chamber of Commerce, said: “Once again we have a set of results that give us clear signals that new opportunities exist and tells us that actually - contrary to what people say - we haven’t been here before.

“Confidence levels are at an all-time low and we are now experiencing our first ‘recession of confidence’, and it looks gloomy in the year ahead too. However, we have seen positive tax changes, the OGA team is bedding in and in the Queen’s Speech the new UK Government has committed to legislating for the Infrastructure Bill.

“There is lots to build on and just perhaps it is possible that we are seeing the start of the next phase in our role at the frontier of the oil & gas sector. Can we grasp the opportunity to lead the way in decommissioning practices and become a new high efficiency basin as we mature faster than others? This is a mid-life crisis in the UKCS but as some people say life begins at 50.”

One area showing increases in activity is decommissioning. Over 80 per cent of contractors involved in decommissioning have seen increases in their activity in the last 12 months, and only one in four of these contractors (24 per cent) expect the value of it to decrease in the next 12 months.

Bond Dickinson, which has been involved in 25 per cent of all decommissioning projects on the UKCS, says the survey findings confirm its experience with clients.

Uisdean Vass, oil and gas partner at Bond Dickinson, said: “Decommissioning is the bittersweet positive in the survey. Academics have been predicting an imminent spike in decommissioning for years but that spike is now well and truly upon us. Decommissioning is not driven by oil price or demand and could be very important in maintaining the value of activity in the North Sea – but the inevitable downside is that it hastens the decline of offshore exploration and production.

“There are other opportunities for companies in the sector. It has never been more important for contractors to focus on technology improvements and internationalisation, and in world terms, there are new opportunities in unconventional and in new jurisdictions such as Mexico, which has signed a memorandum of understanding on collaboration in the energy sector.”

Other key findings from the survey include:

Tax and regulation causing issues for contractors: Tax issues were cited by 81 per cent of contractors as a constraint on their activity in the UKCS, a huge increase from 28 per cent in the last survey. There were also increases in the number of respondents reporting “complex regulations”, “cost of capital” and “access to capital” as constraints on their UKCS operations. Complex regulations are now an important issue for 74 per cent of contractors, significantly up from between 20 and 40 per cent in previous surveys.

Uisdean Vass continued: “The UK oil and gas sector is going through a regulatory and fiscal transition at blistering pace and with a new regulatory authority in the Oil and Gas Authority, companies in the sector are understandably increasingly concerned about how they will be affected.”

Investment intentions for staff training: Half of all firms (46 per cent) are maintaining levels of expenditure on staff training over the next 12 months. However, more contractors (28 per cent) are expecting to reduce spend in this area than increase it (23 per cent). The pattern is even bleaker with operators, with a majority of them (60 per cent) anticipating a reduction in expenditure on staff training in the next 12 months.

Ends

Notes to editor

- ¹ 22nd Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey. The survey is independently conducted by the Fraser of Allander Institute. Established in 2004, it approached 700 operator, contractor and service companies over a two-month period in March/April 2015.
- Feedback is used to track sector performance and to understand the issues faced by respondents within the sector and in particular how these relate to and impact upon the wider business community that the Chamber represents.
- The full Aberdeen & Grampian Chamber of Commerce 22nd Oil and Gas Survey is available under embargo upon request.
- 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.

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