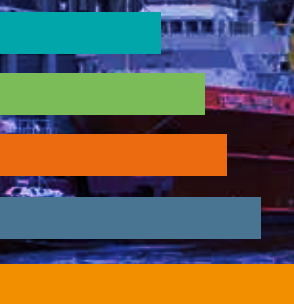


Aberdeen & Grampian Chamber of Commerce

Oil and Gas Survey

29th Survey: November 2018



Aberdeen &
Grampian
Chamber of
Commerce



University of
Strathclyde
Glasgow

KPMG

Survey context

After a period of strong price growth, the oil market has entered 'bear' territory in recent weeks.

At the time of writing, prices have fallen by over 20% since their peak of around \$85 in October. A number of factors are to blame for this including rising supply and inventories – even following new sanctions on Iran – and fears of a more general slowdown in the global economy. The outlook remains highly uncertain and a period of renewed uncertainty is likely to be a feature of the next few months.

This latest survey points to conditions remaining relatively positive for North Sea contractors and operators, at least compared to 2 to 3 years ago. However, it should be noted that the survey did take place prior to the recent fall in oil prices so it is highly likely that optimism has slipped in recent weeks.

Operating costs in the sector have remained relatively steady – even during the upturn in prices – and this should help build in some resilience to this new lower price environment.

The upturn in the sector over the last year or so, has helped to support a wider pick-up in the Scottish economy. Over the first six months of 2018, growth in Scotland outpaced that in the UK as a whole. Indeed growth over the year to June 2018 – whilst still below average – was the fastest it has been since the collapse in the oil price in late 2014/early 2015. The wider UK economy has been showing signs of recovery over the summer however, with healthy growth of 0.6% recorded over the three month period July to September.

The immediate outlook for both the UK and global economy remains uncertain. Whilst agreement has been reached with regard to the broad nature of the UK's exit from the EU, there remains much still to be discussed and agreed.

The sector is likely to have to call upon its much heralded patience and resilience before it finds out what the UK's future relationship with the EU might mean for trade, regulation and the industry's ability to attract global talent.

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Sponsor's foreword

KPMG is proud to be partnering with the Aberdeen & Grampian Chamber of Commerce on their 29th Oil and Gas survey, which paints an interesting picture of the industry today and provides some useful insights in respect to talent recruitment, retention and skills.

Whilst the price of oil is driving a more positive sentiment across the industry, and this is once again being reflected in this latest survey, the results also highlight the importance of retaining our best people and ensuring that the next generation of talent has the right type of skills for the coming energy transition.

Case studies from Apollo Engineering and Atlantic Offshore provide some great examples of best practice for attracting and retaining talent within the sector – an area that is really coming into focus for the industry right now. These examples show the value of building close links with schools and universities and investing in talent management and 'on the job' coaching, as well as formal and informal training and mentoring.

In terms of business activity trends, oil prices remain elevated from the dip a few years ago, and so industry confidence is up, and companies are setting their sights on growth opportunities, with

58% of firms forecasting an increase in their profits in 2018.

It is hugely positive to see business confidence amongst contractors improve on the already high levels witnessed over the past 2 years. Optimism for the future outlook of the sector is also high, with 63% of respondents forecasting a further increase in business confidence in the UK Continental Shelf.

That said, we are still not seeing contractors working at full capacity, with only 44% of such companies reporting that they are working at or above optimum levels. However, this figure had dropped to just 12% in 2016, and we have seen it grow steadily with each subsequent survey, which is positive. There is clearly still some way to go to get back to peak levels of utilisation – 79% seen in spring 2013 – so whilst we see confidence in the sector returning, there is still some distance to travel before it will work its way through the system and activity levels increase across the board.

It's also important to recognise that the world is changing at an incredible pace. KPMG's 2018 Global CEO Outlook found that despite the rapid speed of technology and innovation pressuring the industry, oil and gas CEOs see technological disruption as more of an opportunity than a threat.

The Outlook also found that 58% of CEOs believe that AI and robotic technologies are likely to create more jobs in the sector and 93% expect there to be an industry wide increase in head count. This mirrors the findings in the Chamber's Oil and Gas survey, which showed that a third of the respondents expect their total workforce to increase by more than 10% in 2019.

With these findings, we need to be asking ourselves where is the next generation of talent going to come from, what skills do they really need, and what are we doing in industry and academia to ensure we have enough people to help sustain that headcount growth?

So, change is afoot and the direction of travel is positive but there continues to be potential traps along the way, not least the impact of Brexit, a potential impending skills gap and environmental and climate change risk. However, the industry is alive to these challenges and we are seeing our clients develop growth strategies and scenario planning to deal with these potential risks, as well as driving forward their technology and innovation agenda to become disruptors in their own right.



Moray Barber
partner, KPMG

Chamber viewpoint

Welcome to the 29th edition of Aberdeen & Grampian Chamber of Commerce oil and gas survey, in partnership KPMG and supported by Fraser of Allander Institute.

Although it's the longest running report of its kind in the UK, we believe it remains a highly contemporary guide to the current sentiment and future perspectives of the key organisations in the region's energy sector. The survey seeks to analyse short and medium-term trends in exploration and production, decommissioning and other related activities both in the UK and international markets. The research is fully independent and delivered as part of our commitment to provide Chamber members and wider stakeholder community with the market insight and management information they need to make informed business and investment decisions.

The recovery of the oil and gas sector has been slow and steady since the low points of 2015-16. This is based partly on the many efficiencies introduced during the period as well as a recovery in oil price. However, the fact that we have seen a range of \$85 to less than \$70 during the period covered by this report, understandably means that a level of uncertainty remains.

During the six months to October 2018, two thirds of contractors reported being more confident about the current business situation than they were a year ago. This net balance of 63% is greater than the 56% recorded in the previous survey and is in fact the highest figure since spring 2013.

We're seeing positive movement in the trend of businesses operating at or above optimum levels with 44% now reporting this to be the case; the highest level recorded since 2014.

It appears that contractor optimism not only remains high for UKCS operations but is continuing to grow for international markets too, where we are now seeing the highest figure since autumn 2006. And these levels remain similarly high for the year ahead.

There is also good news across E&P activity. A net of +28% of contractors have expressed a rise in the value of production-related work in the North Sea compared to -4% a year ago, and a net of 50% anticipating a rise in the year ahead.

We are also seeing positive figures for exploration with a net of 11% of contractors reporting an increase in the value of UKCS activity in the last 12 months with a net of 28% forecasting an increase over the next 12 months - both figures are at the highest levels recorded in the past five years.

In terms of employment, there are a few findings which suggest the sector is picking up again such as the increasing trend in employment levels and small growth in average pay compared to decreases in recent findings.

At the time of writing, we are all watching and trying to understand the implications of the draft Withdrawal Agreement and the political declarations relating to the UK's divorce from the EU.

The views of firms in the sector on Brexit have remained relatively unchanged since we first asked firms to predict the impact of the vote in 2016. This survey again demonstrating a clear divide in opinion with half of firms anticipating this will have no effect on business activity in the UKCS, while 45% are predicting a negative impact.

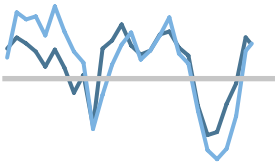
Finishing on a positive, it does appear that the sector is rediscovering its mojo and optimism is high for the future. However, capitalising on this mood will need to see operators, contractors and suppliers working and innovating ever more constructively together. In this survey 31% of firms reported an improvement in collaboration over the past three years. We would like to see that figure improve significantly over subsequent surveys.



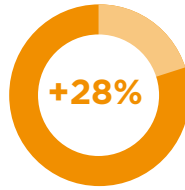
Russell Borthwick
chief executive



Key findings



Contractors' confidence in the UKCS continues to improve with a net balance of +63% compared to +39% a year ago



A net of +28% expressed a rise in the value of UKCS production related activity



Optimism in the international oil and gas sector increased for 64% of contractors and 64% are forecasting a further rise over the next 12 months

Employment



+29% (net balance)

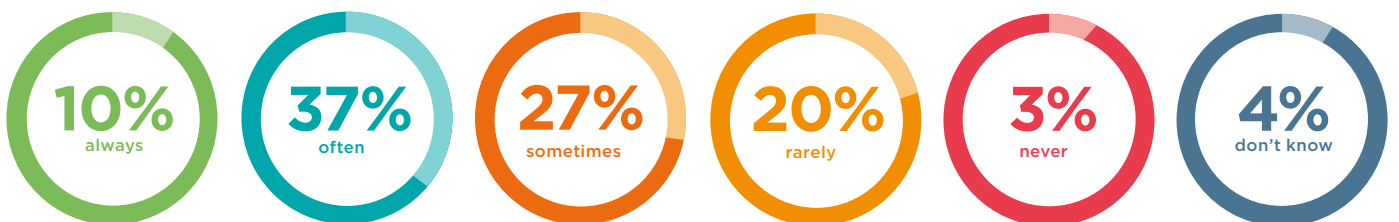
more contractors have increased employment of permanent staff in 2018 than reduced



+0.95%

average change in pay in 2018 compared to -2.14% in 2017

Firms were asked how frequently their customers/suppliers are adhering to their agreed payment terms:



Percentages may not add up to 100% due to rounding



A net of +11% of contractors reported a rise in the value of exploration related activity.

44%

of contractors are working at or above optimum levels, the highest figure since 2014

Contractors vacancy rate:

1.64 per 100 jobs

(down from 5.89 per 100 jobs 6 months ago)



58%

of firms are forecasting an increase in profits in 2018



How has collaboration among operators and contractors changed within the UKCS in the last 3 years?



31% better



37% no change



18% worse



Only

5%

of firms anticipate Brexit will have a positive impact on activity in the UKCS



Business optimism

United Kingdom Continental Shelf

The sector continues to recover from one of its toughest periods following the collapse of the oil price in 2014, and although firms in this latest survey report a further rise in business confidence, it's important to bear in mind that some parts of the sector have not fully recovered and are still dealing with the consequences of the slowdown. The recent increases in the oil prices are welcomed by the sector though there are worries as to whether it will hold. Furthermore there is a tangible sense of uncertainty, fuelled by the unstable political situation and challenging market conditions. Concerns also remain over the longer term effects of current low drilling rates.

In the current business survey, business confidence among contractors improved further on the already high levels seen over the past two years. During the current survey period – the six months to October 2018 – 66% of contractors were more confident about their activities, while only 3% were less confident. The net balance of plus 63% (66% minus 3%) showed that contractors' confidence in their current UKCS activity was greater than the plus 56% recorded in the previous survey and was the highest level since spring 2013.

With regard to firms' outlook for the UKCS area over the next year, contractors are optimistic that this upward trend will continue into the year ahead with 64% of firms forecasting a further increase in business optimism and fewer than 5% expect the outlook to worsen.

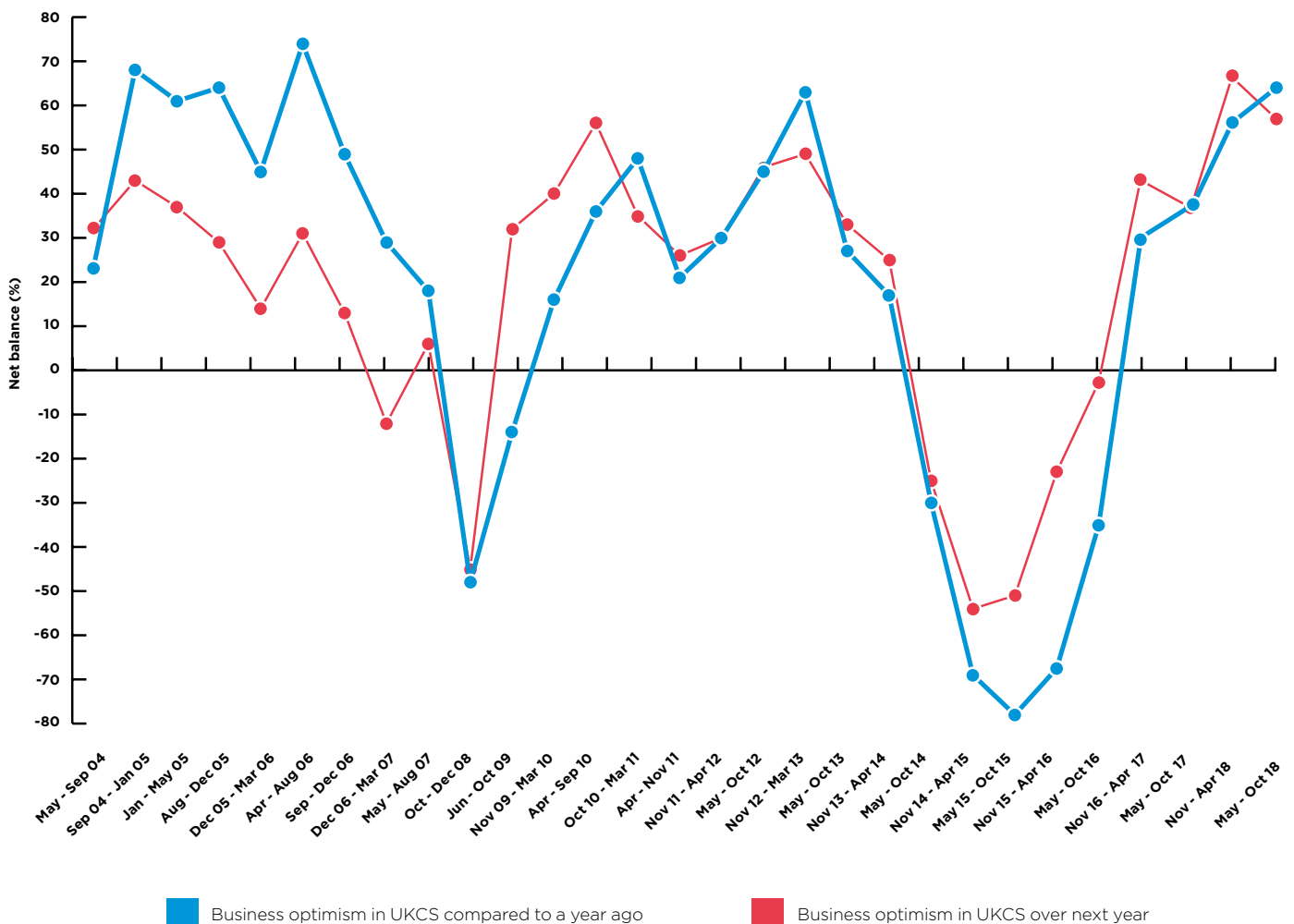
Similarly licensees and operators reported positive confidence levels and are also optimistic about their future prospects.



It is hugely positive to see business confidence amongst contractors improve on the already high levels witnessed over the past two years.

KPMG

Figure 1 - Contractors: business confidence in UKCS



International

Firms were once again marginally more upbeat about their international activities compared to those in the UKCS. International (i.e. non-UKCS) optimism remains marginally higher than UKCS confidence levels, however both remain high with international confidence levels at their highest level since 2006. Once again we see positive trends for both actual optimism and for expected levels over the coming 12 months.

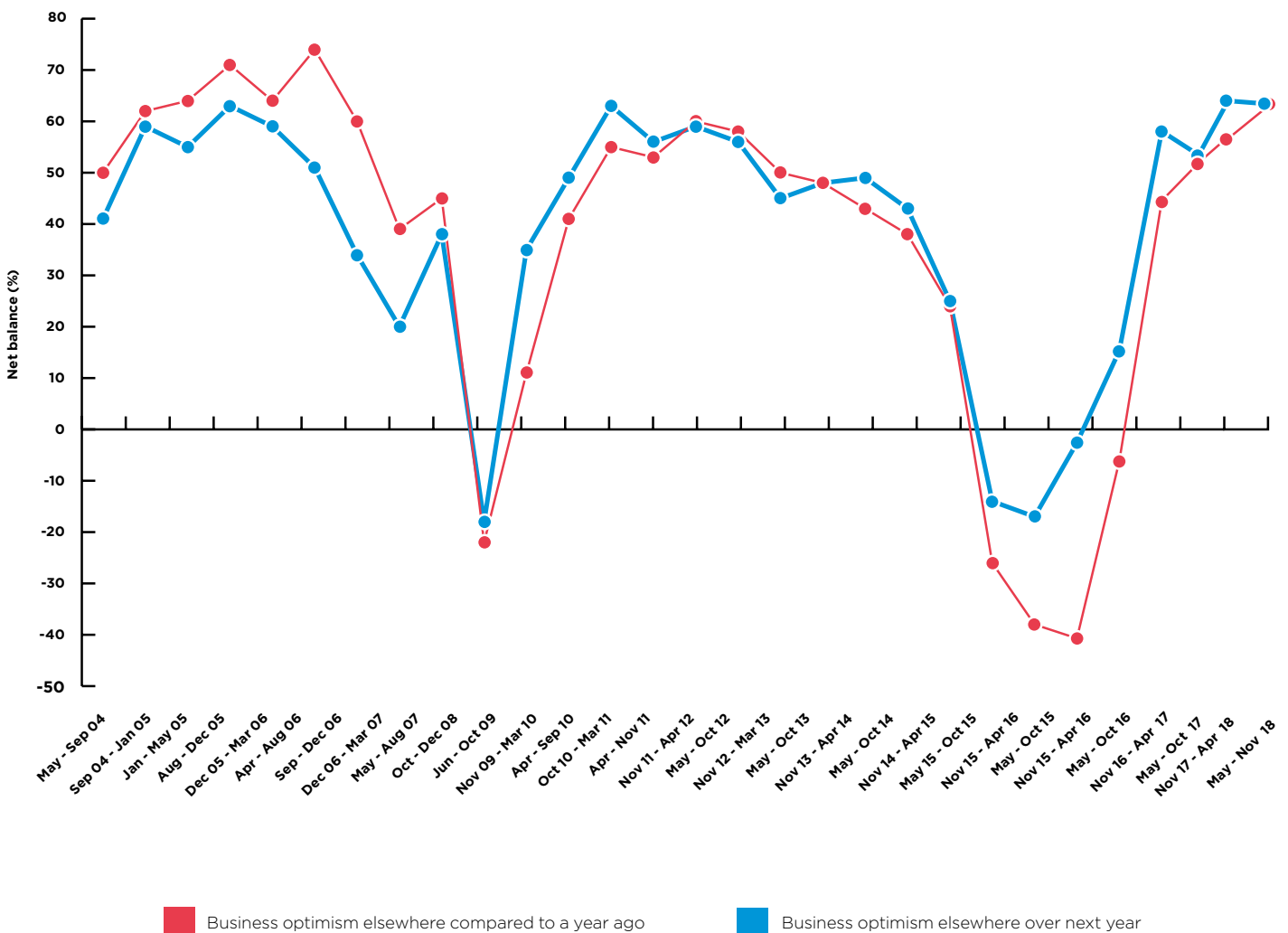
Between autumn 2015 and spring 2016 almost 50% of contractors recorded a decline in confidence regarding international work, however in recent surveys this has fallen to below 10%. In this latest survey, optimism in the international oil and gas sector increased for two thirds of

firms and a similar proportion are forecasting a further rise in confidence over the next 12 months.

A net balance of plus 64% of contractors are more confident about their current international activities and a net of plus 64% are forecasting a rise over the coming 12 month period.

With respect to licensees and operators, respondents once again recorded and expect a further rise in optimism around the oil and gas industry outside of the UKCS.

Figure 2: Contractors - business confidence in international markets



Trends in business activity



Trends in business activity

Moving from confidence to the specific activities of firms in this year and over future periods.

Firstly, firms were asked questions concerning the actual and expected value of their organisations work in the UKCS in production related work, decommissioning work and exploration activities (see Figures 3 and 4) and secondly they were also asked the same questions regarding their international activities.

Production related work

One year ago in Survey 27 there was a negative trend in the value of production-related work in the UKCS (a net balance of minus 4%) with more firms reporting a reduction in the value than reporting an increase. However in the previous survey (spring 2018) this trend improved with a net of plus 20% reporting an increase and in this current survey this rose further, with a net balance of plus 28% of contracting firms now reporting an increase in the value of production-related work. This is the second consecutive positive trend following three years of negative trends during the years 2015-2017. During the coming year 55% of contracting firms are forecasting a further increase in the value of production-related activities with only 5% forecasting a decline (a net balance of plus 50%).

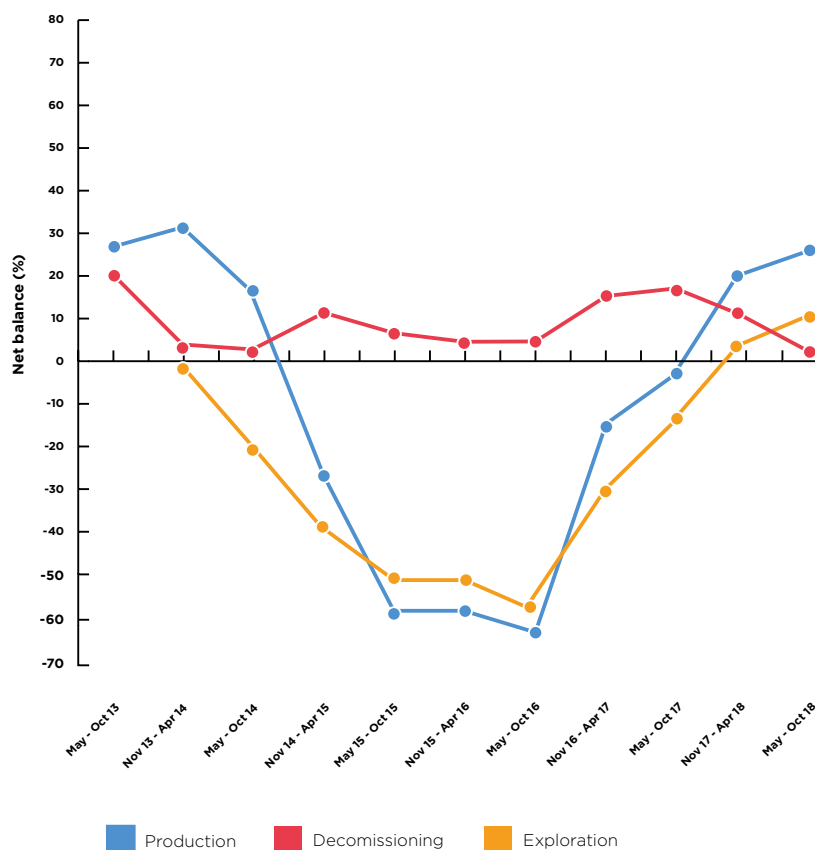
In relation to the value of production work elsewhere more than four in ten contractors (43%) reported a rise and only one in ten (12%) recorded a reduction, and during the coming 12 month period more than half (53%) are expecting an increase with fewer than 2% expecting the value to decline.

Broadly in line with forecasts from firms in the previous survey, a net balance of licensees/operators logged an increase in the value of their UKCS production related work, the balance was marginally up from the previous quarter. With regard to the value of international production work, the net balance improved from a net of zero to slightly more than a quarter of firms reporting a rise and none anticipating a decline. A further improvement is anticipated during the coming 12 months.

Decommissioning related activity

The upward trend in the value of UKCS decommissioning-related activities, until now has remained fairly steady, the net balance eased from a net of plus 19% in Survey 27 in autumn 2017 then in the previous survey (spring 2018) this eased to a net of plus 11% reporting a rise. In this latest survey the trend in decommissioning-related activity has eased further to a net balance of plus 1% (14% reporting a

Figure 3 - Contractors - trends in UKCS activity in the last 12 months



rise and 13% reporting a fall). A rise is forecast with almost a third of firms expecting an increase in the value of UKCS decommissioning work during the coming year and fewer than 6% forecasting a decline in the value of such work.

Despite firms from the previous survey anticipating an increase, international decommissioning-related activity exhibited a marginal decline for a net balance of minus 2% of firms. This fell from a net balance of plus 3% in the previous survey and from a balance of plus 6% one year ago. A net balance of plus 16% of firms expect a rise in international decommissioning activity during the coming year.

Exploration related activity

The trend in the value of UKCS exploration-related work amongst contractors had been negative since spring 2014 with the negative trend dipping to its lowest point in autumn 2016. Since then it eased steadily though remained negative until the previous survey where the outturn was positive (a net balance of plus 3%). In this survey almost a quarter reported an increase in exploration-related work and fewer than 12% recorded a decline (a net balance of plus 11%). During the coming 12 months the trend is

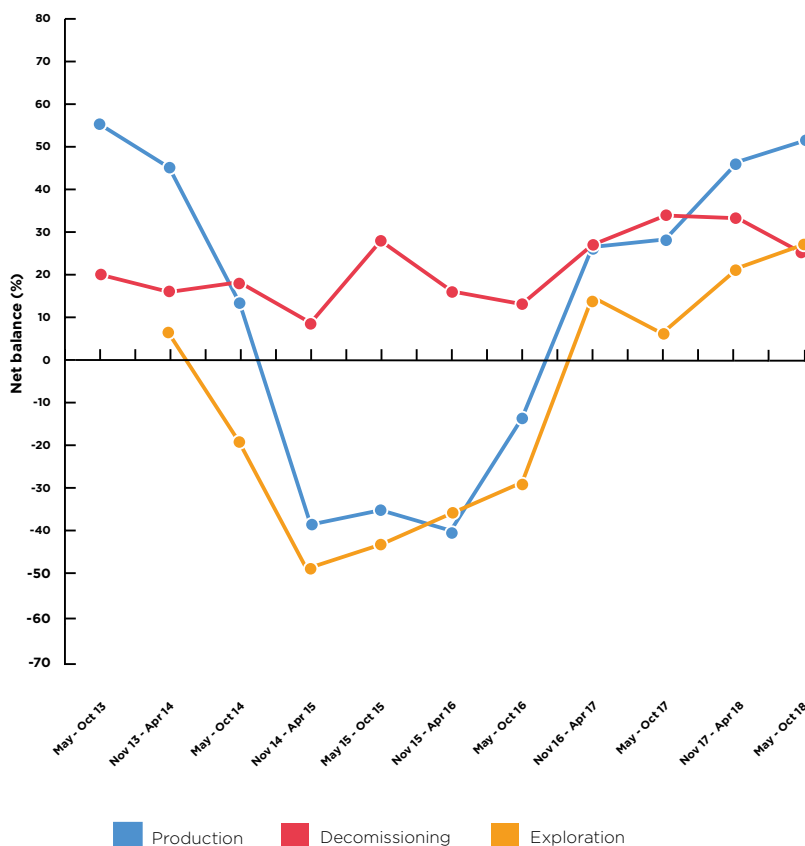
expected to rise further with a net balance of plus 28% forecasting an increase in the value of UKCS exploration activity.

Similarly the value of international exploration work has, on balance, also been negative since spring 2015 but turned positive in the previous survey when a net balance of plus 4% recorded an increase. A net balance of plus 18% of contractors from the previous survey had expected a further rise and the outturn for this current survey showed a net of plus 16% reporting a rise.

On balance, licensees/operators from the previous survey reported a decline in the value of UKCS exploration work, however a small net balance were forecasting an improvement. In this latest survey a balance licenses/operators reported a rise and this upward trend to prevail.

Excluding seasonal factors and in line with expectations from the previous survey, the trend in total international exploration work for licensees/operators improved in the six months to October 2018 and firms are anticipating a further increase in overseas exploration work during the coming 12 month period.

Figure 4 - Contractors – scheduled / expected trends in UKCS activity over the next 12 months



Trends in business activity

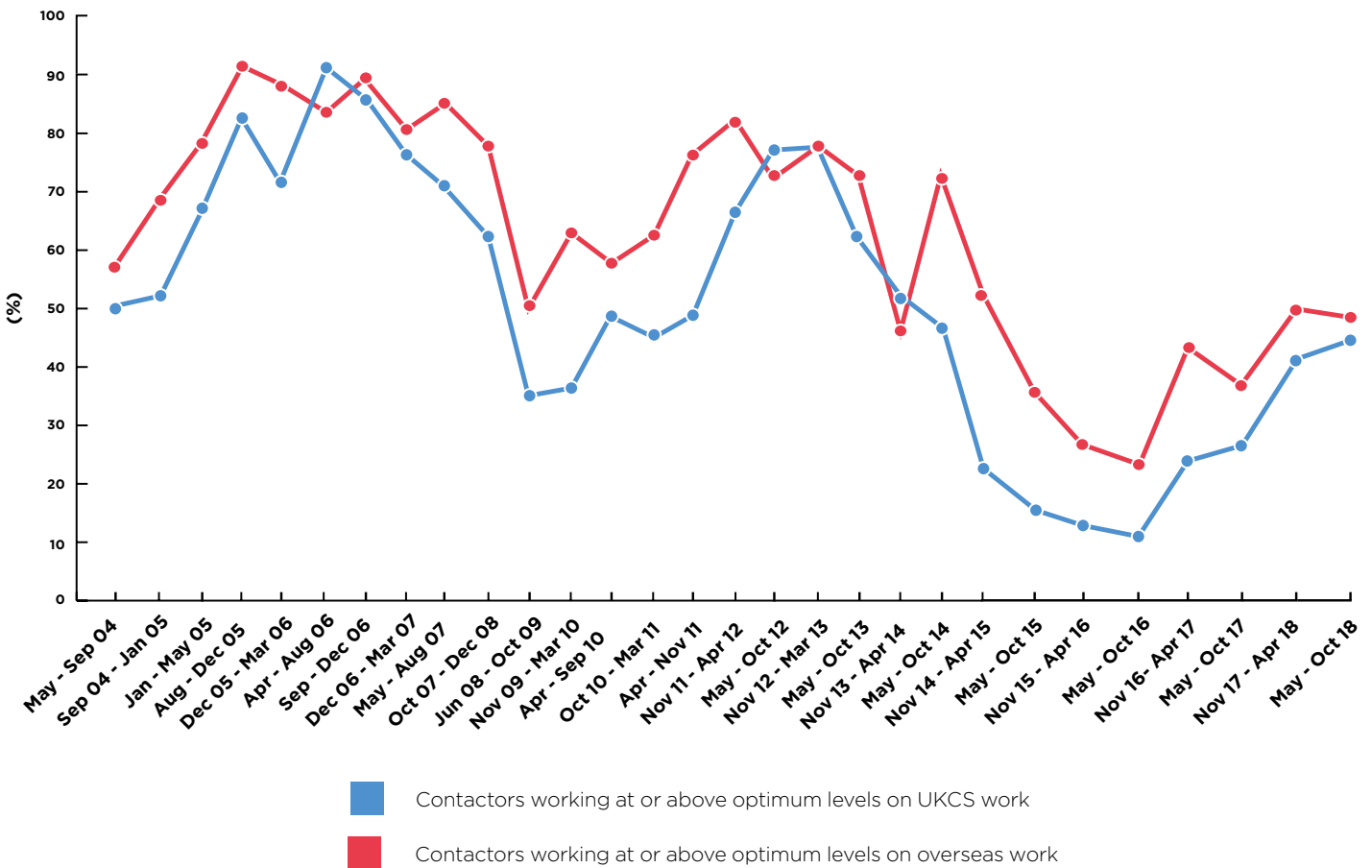
Activity levels

Figure 5 illustrates 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, it declined steadily over the three years until the May-October 2016 survey when it stood at 12% (the lowest figure since the survey began). Since then it has been rising steadily from 27% of contracting firms reporting working at, or above optimum levels in their UKCS operations one year ago to 41% in the previous survey; and now to 44% in this latest survey (the highest figure since May-October 2014).

In recent years global pressures have led to fewer firms reporting working at or above optimum levels in overseas markets, although since 2014 contractors have consistently reported stronger activity in their overseas portfolios compared to their UKCS portfolios. Once again this is evident in this latest survey with slightly fewer than half of contractor firms involved in overseas work working at or above optimum levels.

Figure 5: Percentage of contractors reporting working at or above optimum levels



Case study - Apollo



Tell us a little bit about your company, what you do and what makes you different.

Apollo was formed in 2010 and are seen as relatively new kids on the block providing engineering services from consultancy through to complex multi-discipline project delivery. We are a technically focussed company applying appropriate project management and controls to the successful delivery of our projects. By doing so we allow our clients maximum engineering value for their spend. By successfully applying this business model Apollo is challenging the traditional term engineering contracts by being dynamic, reactive and more efficient than incumbents.

What has been the biggest challenge your company faced during the downturn and how did you overcome this?

Apollo has always been about demonstrating value to our clients. Before the downturn, although our clients appreciated value, it was all about delivery. This has all changed in recent years and value came to the top of evaluation criteria. Our biggest challenge in this period, being a then young company, was demonstrating a track record to give our clients confidence in the delivery of larger projects. Apollo worked hard to successfully demonstrate to our clients our engineering competency and appropriate project delivery processes, giving confidence in the execution of larger modification projects. Additionally, in the downturn a large focus has been on the evolution of systems and processes to meet the needs of larger projects we now deliver. We have been fortunate to have grown from 2015 until now, and our forward forecast is to continue this growth.

Do you think there are skills gaps within the industry and where do you think they are most acute?

Like most companies we have specific requirements to meet our business needs. We have found it harder to attract talent in two distinct areas of engineering:

- Engineer / Senior Engineer level with 3-8 years of experience or those engineers who are still working towards Chartership. In particular Engineers with Structural Analysis experience.
- Project Engineers of 3-8 years' experience who have a design engineering bias. Engineers who have then moved into project delivery / management

What has been your experience trying to recruit for difficult to fill positions?

Our strong vision and values that reflect the positive internal culture has helped to negate some of these recruitment challenges, but generally there does exist a skills shortage in the industry particularly in these areas.

Our business is engineering and procurement services for the Oil and Gas, Marine and Renewables industry. There are some synergies with the nuclear and other big engineering, particularly when it comes to process engineering however we have some quite specific skillsets which we require and these tend to come from oil and gas. That said, we have recruited from rail, onshore civils, aerospace, Formula 1, and Food and Drink, and we expect to continue to do so as part of our recruitment strategy.

What is your company's approach to recruiting graduates or young people?

This year we are proud to have hired 6 graduates and put in place a robust onboarding process and structure to support their development. Additionally we have taken on work placements from schools and universities to help encourage the next generation of engineers. Our strategy is to build talent internally in parallel with recruiting principal/lead level engineers; not only to deliver engineering projects but to also mentor our junior personnel. We have reviewed our learning and development policy, centralising and simplifying the process to enable employees to develop skills in a targeted and structured way.

What are your company's recruitment plans over the next year?

Apollo has significant growth ambitions in the coming years and typically our growth rates have been 20%-50% over the last 3 years. We want to maintain this in the coming years and as a services company this will necessitate significant continued recruitment. Apollo has a well-developed recruitment strategy mapped over the company business requirements to allow a structured recruitment process from graduates through various grades of discipline engineers to support this company growth and development.

Trends in business activity

Business trends

The survey questioned firms about trends in production, exploration and decommissioning, both in the UKCS and in international markets. We also enquired 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 6 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 eased slightly to 74%. We find:

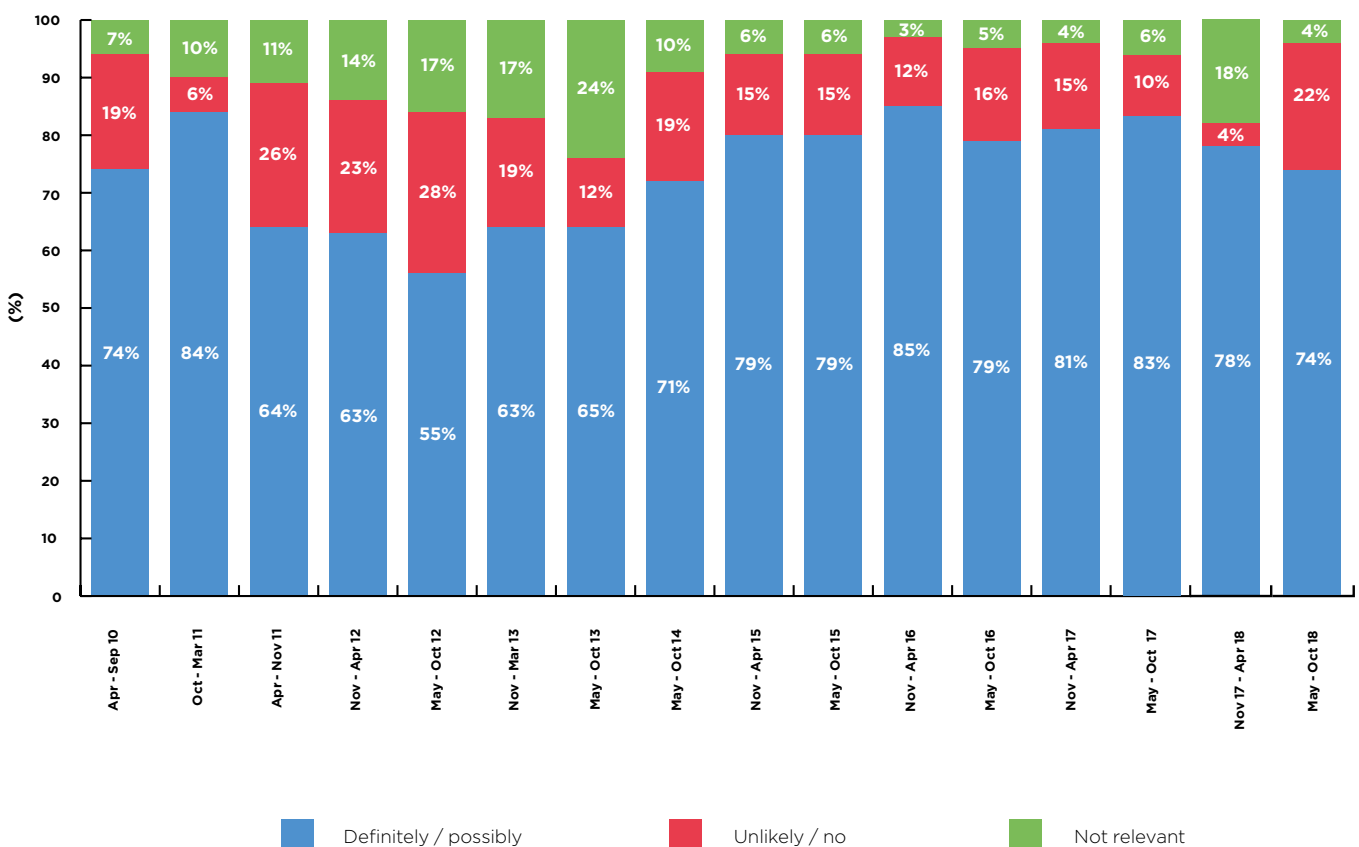
- 25% (30% in the previous survey) reported they would definitely be more involved in decommissioning;
- 49% (slightly higher than the previous survey) reported they would possibly be more involved in decommissioning, this is the highest proportion since this question was added;
- The proportion recording either that decommissioning activity is not relevant for them or that they were unlikely to/would not be involved increased again in this latest

survey, though this has changed only marginally during recent years. The figure was 21% in Survey 25 (autumn 2016), fell to 19% in the spring 2017 survey, fell again in the autumn 2017 survey to 17%, rose to 22% in the previous survey and rose again in this latest survey (26%).

In Survey 24 (November-April 2016), we recorded the highest level of contractors reporting that they were definitely or possibly likely to become more involved in UKCS renewables work (63%), this declined to 53% in Survey 25 and has changed very little since then. It stood at 54% in Surveys 26 and 27 and rose slightly in the previous survey to 56%; and in this latest survey, we also find little movement at 57% (24% indicating that their company will definitely be involved in renewable work and 33% that their company could potentially be involved). Involvement in UKCS renewables activity was not relevant to, or not a consideration for more than half of licensees/operators.

More than two thirds (68%) of contractors in this current survey expect to be either definitely (11%) or possibly (56%) involved in UKCS unconventional oil and gas activity in the medium term; this is up on the previous survey where 60% of contractors stated that it would definitely or possibly be a consideration. It follows therefore that the percentage of

Figure 6 - Contractors - Involvement in decommissioning activity in the next three to five years



firms stating that they would be unlikely to or definitively wouldn't move into unconventional areas in the UK eased, the proportion reduced from 36% to 32%.

With respect to unconventional activities outside of the UK almost two thirds (64%) of contractors acknowledge the possibility that their firm could be more involved during the next 3-5 year period (18% stated they would definitely be involved and 46% noted a possible involvement). A third

of firms stated that they would be unlikely to, or definitively wouldn't move into unconventional areas in international markets.

Less than a third of licensees/operators expect to be involved in unconventional activities in the UK, a larger proportion are open to the possibility of becoming involved in activity outside of the UK.

Figure 7 - Contractors - involvement in renewables in the next three to five years

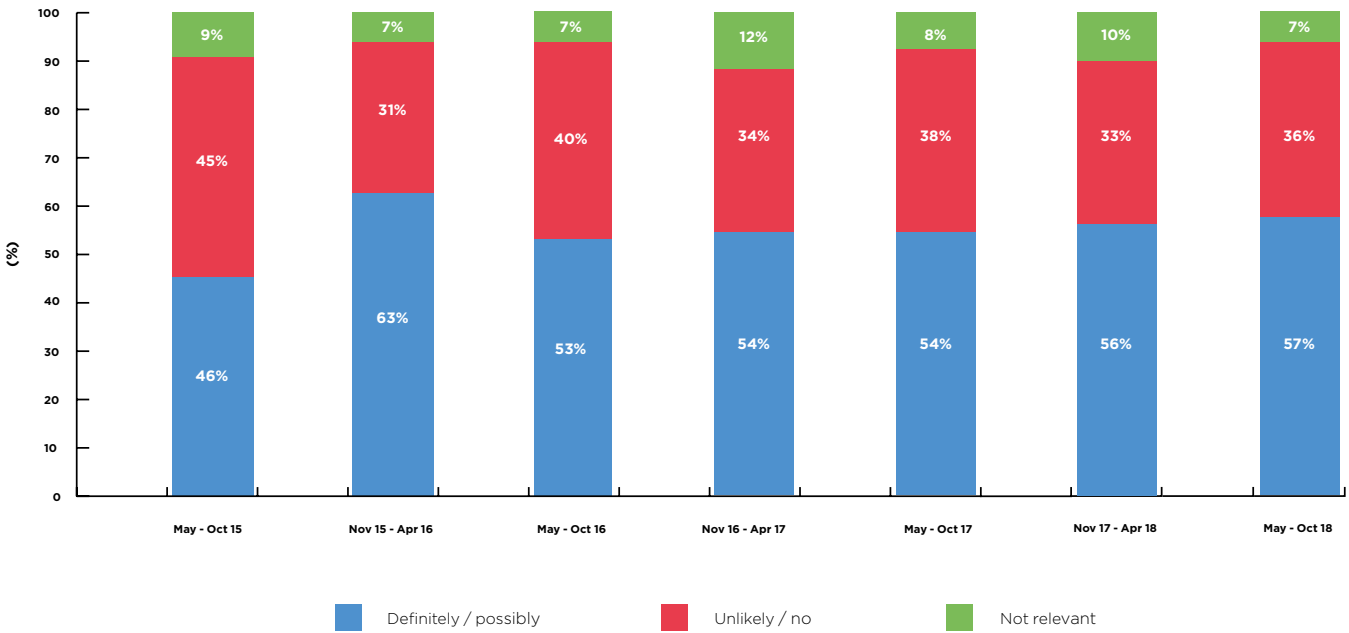
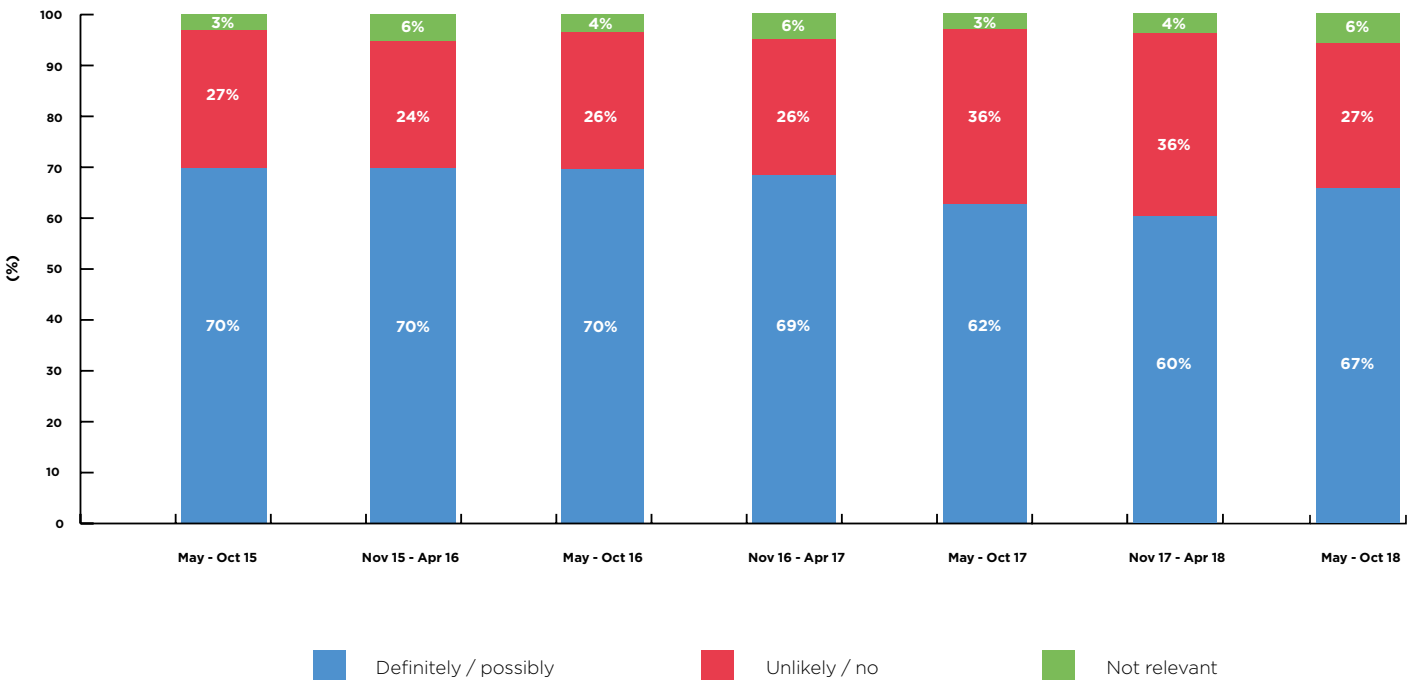


Figure 8 - Contractors - involvement in unconventional activity in the UK in the next three to five years



Trends in business activity

Employment changes

In their Workforce Report 2018, Oil and Gas UK estimated that the number of jobs supported by the oil and gas industry to be 282,700 in 2018. The figure is made up of around 36,800 directly employed by oil and gas companies and major contractors, around 126,700 in the wider supply chain and a further 119,200 induced jobs. This survey draws on responses for oil and gas operators and contractors who currently employ more than 41,800 employees.

We sought information on the current UK-based workforce for each firm, asking what has happened and what they expect to happen to their UK workforce (FTEs). In the 2017 survey, 11% increased their total workforce by more than 10%, whereas in this latest survey, this figure has risen to 21% and expectations are that this will rise further in 2019 (33% of firms expect their total workforce to increase by more than 10%).

In this current survey around 43% increased their employment (FTEs) levels over the past year and 56% reported either no change or reported a decrease in their workforce. During 2019 only 5% expect to reduce their workforce.

Our findings from survey 27 showed that:

- In the 12 months to October 2017, operators reported a 5.4% reduction in their UK-based headcount; and,
- For contractors, the 12 months to October 2017 saw a 0.2% reported weighted average increase 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 October 2018 we calculate that operators and licensees reported an effective 0.5% reduction in employment compared to a reduction of 5.4% in the previous survey suggesting that the rate of job reduction has slowed further.
- In the next 12 months, operators anticipate that there will be a 0.7% increase in headcount- ending the recent downward trend.
- Contractors reported essentially a 0.1% increase in headcount during the 12 months to March 2018 compared to a 0.2% increase during the 12 months to March 2018, implying that the employment numbers are relatively static.
- Over the coming 12 months contractors now anticipate increasing headcount by an average of 2.2%.

Figure 9: Contractors - employment trends, 2004 to expected 2019 (net balances)

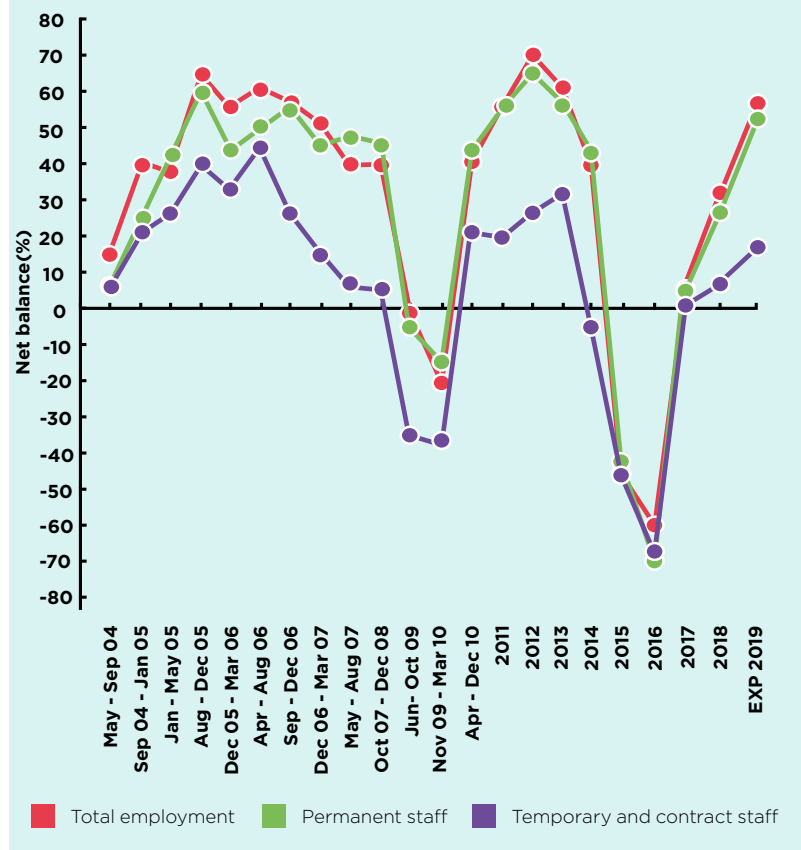
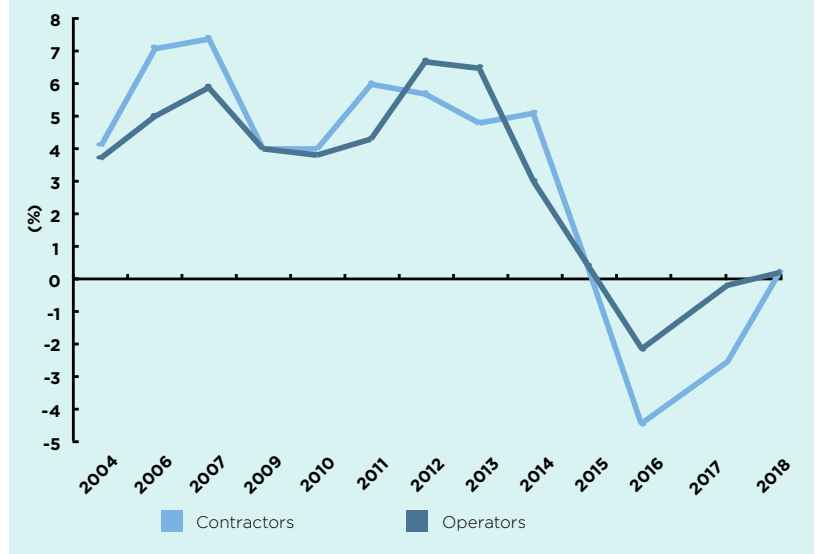


Figure 10a: Operators and contractors - average annual pay change 2004 - 2018



Workforce

In line with expectations from Survey 27 total employment trends improved in this latest survey for a net balance of contractors whereas UK based employment levels, on balance, declined among licensees/operators with none reporting increasing total employment levels.

Contractors, on balance, increased permanent staff (a balance of plus 29% compared to a balance of plus 1% in 2017) and firms now also recorded a rise in contract staff (a balance of plus 7% compared to a balance of minus 1% previously).

With regards to expectations of employment we find a continued positive outlook during 2019 as a net balance of plus 56% of contractors expect a rise in total employment; with a net balance of plus 53% forecasting a rise in permanent staff and plus 19% forecasting a rise in contract staff. Operators/licensees also share this positive outlook, as a net balance anticipate a rise in permanent and contract staff.

84% of contractors reported that the level of total hours worked hours for UK-based employment in their company was at or above planned levels and 98% expect the trend in working hours to be working at or above planned levels in 2019.

Pay

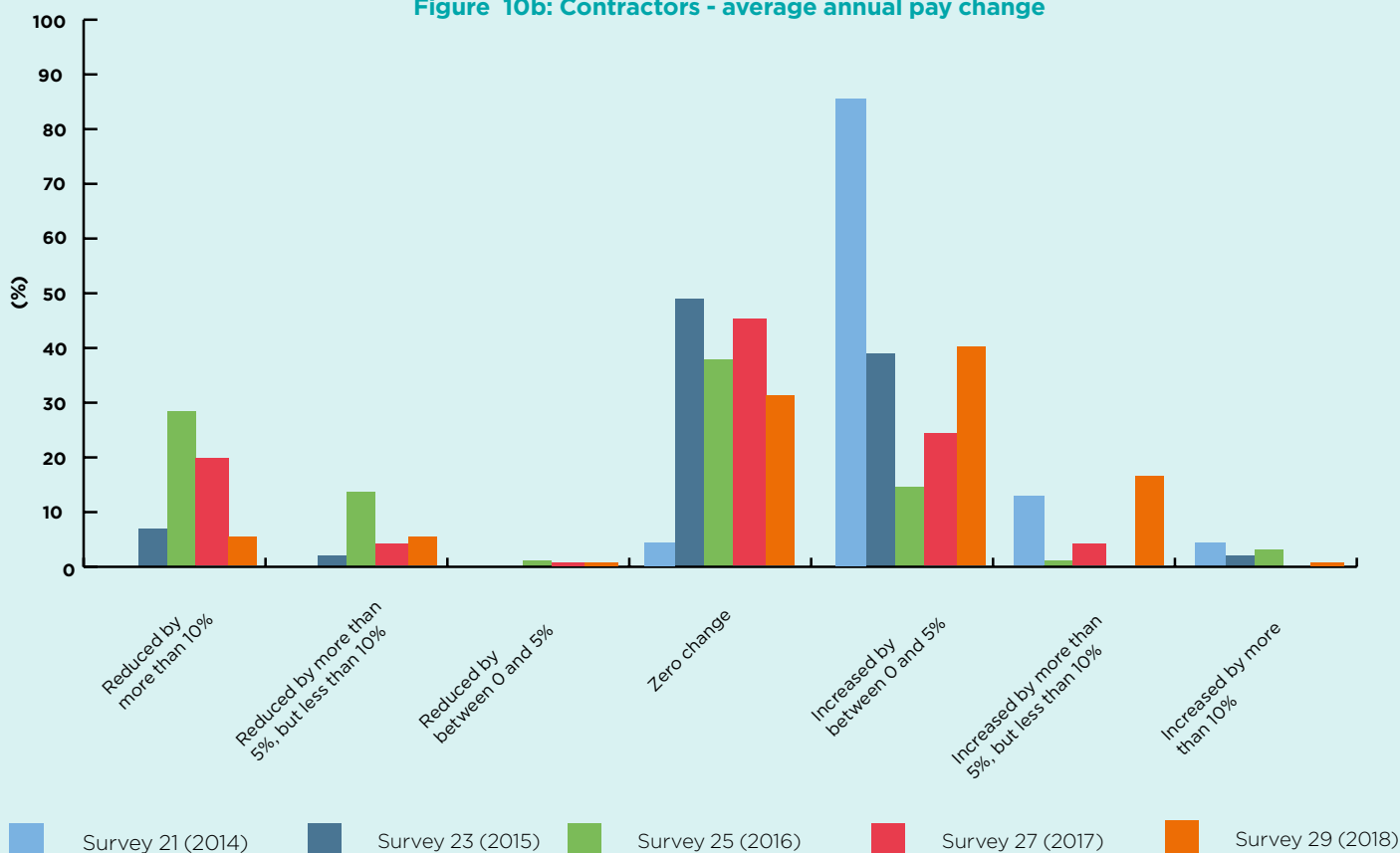
The recent trends in (mean) pay increases between 2004 and 2018, shown in Figure 10a, correlate with the pattern of demand for staff over this period. It is not surprising therefore that fewer firms are reporting reducing pay. The average change in pay in the last year was plus 0.95% - an improvement on the minus 2.14% during 2017. Contractors and operators/licensee reported average (mean) changes of +0.98% and +0.63% respectively.

Around half of firms changed pay/benefits during the last year, and Figure 10b shows the comparison between the pay changes seen over the past five years.

The proportion of firms reporting that they had reduced salaries fell once again; in the 2016 survey 43% of firms reported reducing salaries whereas in the previous survey this eased to 15% and has now fallen to just 5% in 2018. The share of firms reporting that they had increased pay during this last survey period rose from 16% in 2017 to 38%.

Firms were asked if they had made any substantial changes to terms and conditions of employment (e.g. bonuses, hours, pensions, benefits, reduced remuneration) and the outturn was that more than three-quarters had not. A number of firms reported making either positive or negative changes to their pension schemes - whether introducing a new one or stopping the final salary scheme. Some

Figure 10b: Contractors - average annual pay change



companies also specified the introduction of a share option scheme to prevent staff leaving while others indicated removing their share schemes. A number of firms have introduced flexible working hours.

These findings chime with the motivation given by 41% of firms as the main driver for pay/benefit changes over the past year - the need to reduce costs. However this has eased since the previous survey where 61% gave this as the main driver. The number of firms reporting that they have been improving wages/benefits due to the need to retain core staffs has risen over the past three years - up from 24% in 2016, to 43% in 2017 and now to 50% in this latest survey. Firms citing inflationary pressures/cost of living in the local economy as the main reason for increasing pay has also been increasing over the past three years. In 2015 14% cited inflation as the main reason and this rose 20% in 2017 and has now risen again (24%).

34% percent of firms expect their headcount for contract staff to rise over the next three years with 14% anticipating a decline. Almost two thirds (65%) of firms expect the level of core staff to increase and only 5% expect a fall over the same period. As we noted above, staff retention is an issue for companies and as permanent staff tend to remain in post for longer, firms are possibly trying to encourage workers to be permanent staff as a skills retention strategy.

Vacancies

In Survey 21 (May-October 2014) we added a question on vacancies, noting the number of current vacancies in firms' UK activities.

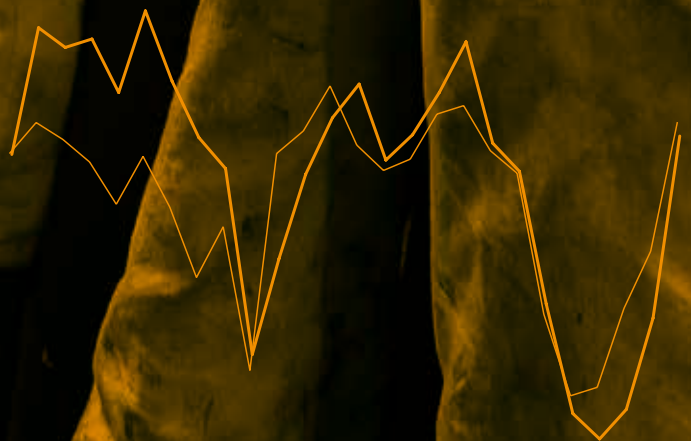
In this latest survey we find that the vacancy rate (i.e. vacancies per 100 jobs) for operators/licensees increased marginally during the last six months and stands at 1.13 compared to 0.63 in the previous survey. The vacancy rate for contractors fell from 5.89 in the previous survey to 1.64.

These remain historically low and could suggest limited prospects for hiring in the sector. However both licensees and contractors are forecasting an increase in the total number of employees for 2019.

Figure 11: All respondents - reasons for pay changes, 2011 to 2018



Recruitment, retention and skills shortages



Recruitment, retention and skills shortages

Recruitment challenges had diminished sharply in the years following the oil price fall, with firms noting that it was easier to recruit, particularly for highly skilled roles. Although recruitment problems remain marginal, challenges within the labour market and for filling different staffing roles have increased since the previous survey.

In this current survey we find that recruitment difficulties have, once again increased slightly over the last 12 months, 25% of contractors compared to 13% a year ago (and to just 10% two years ago) reported difficulties in recruiting managerial and professional staff. Similarly contractors reporting difficulties in recruiting suitable technical staff rose from 9% in 2016 to 18% in 2017 and now to 37% in 2018. Furthermore there has been a steady increase

from 8% in 2016 to 18% in 2017 and now to 27% in 2018 in the difficulties recruiting skilled trade staff. Difficulties attracting suitable clerical staff on the other hand remain low, easing marginally from 8% a year ago to 7%.

In Survey 25 (undertaken in autumn 2016) we noted the sharp increase in the share of firms reporting losing staff as individuals leave the industry (43% of all firms – up from 31% in the 2015 survey and from 19% in the 2014 survey). Then in Survey 27 (autumn 2017) the proportion of firms reporting staff leaving the industry remained high but eased marginally to 37% and this is broadly unchanged in this latest survey (36%). A number of firms continue to have concerns over future recruitment problems, with talented and qualified individuals leaving the industry altogether and perhaps unwilling to return.

Figure 12a: Operators/licenseses - percentages reporting difficulties in recruiting staff, by occupation, 2004 to 2018

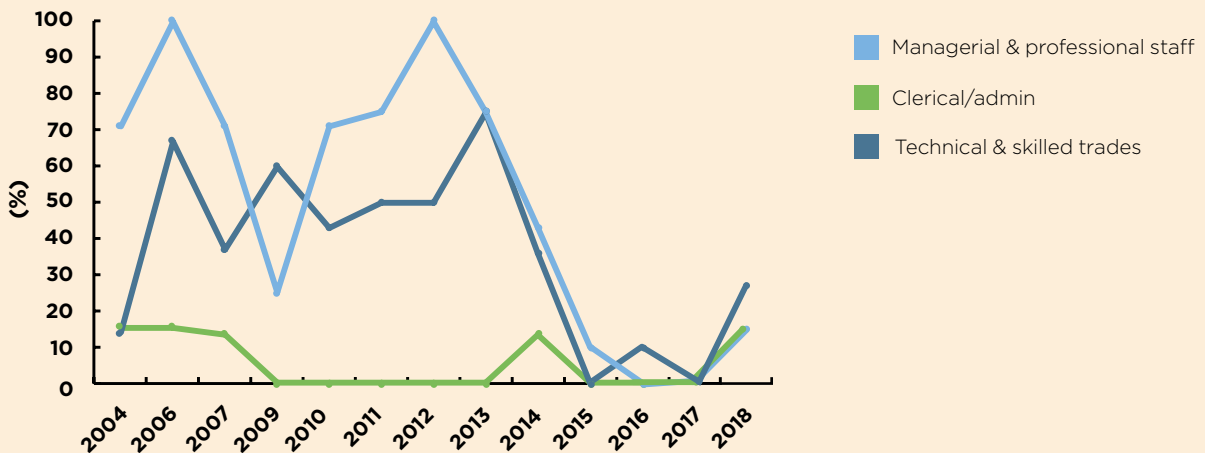
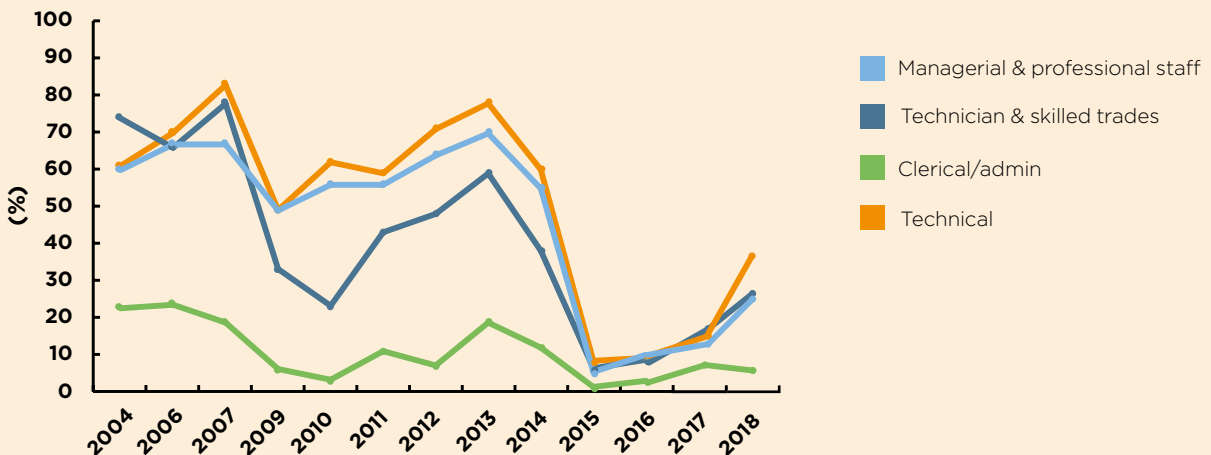


Figure 12b: Contractors - percentages reporting difficulties in recruiting staff, by occupation, 2004 to 2018



Since 2006, the autumn surveys have explored the reasons for firms losing staff. This is important for both short-term capacity, and longer-term sustainability. The reasons for staff loss among contractors are given in Figure 13a and Figure 13b. We earlier noted the high share of firms losing staff who left the industry, 36% of all firms. However in this latest survey there has been a sharp rise in staff moving to other UKCS-based oil-related companies in the area, up from 27% in 2017 to 47%. The third most cited reason given was staff retirement; this was reported by 36% of firms, up from 32% of firms in 2017, suggesting the demographics still have the potential to be a significant challenge in the years ahead.

Respondents were asked to identify what skills, if any, are still in short supply within the industry; 44% of responding

firms identified at least one skill deemed to be in short supply. A significant number of firms pinpointed a lack of suitable engineers – some general and some specific including electrical, mechanical, control and safety system, metering, project, design, subsea, reservoir, cost and survey engineers. A number of these firms reported a shortage of engineers with experience. Similarly firms also reported a lack of suitable technical staff – again some noted general technical staff and others noted specific technical occupations like, for example, electronic or field service technicians. Firms also reported difficulties attracting staff with IT experience and skills, particularly programmers and software engineers. In addition to firms reporting a lack of technical skills, a number noted problems attracting sales and management staff.

Figure 13a: Contractors: reasons for loss of core staff, 2006 to 2018

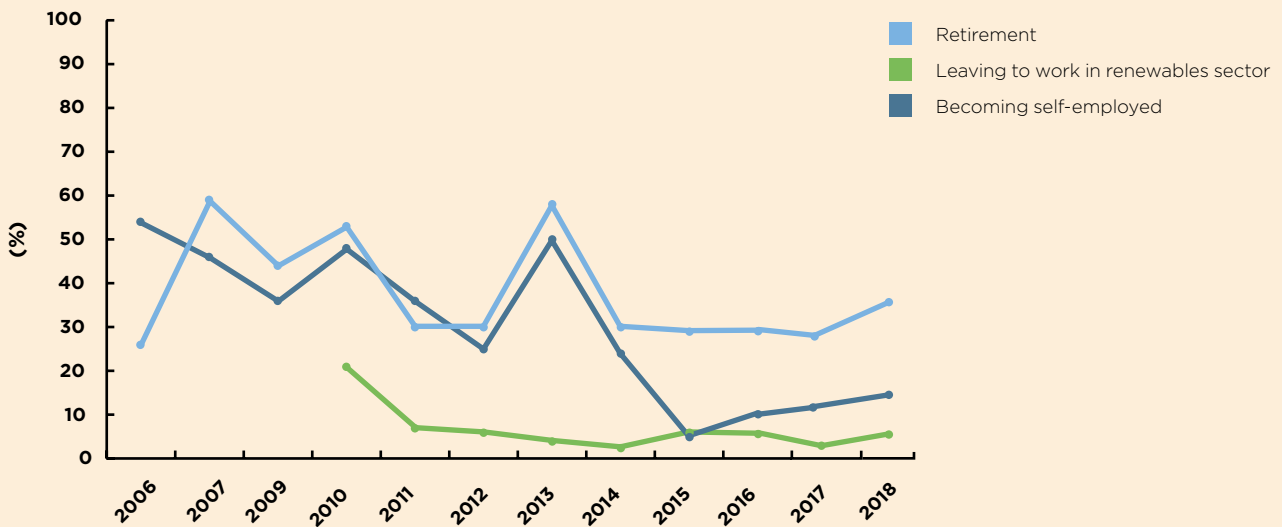
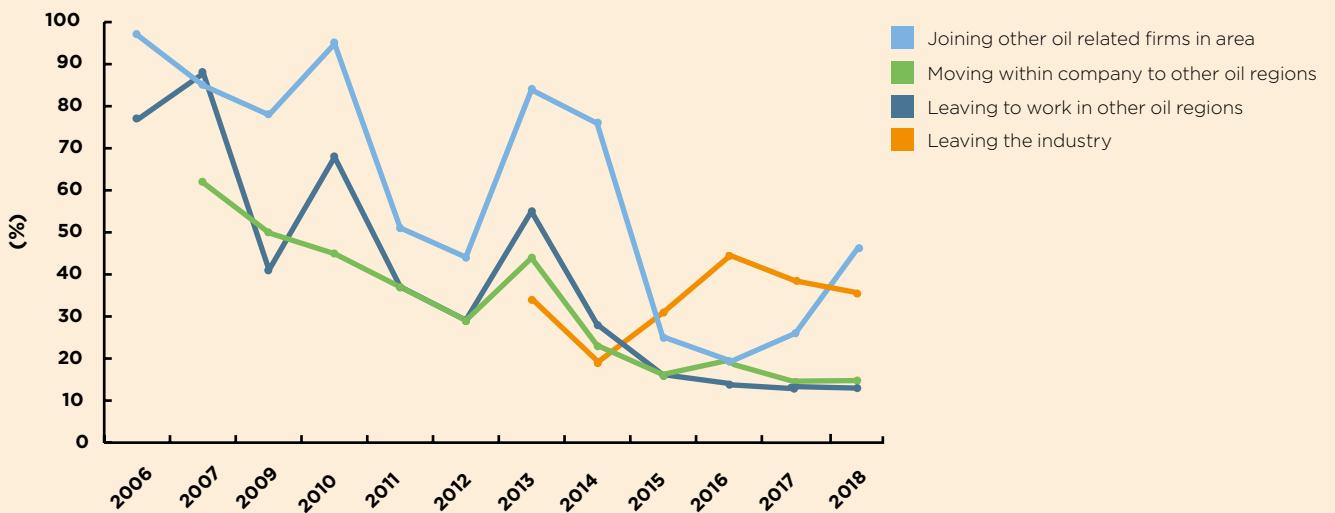


Figure 13b: Contractors: reasons for loss of core staff, 2006 to 2018



Case study - Atlantic Offshore



Tell us a little bit about your company, what you do and what makes you different.

Atlantic Offshore is a leading provider of multi-role, Emergency Response Rescue and Recovery Vessels (ERRV). We have a head office in Bergen, Norway and a regional office in Aberdeen, where we provide full ship management services to our client base.

Our niche market is in the higher end multi-role side of the ERRV market and that means that we can offer additional value-added services like fuel and water giveaway and inter cargo operations. We can also look after multiple offshore locations, which helps reduce our clients' cost base.

We have a very robust ship management operation and a very experienced, loyal and competent vessel crew. Currently we employ ~200 seafarers, of which roughly 80% are from Great Britain & Ireland.

What has been the biggest challenge your company faced during the downturn and how did you overcome this? Has your company changed its approach as a result?

Like all organisations our biggest challenge has been a contracting market, price pressure and the resultant need to reduce OPEX, in order to ensure sustainability and competitiveness through the downturn.

Since 2015, we have placed particular emphasis upon reduction of OPEX. We have removed waste from our business and invested heavily in new digital systems to help improve efficiency; again, to help the bottom line.

We have also had to make difficult decisions when considering cost reduction synergies. However, like all organisations, if you don't make these tough decisions and create a resultant action plan, then you will not survive.

Do you think there are skills gaps within the industry and where do you think they are most acute?

We have seen significant gaps in the supply of personnel who have the specific qualifications required to work in the ERRV sector. Many seafarers have left the industry due to redundancies and reduced rates, or have simply been out of work, and therefore certification has lapsed. Added to this, the cost of re-entry is too significant for many to consider. This can also prove to be a quandary for ship owners/operators, as covering the cost of training will often mean an investment prior to assessing performance and suitability for long term engagement. As we see the market take a positive turn, we can only anticipate that this gap will become more significant.

How has your company tackled these shortages to date (if relevant)?

We have had to use a number of agency personnel to keep our vessels fully manned, but have seen that these temporary crew enjoy working within the fleet. Positively for us, they are keen to be employed permanently when they have completed a few trips, rather than go elsewhere or continue to work between companies on an ad hoc basis.

We focus not only on the remuneration package that our seafarers receive, but on making Atlantic Offshore an attractive work place. We look after the offshore crew and provide home comforts onboard the vessels where we can. We inform crew on the latest developments within the business and provide opportunity for them to give input and feedback, via forums such as our annual senior officers' meetings. We believe that these strategies contribute to the high level of retention within the fleet and the many referrals we receive from existing crew for friends and ex-colleagues who are keen to join the organisation.

What has been your experience trying to recruit for difficult to fill positions?

Like all vessel owners, we have seen that crew are looking to maximise their day rate initially in such a tight market, especially for certain hard-to-find positions. We have had to use specialist agencies to assist in the search and to help us to widen the net.

Ultimately, we need to crew our vessels in order to sustain the contract, which is essentially why we have these agreements in place.

What is your company's approach to recruiting graduates or young people?

We have employed trainees within the fleet who have entered the business with minimal certification. Many bring no offshore experience, but have some industry-specific training which is undertaken during a 12-week college course. When they have completed a number of offshore trips, we organise further training for them, in order for them to progress through the ranks. During this time and beyond, they are given support and coaching offshore by our senior crew. We have found this to be a successful initiative and have been very pleased with the development of, and contribution made by the trainees; we look forward to supporting them throughout their careers.

What are your company's recruitment plans over the next year?

With two new vessels entering the fleet in the coming months, we are looking to move some of our temporary crew into our permanent pool and are pleased to be able to engage the talent we have amongst the temporary crew on a longer-term basis. We are looking to continue our trainee programme and as the current trainees move into substantive positions, we will fill the trainee slots made available and continue to bring fresh talent into the industry.

We are very committed to the development and promotion of existing crew and back filling lower positions with our recruitment initiatives. This approach will continue with the manning of the new vessels and we are pleased with the crew development opportunities the new tonnage will bring.



Current industry challenges



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In light of recent and ongoing developments concerning the draft Withdrawal Agreement our focus is firmly on assessing the implications of these proposals, the practical questions they pose for business and the impact the current activities will have on the ‘business as usual’ governance of the nation.

Chamber viewpoint

Current industry challenges

In this survey, we were particularly keen to find out firms' perspectives on a number of issues: firstly, the impact of Brexit on the sector; secondly, if the level of collaboration among operators and contractors has changed in the last three years; thirdly whether or not firms are forecasting an increase in profits; and finally to what extent customers/suppliers are adhering to agreed payment terms and what impact this is having.

There are many possible versions of Brexit, from the 'Canada-plus', 'the Norway model', all the way to a 'no-deal Brexit'. These all have very different consequences, and until we know the details of the withdrawal deal and what future trade relations between the EU and UK will be it's difficult for companies to plan.

A small number of respondents reported that they welcome Brexit with some others expecting that it will have little impact on their activities. Various reasons for these views were cited with several pointing out that many of the oil and gas firms/clients are global organisations with much of the activity taking place outside of Europe. For example, '... core business takes place in the UK, Middle East and Africa, rather than Europe, will minimise the impact of Brexit' or that the impact will be limited 'because the whole world will continue to trade with the UK oil and gas supply chain'.

Firms were asked what impact they anticipate Brexit will have on talent attraction within the UKCS sector. Fewer than 5% think that this will be positive. Almost half (48%) anticipate no impact and a similar proportion think that Brexit will have a negative impact on their ability to attract talent to their organisation. They were also asked what impact they anticipate Brexit will have on the UKCS sector generally. Again very few (5%) think that the effect will be positive. Half anticipate no effect and the remainder (45%) predict that Brexit will have a detrimental effect on the sector. Firms were then given the opportunity share their thoughts on the impact of Brexit. There was a mixed bag of comments and unsurprisingly, the level of uncertainty featured strongly with one firm articulating 'because we don't know the deal we will get we have no idea what impact it may have'.

Firms are concerned with the impact and additional costs that Brexit will have on their trade and export activities and that leaving the EU could make it more difficult and expensive to do business in Europe. One firm noted that 'Being out of the EU will make it harder to gain business in Europe' while another felt that the UK firms will 'be disadvantaged in terms of pricing for parts/components and labour pricing'. Firms are worried that the UK could lose some of its influence and that 'Brexit will de-value the power and strength of the UK globally'.

A number of firms stressed concerns over EU employees leaving the UK, or firms not being able to attract new staff from Europe. Indeed a number of respondents

claim to have already lost EU staff due to the uncertainty surrounding Brexit. Other respondents hope that the UK government will put policies in place that allow the EU workforce to be retained in the industry. One firm noted that 'The sector is reliant on highly qualified and experienced engineers and the UK does not produce enough of them. International experience is crucial and international operators (like TOTAL in France) have well developed, government supported progression courses to create role specific, well rounded engineers. The UK government has no such vision and little leverage over UK based operators'. Some firms worry that the UK will look unattractive to potential EU employees.

To assess Brexit preparations and readiness, respondents were then asked to consider the statement 'We have considered the potential impact of Brexit on our business strategy and planning process'. The breakdown is as follows: 7% strongly agree, 37% agree, 40% neither agree nor disagree, 8% disagree and 2% strongly disagree and 6% don't know. This illustrates that just under half of firms (44%) have at least considered the impact Brexit will have on their business.

With respect to how the level of collaboration among operators and contractors has changed in the last three years, 31% felt that the picture had improved. Just over a third (37%) felt that there had been no change over the period but 18% felt that there had been a deterioration.

More than half of firms (58%) expect to increase their profit levels in 2018 compared to last year. Just over a third expect no change to profit levels and only 5% are forecasting a reduction.

When asked how frequently customers/suppliers are adhering to agreed payment terms, fewer than 10% indicated that the payment terms were always adhered to. A further 37% said that terms were often adhered to, and 27% said sometimes. A significant proportion (23%) stated that the terms were rarely or never met while almost half (49%) of firms claimed that their customer/supplier payment terms were having a negative impact on their business. Just over 40% said it was having no impact with just 3% reporting a positive impact.

Firms were asked what measures they were implementing to minimise potential skill shortages in their business. The most commonly cited measure was the training and development of current employees with 67% of firms taking this step. Graduate schemes/apprenticeships were cited by 49%; 43% reported using contractors/consultants; increasing pay/benefits for new or current employees was implemented by 36% and expanding the geographical focus of recruitment was noted by 25% of firms.

Current industry challenges

In this survey we introduced a question asking contractors what sectors the remaining proportion of their activities were in if their business was not 100% in oil and gas activity. On average 86% of contractors' business was in oil and gas activities. They were then asked what percentage of their business do they expect to be within oil and gas activities by 2025 and here the average fell to 80%. Looking in

more detail, almost half of contractors (48%) reported that all of their business was in oil and gas with a further 31% saying that more than 80% of activity was oil and gas related, giving us a total of 79%. By 2025 fewer than 70% of contractors expect more than 80% of their activity to be in oil and gas.

Figure 15: Percentage of business in oil and gas activities

%	2018	Expected by 2025
100%	48%	39%
80-99%	31%	29%
50-79%	12%	20%
0-49%	9%	12%

The sectors outside of oil and gas that these contractors most commonly worked in were renewables, other general engineering, offshore wind, defence and power generation. Often this work was a fairly marginal part of their activity as it accounted for less than 10% of their total activity for most respondents.



Achieving the energy transition relies on retaining our best people and ensuring the next generation of talent has the right type of skills.

KPMG viewpoint

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.

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]. 115 companies responded to the survey, representing a response rate of 13% of companies contacted.

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 meeting our commitment to bring you independent and impartial insights into the key issues facing your business and the wider sector.

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About the Aberdeen & Grampian Chamber of Commerce 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.





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