University of Strathclyde Glasgow

Aberdeen & Grampian Chamber of Commerce

Aberdeen & Grampian Chamber of Commerce

Oil and Gas Survey

26th Survey: June 2017

Contents

Survey context

The oil and gas sector continues to show resilience in the face of continued challenges, not least the sustained low oil price.

At the time of writing (May 2017), prices continue to fluctuate around $50 per barrel – half the level witnessed in 2014.

Whilst the outlook for prices remains uncertain, on balance most investors predict that they will remain around their current levels for the foreseeable future. Management of the flow of oil and gas onto international markets will continue to be the dominant factor in pricing.

The world's major oil producers continue to seek to reduce the over-supply that still dominates the international commodity market, but remain cautious of the limits in doing so given an increasingly efficient and responsive shale industry in the US. With this in mind, on the 25th May 2017, Opec agreed to extend its relatively modest production cuts into next year, securing the support of Russia and other non-Opec nations.

One positive factor is that the global economic outlook is healthier than it was six months ago. Economic activity is picking up with a long-awaited cyclical recovery in investment, manufacturing, and trade.

The IMF expect global growth to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018 – broadly in line with the long-term average for the global economy. Once again, emerging markets will continue to lead the way, although the outlook for both the US and Europe continues to improve. This should improve levels of demand for commodities and help to increase profitability.

The contrast with the performance of the Scottish economy could not be starker. Scotland continues to be impacted by many of the ongoing challenges in the industry, although it is increasingly apparent that other weaknesses in the wider economy may also now be contributing to the gap opening up with the UK.

The Scottish economy grew 0.4% in 2016, compared to growth of 1.8% in the UK as a whole.

Sectors closely tied to the industry, particularly elements of the manufacturing and service supply chain, have been badly impacted. The north east of Scotland has seen a rise in unemployment, albeit it remains one of the top performing regions in the country.

Over the next few months, we will start to see much greater detail of both how the UK will leave the European Union and the new trading relationship that we will have not just with Europe, but also further afield.

For a global industry accustomed to economic and policy instability, we should not be surprised that oil and gas companies will prove resilient to change. That being said, the prospects of a hard Brexit with restrictions on EU workers in the industry and the potential for tariffs not just on exported refined petroleum goods but other goods as well, does add in an extra layer of uncertainty.

Chamber viewpoint

This is the 26th Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey developed in collaboration with the University of Strathclyde's Fraser of Allander Institute.

Our latest survey examines trends and views on research & development and investment in the UKCS as well as providing key trend data concerning activity levels, confidence and employment. In addition to these questions, we gathered the views of business on the future of the industry.

This latest edition reveals something of a mixed picture with confidence rising from the record lows measured over the past few surveys but also highlighting that many companies are still experiencing difficult trading.

Although we are now seeing UKCS business optimism finally return to positive territory with 38% of contractors reporting that they are more confident than they were 12 months ago, we must take note of the 52% who feel no different to six months ago. This tells us that although green shoots are visible there is still a way to go in seeing a recovery across the industry.

Findings suggest that we may already have or be close to reaching the bottom of the downturn with 78% either believing this has already happened or predicting it will over the next twelve months.

While more contractors have reported working at or above optimum levels, there is still evidence of labour market challenges with operators / licensees reporting a 2.5% decline in their FTE workforce, and a 6% decline for contractors, in the 12 months to March 2017.

International markets are offering more positive opportunities for supply chain companies with significant improvements in confidence in current activity, and we're now seeing a net balance of +46% compared to the -6% recorded six months ago.

When asked what position businesses expect to be in by January 1, 2018, 42% expect their business to be growing while only 2% expect to be declining. This is a vast improvement on the findings from six months ago which suggested only 16% expected to be growing by January 1, 2017, and indicates that businesses are seeing a change in their operating environment and are focused on their future.

We are starting to see some positive movement in the direction of investment spending and it is reassuring to see that companies are forecasting an increase in R&D and staff training over the next two years after the significant declines recorded in both areas a year ago.

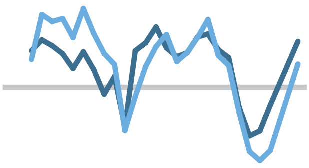
However, much of the anecdotal feedback we received highlighted concern in terms of the political environment and indicated that the additional uncertainty around Brexit and the prospect of a second independence referendum could be having an impact on investment.

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 delivering our commitments to bring you independent and impartial insights into the key issues facing your business and the wider sector and to the Chamber's aim of creating the buoyant, diversified regional economy that will enable our 1,250 member businesses and the 125,000 people they employ to be more successful and prosperous.

Russell Borthwick,
chief executive,
Aberdeen & Grampian Chamber of Commerce

OIL AND GAS SURVEY SUMMARY

Key findings from Oil and Gas Survey 26



Contractors' confidence in the UKCS has improved significantly with a net balance of plus 28% - the highest since Nov 2012 - Mar 2013

69%

69% of contractors are either possibly or definitely expecting to be involved in unconventional activity in the UK in the medium term

Confidence is significantly higher for non-UKCS markets and this survey recorded positive net balances for contractors' optimism for both current (+46%) and future non-UKCS activity (+60%)

Firms involvement

54%

of all firms anticipate becoming more involved in renewables in next 3-5 years

81%

of all firms expect to be involved in decommissioning in next 3-5 years

Operators / licensees have experienced a 2.5% decline in their FTE workforce, compared to a reduction of 15% in the previous survey

FIRMS WERE ASKED TO PREDICT WHEN THE SECTOR WILL REACH THE BOTTOM OF ITS CURRENT CYCLE

52% feel that it already has

26% predict this will happen within the next 12 months

13% anticipate it will happen within one to two years

9% feel that it will take longer

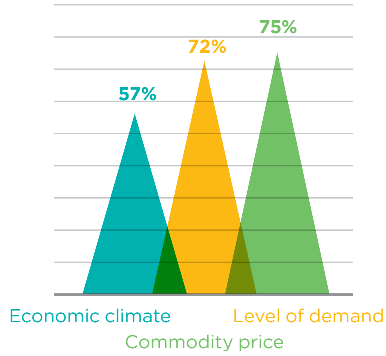
CONTRACTOR VACANCY RATE

0.25 PER 100 JOBS

down from 0.8 in the previous survey

By January 1, 2018 42% expect their business to be growing while only 2% expect to be declining

WHAT IS LIMITING CONTRACTORS' ACTIVITY IN THE UKCS



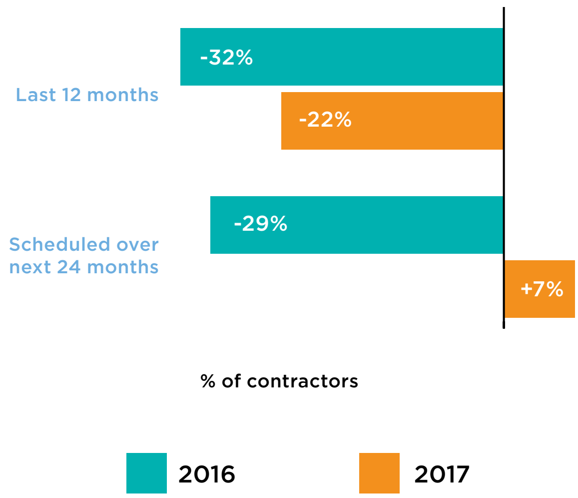
Contractors' investment spend on 'developing new markets' is expected to increase in 2017/18 for a net balance of +74% of contractors

24%

of contractors were working at or above optimum levels in the UKCS

Contractors anticipate increasing headcount by an average of 0.8% over the next 12 months

DIRECTION OF INVESTMENT SPEND IN UKCS (NET BALANCE)



Business optimism

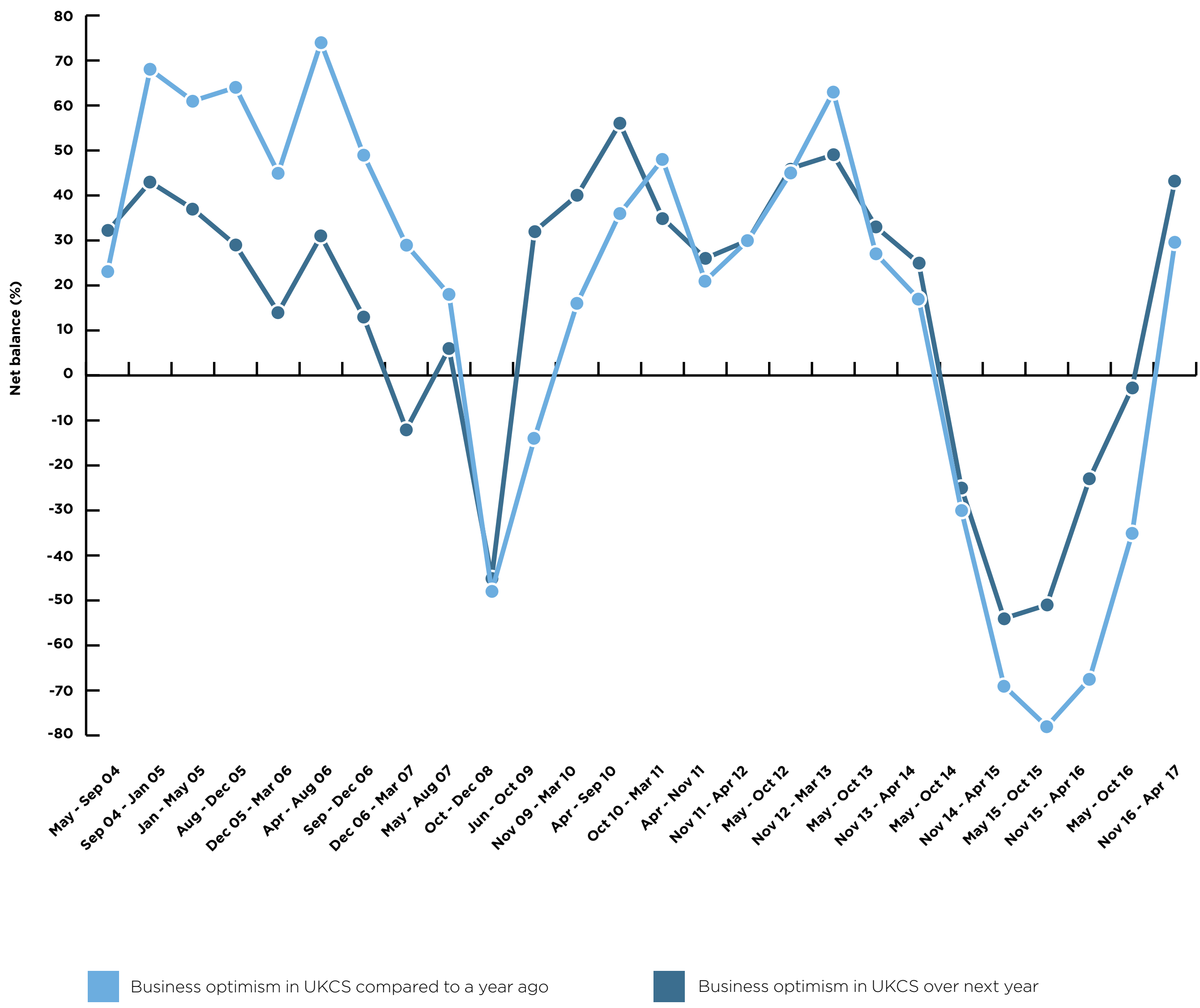
United Kingdom Continental Shelf

Our survey found that 38% of contractors are more confident about their activities in the UKCS in the current year, while only 10% are less confident. The net balances of plus 28% is significantly up on last autumn's survey (Survey 25) net balance of minus 35%, and is the highest net balance since the November 2012 -March 2013 Survey.

For the first time since November 2013 -April 2014, a net balance of firms are forecasting a rise in contractor optimism in the UKCS, with 51% more confident and only 7% less confident about their activities in this period.

> Crucially the graph doesn't reflect the perspective of the majority (52%) who feel they are in the same mind-set as 6 months ago. This demonstrates forecasts of a 'universal' recovery may be premature.
>
> **CHAMBER VIEWPOINT**

Figure 1 - Contractors: business confidence in UKCS



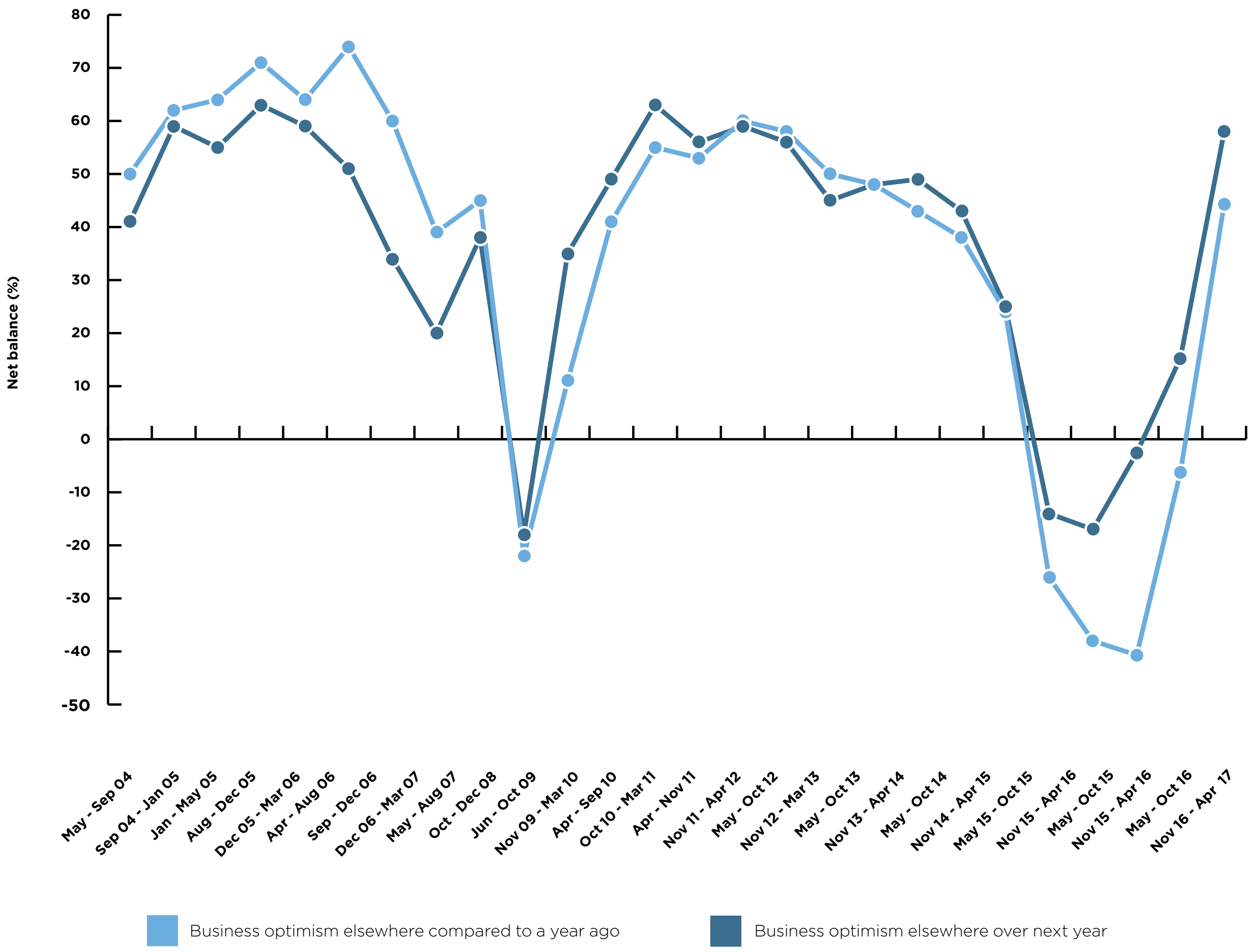
International

Survey respondents have typically been more optimistic about their international activities compared to activities in the UKCS, and this is again evident in the latest survey results. However, for the first time since May-October 2014 we now see positive net balances for both current optimism levels in international markets, and optimism over the next 12 months.

A net balance of plus 46% (i.e. 52% minus 6%) are more confident about their current international activities, significantly up on the results in the previous survey (minus 6%). Confidence looks set to improve further during the next year as this latest survey reports that the net balance measure of contractor expected optimism in international activities has improved, from plus 15% to plus 60%.

> Again international markets show more confidence with the gap from the UKCS growing.
>
> **CHAMBER VIEWPOINT**

Figure 2 - Contractors: business confidence in international markets



Trends in business activity

An overview of firms' activities in production, exploration and decommissioning as well as expected trends on renewables and unconventional oil and gas extraction are explored in this section

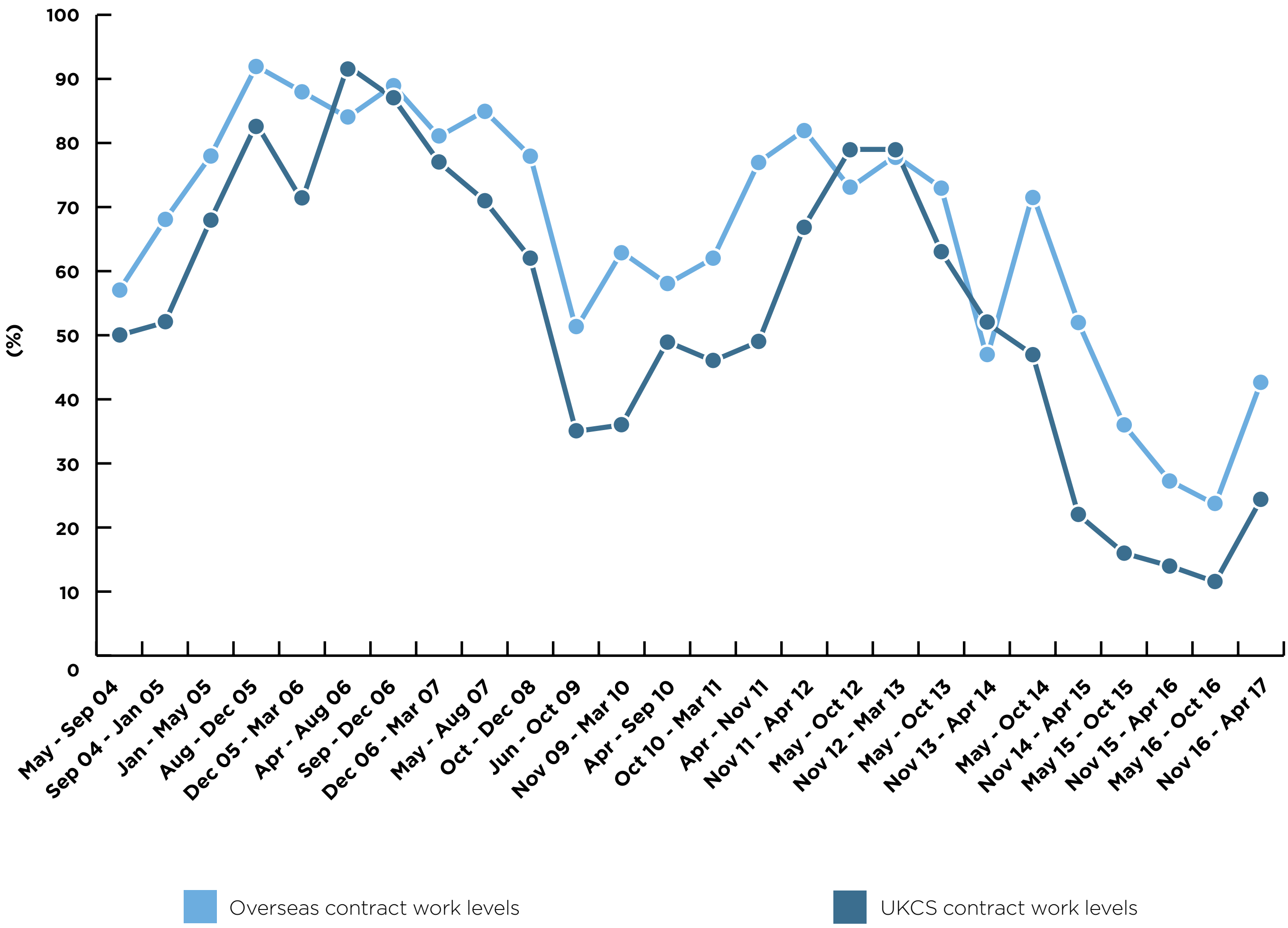
Moving from confidence, to the specific activities of firms in this year - and over future periods - trends in activity are measured in two ways.

First, firms were asked whether they are working at or above their optimum levels in the UKCS and second they are also asked about international activities. Figure 3 shows 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, and has declined steadily over the last three years. In the last survey, 12% of contractors were working at, or above optimum levels, the lowest figure since the survey began. The latest results published here indicate, however that this has improved over the six months since then, with 24% of contractors identifying that they are working at, or above, their optimum levels in the UKCS.

Contractors have generally been reporting higher activity in their overseas, rather than UKCS, portfolios over the last two years. That being said global pressures have led to fewer firms reporting working at, or above, optimum levels in overseas markets. This had continued into the previous survey (Survey 25), where more than three-quarters of firms reported working below optimum levels. However in this latest survey 43% now report working at or above optimum levels.

Figure 3 - Percentage of contractors reporting working above or at optimum levels

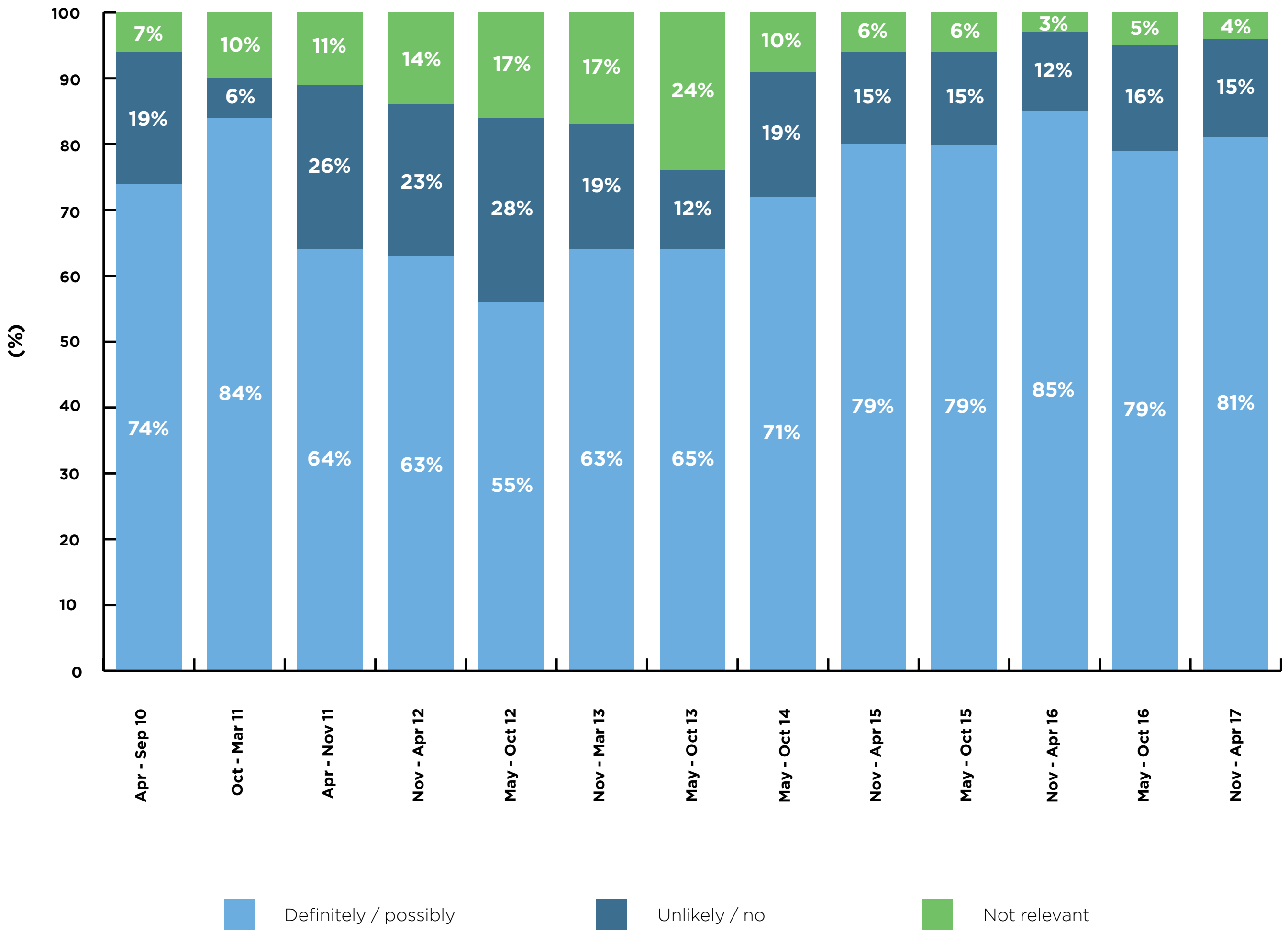


The survey asked firms about trends in production, exploration and decommissioning, both in the UKCS and in international markets. We also asked about firms' expectations of involvement in specific activities over the medium term (defined in the survey as the next three to five years). The survey asks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

Figure 4 shows contractors' expectations of greater involvement in decommissioning activity over the medium term. In the previous survey, a total of 79% reported that they were "definitely" or "possibly" likely to be more involved in decommissioning. In this most recent survey, this has risen slightly to 81%. We find:

- 41% (36% in the previous survey) reported they would definitely be more involved in decommissioning, this is the highest proportion since this question was added in 2010;
- 41% reported they would possibly be more involved in decommissioning;
- The proportion recording either that decommissioning activity is not relevant for them or that they were unlikely to be involved or would not be involved fell from 21% in the previous survey to 19%.

Figure 4 - Contractors - involvement in decommissioning activity in the next three to five years



As in the past few surveys, we asked firms about their expectations of becoming more involved in renewables activities in the medium term. Earlier results suggested that oil and gas firms were adopting a "wait and see" position on renewables. In Surveys 19, 21 and 23, 51%, 44% and 46% of contractors respectively reported they were definitely or possibly likely to become more involved in renewables. This rose to 63% in Survey 24 but declined to 53% in Survey 25. This latest survey finds this figure broadly unchanged at 54%.

Our results for this latest survey find that 69% of contractors expect to increase their involvement in unconventional oil and gas in the medium term in the UK, while 65% of contractors expect to increase their involvement in unconventional oil and gas activities outside the UK. In this survey, we find that 19% of contractors and 20% of operators/licensees see their involvement in unconventionals in the UK as "unlikely", compared to 19% and 36%, respectively, recorded six months ago.

Insight from survey respondents indicates that there is a mixed view on unconventional activity:

> *"The industry is going through a period of rationalisation impacted by the global situation and the move to renewables. However, personally, I think that there are far more issues than are recognised in getting us all into electric cars and the gestation period will be far longer than generally anticipated. Once this realisation occurs I think that there may be something of a boost to the O&G industry."*

> *"There is still plenty of work to be done in UKCS and elsewhere, but either the operators need to start investing, or they need to start selling off discovered fields to others that will invest."*

> *"Low oil prices are likely to remain for foreseeable future. High availability of unconventional oil and gas will be a major factor. UK activity will continue to decline unless UK unconventional market can be opened up sooner."*

> *"Lack of public support for developing unconventionals in UK. Pressure from operators to continue to cut prices."*

> *"Seems that there is a new ceiling at about $60 / bbl. On nudging that, unconventional plays in the USA kick in and thereby supress the price"*

Employment change

Typically, in each autumn survey we focus on employment and labour market issues in the oil and gas sector. But given the rapid change in employment in the sector recently, and the interest from a policy perspective, we have followed up on the autumn results with a further look at employment activity in the sector in this spring survey.

In this (spring) survey we have repeated a question asked six months ago in survey 25. This asked firms to record the change in their UK-based workforce over the last 12 months and the expected change over the next year.

The survey seeks information on the current UK-based workforce for each firm, and so allows us to calculate an illustrative percentage change in total UK-based workforce for both periods (we calculate this as a weighted average of the mid-points of the recorded changes in workforce, with firms' current employment numbers providing the appropriate weights). Our findings from survey 25 showed that:

- In the 12 months to October 2016, operators report a 15% reduction in their UK-based headcount; and,
- For contractors, the 12 months to October 2016 saw a 7% reported weighted average reduction in their UK-based headcount.

We repeated these questions in this survey and using an identical approach from last time, we find:

- In the 12 months to March 2017 we find that operators reported an effective 2.5% reduction in employment compared to a reduction of 15% in the previous survey suggesting that the rate of job reduction has slowed.
- In the next 12 months, operators anticipate that there will be a 2% reduction in headcount - a slight easing in the downward trend.
- Contractors reported effectively a 6% reduction in headcount during the 12 months to March 2017 which suggests that the rate of job reduction has remained fairly constant. However, this is slightly greater than the rate of reduction anticipated in the last survey where contractors had expected to reduce headcount by an average of 1%.
- Over the coming 12 months contractors now anticipate increasing headcount by an average of 0.8%. This is better than that forecast by operators and suggests that contractors anticipated an end to the downward trend in employment.

Vacancies

In Survey 21 we added a question on vacancies, noting the number of current vacancies in firms' UK activities.

We find that the vacancy rate (i.e. vacancies per 100 jobs) for operators/licensees decreased during the last six months and stands at 0.25 compared to 0.8 in the previous survey. The vacancy rate for contractors rose from 0.6 to 1.49. Although these remain low and suggest limited prospects for hiring in the sector, the rise in the vacancy rate is consistent with the easing in the downward trend in operator/licensees employment and also with contractors now forecasting a marginal improvement in the labour market.

> "The data shows some mixed messages. We still have excess capacity it would appear but if the oil price can remain stable perhaps the worst is over (on the whole) in terms of redundancies and just perhaps we may actually see some expansion with some companies. However we need to take care as consistently contractors have underestimated labour market impacts.
>
> **CHAMBER VIEWPOINT**

Investment trends

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

As the focus on investment was introduced in Survey 3 (May 2005), we have over 10 years of information on investment indicators for the sector, allowing a decade of trends to be analysed. Survey 26 repeated questions about firms' scheduled investments in the UKCS, both in aggregate and broken down across different categories.

On measures of investment spend, the overall picture remains weak, though the negative trends appear to be easing. For contractors, the net balance of total investment spend in the last 12 months remains negative at minus 22% however this is slightly up on the negative net balance of minus 32% from one year ago. The most common response to questions on investment activity in the last 12 months was that contractors' investments have been reduced. Operators and licensees, on balance, reported no change in their investment activity in the previous year.

The outlook for the next two years is more positive. More contractors expect to increase investment (26%) than reduce (19%) while more than a third of contractors (36%) are forecasting no change to their investment spend. Operators and licensees, on balance, are also forecasting a rise.

Figure 5 shows the net balance between those contractors reporting an upward and downward trend in each category of investment spending that firms are offered (i.e. the share of contractors reporting an increase in spending in this category minus the share of contractors reporting a decrease in spending). This reveals that the net balances for investment activity in 2016 in three categories were negative (i.e. more contractors reported reducing than increasing spending in these categories): these include staff training (-8% compared to -22% one year ago), equipment maintenance (-12% compared to -7% previously) and maintenance of infrastructure (-4% compared to -10% previously).

The other categories reported positive moves, with contractors overall increasing their activity in investment to reduce costs (+38% on a net balance basis), developing new markets (+42%), merger and acquisition activity (8%) and research and development (7%).

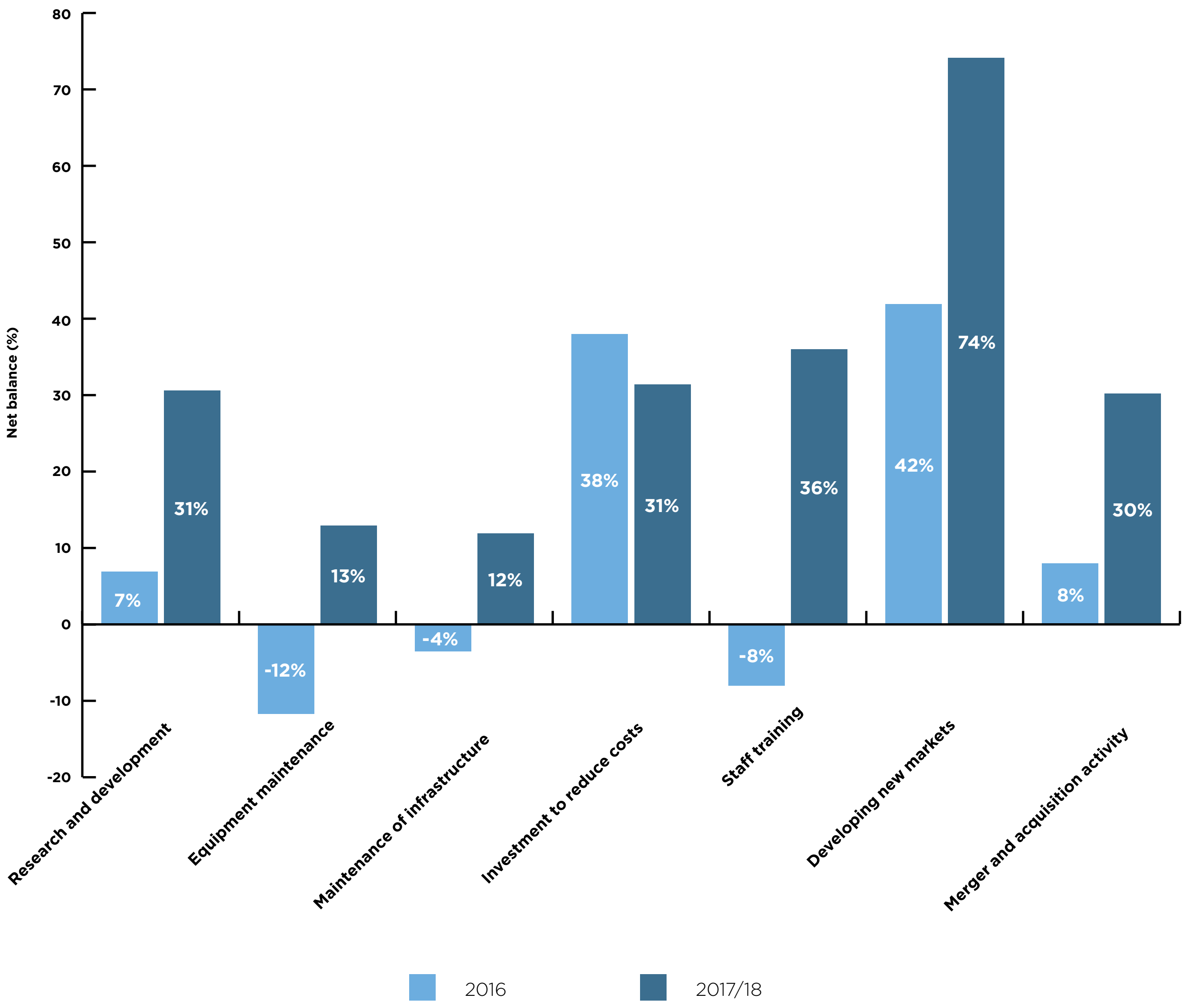
Research and development and mergers and acquisitions investment trends were both negative last year but now show positive net balances. Developing new markets and investment to reduce costs continued to show the strongest area of investment spending in 2014 and 2015, and this remained true in 2016.

With regards to specific R & D activities undertaken by firms, developing new equipment (62%), services (42%), processes (39%) and software (30%) were the most commonly cited. Twenty-two percent of firms and 14% of firms reported active involvement in decommissioning and renewables research respectively. Improving extraction processed and extraction yields were noted by 9% and 8%. Almost 1 in 5 firms reported no R & D activity. For 80% firms R&D activity was mainly located in the UK, with 16% seeing activity in Europe, 3% in the USA and 1% elsewhere.

Regarding firms' investment intentions over the next two years, there is an improvement from last year's disappointing results. Three-quarters of contractors anticipate increasing investment spend in order to develop new markets. Staff training is also expected to benefit from increased investment with a net balance of 36% of contractors forecasting an increase. Investment activity in research and development and cost reduction remain relatively strong over the next two years. A trend showing significant change is the level of merger and acquisition spend with almost a third of contractors expecting to increase spend in 2017/18.

> "Again a very mixed picture but we can clearly see confidence is perhaps a measure of vanity and investment a measure of sanity. Improvements in R & D (we'd like more) and international markets are key to our future, this is encouraging if not yet quite a recovery!
>
> **CHAMBER VIEWPOINT**

Figure 5 - Contractors - direction of investment spend 2016 and scheduled trend 2017/18



Figures 6 and 7 illustrate the changing priorities for contractors' investment spending between 2005 and this survey. These are reported again as the net balances between positive and negative trends in investment spending in each of six categories. Figure 6 shows the expected trends in investment spend between 2011/12 and 2017/18, while Figure 7 shows the actual trends as reported by contractors between 2005 and 2016.

We sought firms' responses on specific examples on how the volume and types of their company's R & D activities have changed in the past 12 months. Most firms reported that the volume was either unchanged or increased and some of the types mentioned included cost reduction, moving into new markets e.g. renewables and decommissioning.

Figure 6 - Expected trends in investment spend by contractors (2011/12 to 2017/18)

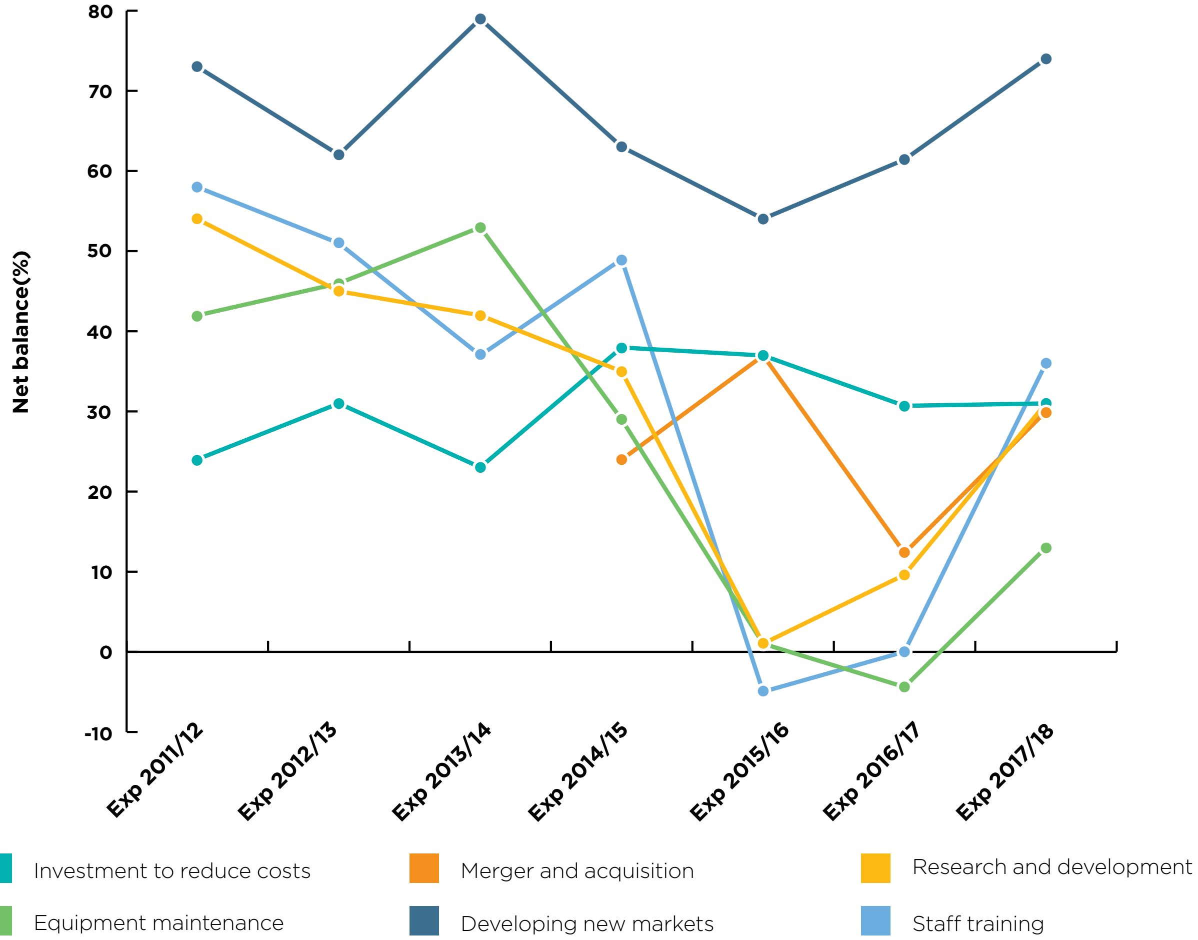
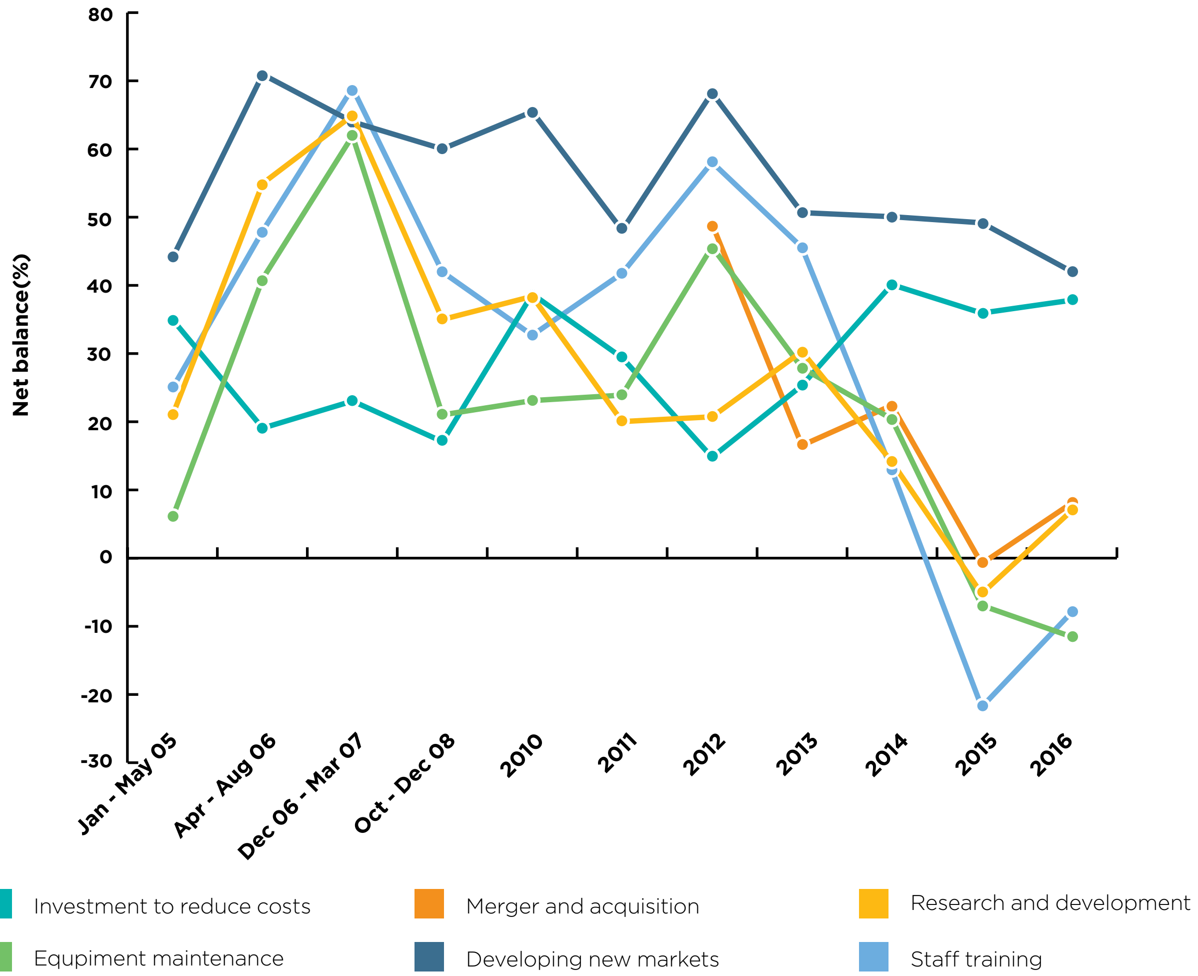


Figure 7 - Actual trends in investment by contractors, 2005 to 2016



Business constraints

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

Competitiveness and business constraints

Since 2005, we have asked respondents 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, with the spring 2014 survey, for instance including factors related to local property, land and transport infrastructure. The changing patterns of factors identified by contractors to be important for limiting their activity in the UKCS since 2005 are given in Figures 8 to 11.

Figure 8 shows that the level of demand and commodity price remain an important concern for the majority of contractors, with the economic climate now being reported as a concern for 57% of respondents, down from 64% in last year's survey.

Figure 8 – The percentage of contractors reporting specific demand and economic factors as limiting UKCS activity

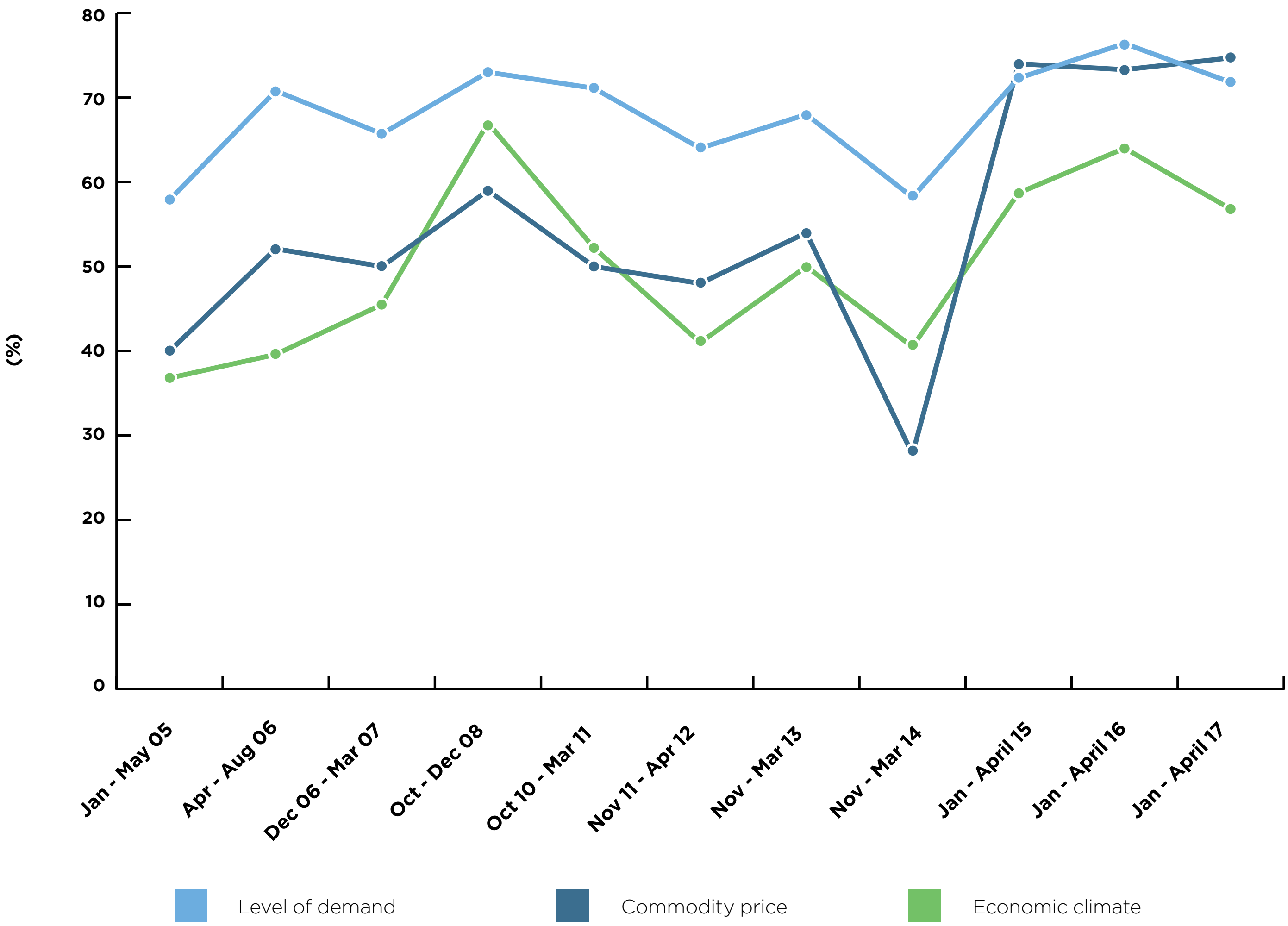


Figure 9 shows that the levels of importance attached to cost of capital and access to capital remain broadly unchanged from last year's survey with 22% and 23%, respectively, citing these as very important constraints on UKCS activity. The issue of taxation has steadily declined over the past few years and is now cited as a very important concern for 26%, down from 34% in 2015 and 32% in 2016.

Figure 9 –The percentage of contractors reporting specific cost and taxation factors as limiting UKCS activity

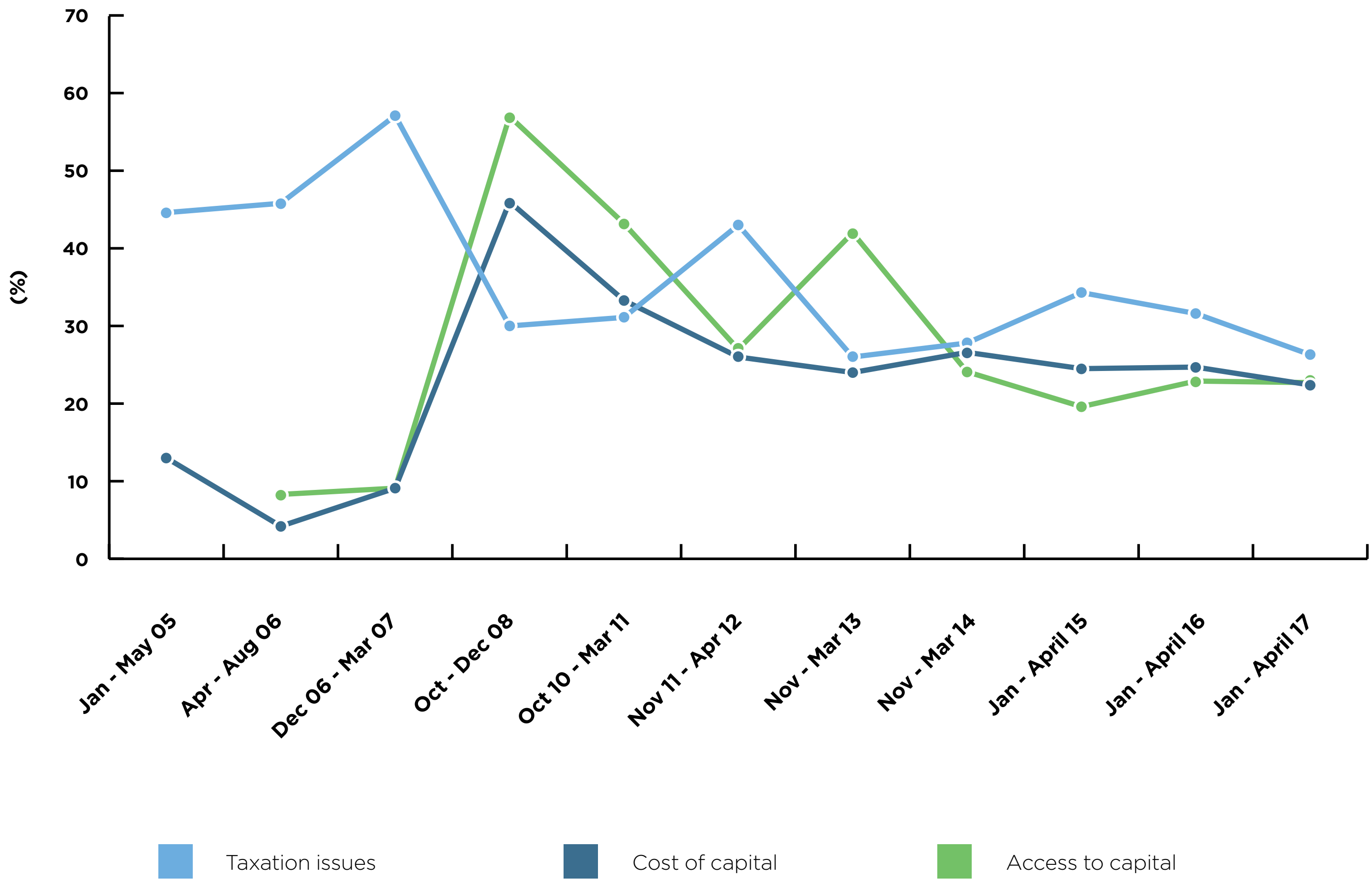


Figure 10 shows the extent of skills and employment factors influencing UKCS activity. Alongside the fall in headcount previously reported by some firms, skill shortages and loss of staff had each eased as a constraint on firms' activities, however both have increased slightly in the current survey and remain likely to be important issues for firms seeking to expand in the future.

Figure 10 - The percentage of contractors reporting specific employment factors as limiting UKCS activity

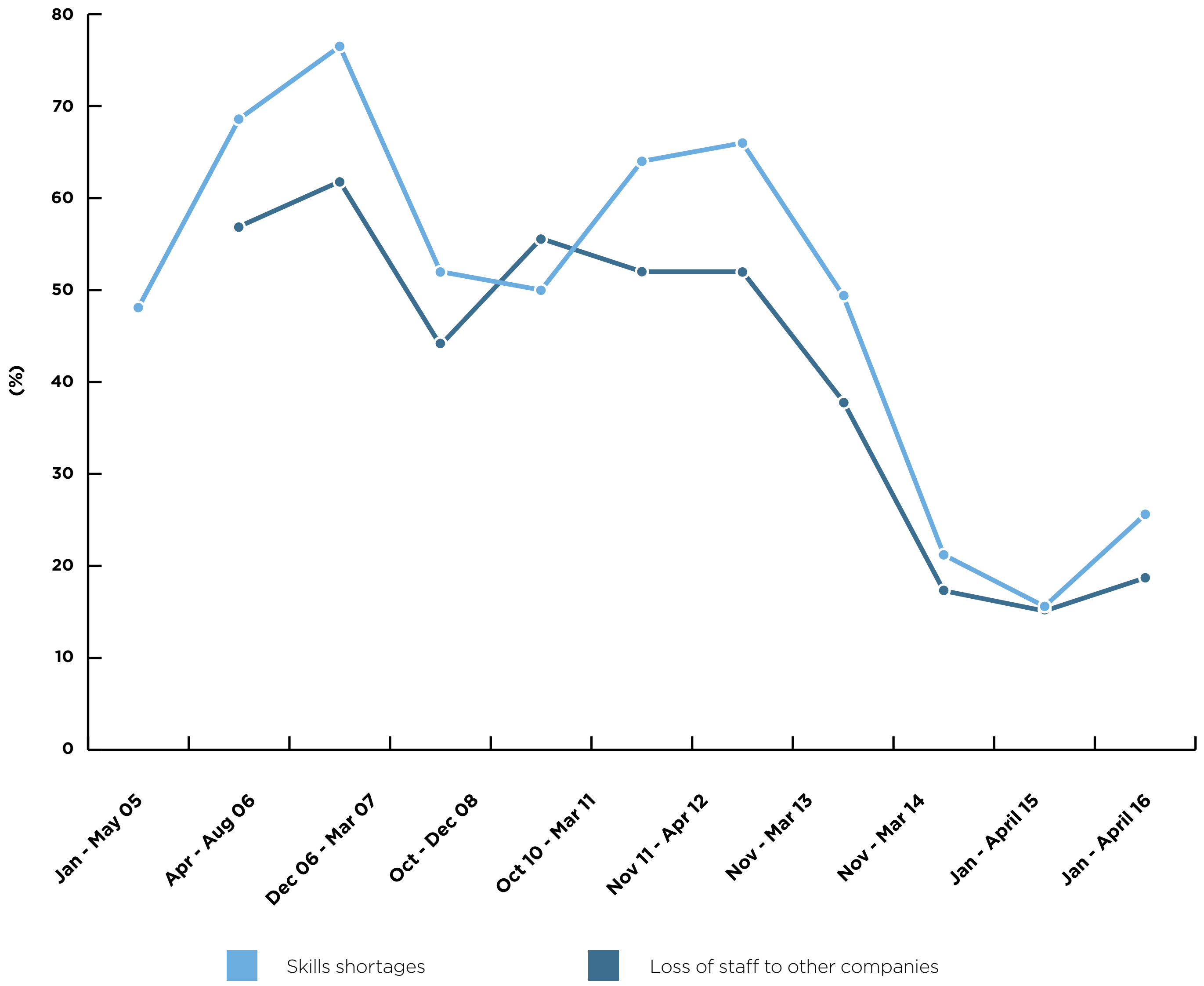
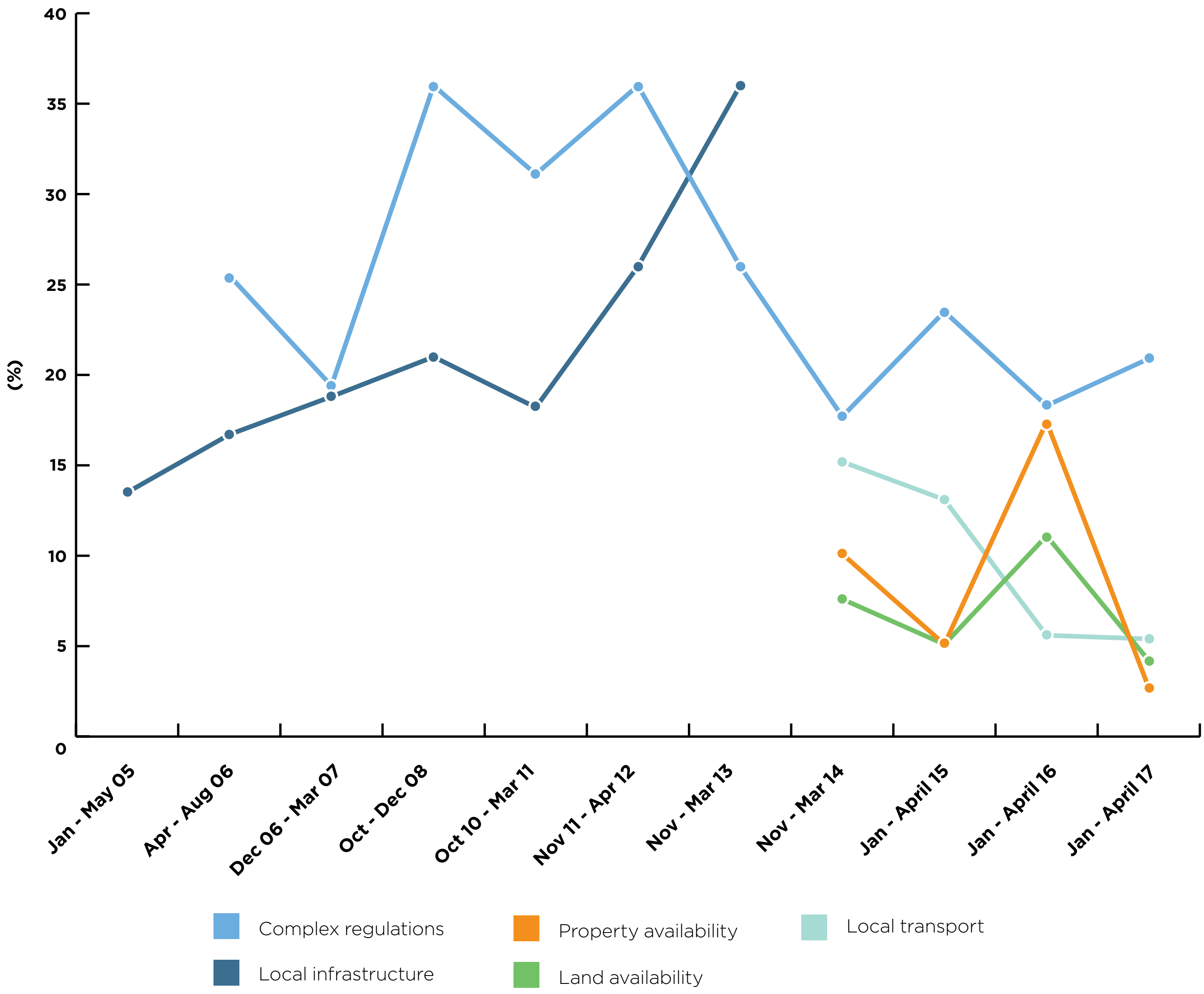


Figure 11 shows the changing views of contractors on regulatory and infrastructure issues, which we break down into local transport, local land and property availability. Complex regulations continue to be a concern for contractors with 21% reporting these as an important business constraint. Local infrastructure issues – property, land and transport – are reported as being less important constraints on firms' activities.

Figure 11 - The percentage of contractors reporting specific infrastructural and regulatory factors as limiting UKCS activity



In this latest survey we included a question asking firms if the 'lower for longer' oil price had caused their firm to take any actions in response. For 46% of firms reducing staff training has been one action. Though as was noted in an earlier section firms are now planning to invest in staff training over the coming two years. While 28% of firms claim that the 'lower for longer' oil price has caused them to delay any expansion into new markets 44% assert that it has caused them to accelerate plans to expand into new markets. Scaling back on R&D, delaying equipment maintenance or delaying infrastructure maintenance was cited by 30%, 21% and 16% of firms respectively. Worryingly 30% of firms claim that the 'lower for longer' oil price had caused them to cancel projects.

Competitiveness

When offered the choice of four options on what was most important to their business, 43% of all firms chose “increasing efficiency/productivity”. “Increasing value without cutting costs” (24%) and “cutting costs” (17%) and were the second and third most common choice, while 16% of firms identified “collaboration”.

Business constraints

In this latest survey firms were asked about what new forms of finance they had used in the last 12 months. Most firms (55%) claimed to have used cash reserves as a main source of new finance. Almost 1 in 5 have used private equity and 13% reported using overdraft funding. Other responses included asset based lending 10%, joint venture 8%, enterprise finance guarantee 6%, trade finance 6% and partnerships 4%.

Firms were also asked about what single issue will have the biggest impact on improving their productivity in the next 12 months. Thirty-six percent of firms said that new products/services would have the largest impact while 31% claimed basic day to day efficiencies would provide the major impact.

AGCC working for you

For several years AGCC has been working on the issue of business rates and you’ll be aware activity levels increased during 2016. Here is a summary of just some of the activity that we have undertaken to support you and other members.

June 2016 – Met the Grampian Assessor to discuss the potential for a significant issue which would arise as a result of revaluation.

December 2016 – Gave evidence as part of Material Change of Circumstance (MCC) case with CBRE. AGCC created the economic case for the case. Case now being appealed by Grampian Assessor.

January 2017 – Met Derek Mackay MSP to outline issues facing the North-east along with partners of the Chamber.

February 2017 – Scottish Government and Aberdeenshire Council announce support schemes / reliefs for one year.

March 2017 – AGCC invite Ken Barclay who met with selected members in Aberdeen regarding the wider review of business rates

May 2017 – Aberdeen City Council announce intention to deliver a support scheme for one year.

We expect the review of Business Rates (Barclay Review) to report in late July and we’ll meet the Scottish Government to discuss support for 2018/19 in around November.

Estimated financial support secured (c£16m)

Over 4,000 businesses in NE benefiting from support

Current industry challenges

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

Firms were asked to predict when the sector will reach the bottom of its current cycle and 52% felt that it already had (compared to only 29% back in the autumn of 2016). A further 26% predict that this will happen within the next 12 months and 13% anticipate that it will happen within 1-2 years. Only 9% felt that it would take longer.

When asked to think about their own business and the position they would expect to be in by January 1, 2018, 42% said they would expect to be growing (compared to only 16% who expected to be growing by January 1, 2017 in Survey 25). Thirty-four percent said that they would be restructured and fit for the future while 15% said that they would be restructured but unsure of the future and only 2% expect to be declining.

Reflections from respondents

The majority of respondents recognise that the industry is on the path to recovery, however expect that the industry won't return to previous levels experienced prior to 2014. Respondents highlight the need to adjust to current activity levels and adapt to be sustainable and competitive in the new operating environment. Many recognise that the industry is improving and that, if the right approach is implemented, there are reasons to be more optimistic about the future of the sector.

> "There are definitely green shoots & the oil price is relatively stable."
>
> "Current activity levels are sustainable going forward. Uncertainty around second referendum for Scotland's Independence is creating concerns."
>
> "Dare I say it? 'Green shoots' of a recovery are evident and the Hurricane find should encourage others in their search for further resources."
>
> "Continued budgetary restrictions on exploration for the foreseeable future. Industry will never return to the $110 per barrel level, companies will have to continually reduce operating costs going forward. More jobs will be lost in UKCS."
>
> "In order for the industry to continue to operate sustainable business practices must be adopted. An open dialogue on a fit for purpose approach is essential, demanding the same level of service when there have been significant reduction of both operator and service company resource is not sustainable. A reduction in regulation would also help significantly."
>
> "Need to work around the lower for longer mantra and ensure we remain cost conscious and manage opportunities in a controlled manner."
>
> "Reduced demand and disruptive technology will cause oil price to bump along at 50 - 60 dollars for the next few year, market dynamics may change as late life assets decommission in sub-economic environment leading to a supply/demand adjustment but I'm not convinced that price will move much above 80 for the next decade. We need to adjust to a new norm."
>
> "More limiting now in terms of past opportunity and profitability. The industry will have to adapt to change in order to survive."

Several respondents noted the importance of collaboration in ensuring a successful future for the industry. Some also mentioned that some form of relief or support is required to enable firms in the supply chain to survive in the long-term.

> "Lack of actual collaboration by operators in a sea of positive aspirations."
>
> "Cautiously optimistic. However, it is time for the operating companies to provide some much needed relief to the supply chain given the stabilisation in oil price. The continued 'squeeze' mentality will result in more companies folding, otherwise."

> "More collaboration, tier 1 contractors under pressure to reduce costs and specialist tier 2 with lower overheads gain market share."

> "There is still plenty of work to be done in UKCS and elsewhere, but either the operators need to start investing, or they need to start selling off discovered fields to others that will invest."

> "The future depends on people collaborating. Aberdeen and Aberdeenshire and Scotland is overly dependent on vested interests and a lack of will power from the OGA to enforce regulations. It is time for people to drill and produce or leave the North Sea to motivated people. We have been building our company as agile as it comes and yet all we get is appalling levels of negative attitude in the region."

Others remain pessimistic for a recovery in the immediate future with some suggesting that this downturn is not part of a typical oil and gas cycle. Some also reference the political environment as a key factor influencing the industry.

> "Expect the 'lower for longer' commodity price to continue. As such expect there to continue to be a high level of price competitiveness in oilfield services."

> "Given current investment cycles and demand levels it is unlikely that there will a material pick up in new asset development until 2019-20."

> "I am not sure if it is a cycle. 40 years in business & this one is different & more global than any other than I have experienced."

> "Industry will stagnate until we have a stable oil price over $70 for at least 12 months."

> "Lack of continued exploration investment in UKCS + Brexit uncertainty + Scottish Ref. pending. Is Scotland a viable investment!"

> "Very pessimistic about the UKCS: The big fields are already discovered and past peak. Even with recent cost reductions, the UKCS is high cost. Indy Ref 2 is causing a high degree of uncertainty for the industry. Why drill in the UKCS when other oil provinces have a better chance of yielding greater rewards?"

Appendix

The Oil and Gas Survey is conducted by the Aberdeen and Grampian Chamber of Commerce and the results analysed by Strathclyde University's Fraser of Allander Institute. This survey was conducted in April 2017, and the report was published in June 2017.

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].

100 companies responded to the survey, representing a response rate of 14% of companies contacted

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About Aberdeen & Grampian Chamber of Commerce research team

Have you got a business question? Well the team at the Chamber can help you answer it. Here at the Chamber of Commerce, our research team can support your business in a number of ways. We offer a bespoke approach which can be tailored to your individual organisation and objectives. We are currently delivering work for a number of members and over the last three years have completed over 100 commissions. We are here to help you and would be delighted to see if we can help solve your business challenges.

Notes

Aberdeen & Grampian Chamber of Commerce

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