



Aberdeen and Grampian  
Chamber of **Commerce**



# The Aberdeen and Grampian Chamber Oil and Gas Survey

Sponsored by Deloitte

7th Survey  
September 2006 – January 2007



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# Chamber comment

This is the seventh **Aberdeen and Grampian Chamber Oil and Gas Survey**, originally developed with our sponsor Deloitte and with input from the Well Services Contractors' Association (WSCA), Offshore Contractors' Association (OCA) and United Kingdom Offshore Oil Association (UKOOA).

Drawing on responses from oil and gas operators and contractors employing over 35,000 in the UK and 220,000 in the international oil sector, this report outlines business confidence, industry developments, activity levels and employment trends.

In this survey we return again to the contractual relationships in the sector – the trends in contracts and their contents in both the UKCS and elsewhere – and to the development of new markets. Earlier reports reviewing changes in contract contents were published in our first and fourth surveys (copies of these reports can be downloaded from [www.agcc.co.uk](http://www.agcc.co.uk)).

The Chamber notes from the respondents to this seventh survey that although the growth in confidence is less marked than the last survey, business confidence, in both the UKCS and other oil provinces worldwide, remains high despite the oil price dropping back considerably from the \$75 mark. Workload too, in the next 12 months, looks strong for both operators and contractors, with over 85% reporting operating at or above optimum levels of capacity both at home and abroad.

There has been a healthy and marked change in the way that contract terms and conditions have moved back to deliver a better balance of mutual benefit. Although respondents reported a decline in the emphasis on cost reduction this must remain a sector goal to ensure the competitiveness of the UKCS.

Skills and equipment resource constraints are a continuing theme and evidence of this is supported by this survey. Although there have been some excellent initiatives by both industry and its agents there is still much to do in terms of addressing the ageing worker profile and attracting new blood into all the trades and professions necessary to match the business opportunities, now and in the future. The evidence suggests that temporary and contract staff are still a key part of the mix but contractors especially are continuing to use permanent contracts to secure their workforce. Portrayal of the industry as a place to develop a career is a message that is attracting more attention with recent recruitment fairs recording very positive results. The message is being received but is a long-term objective and will require vigilance and commitment to achieve this re-profiling goal.

Capital equipment orders announced by the major contractors over the period will doubtless bring new capacity but where it will be deployed is the challenge confronting the UK Government. Over 65% of contractors reported developing new overseas markets in the last two years. Recent facility investment announcements in and around Aberdeen are very welcome, but as the region plays a greater role as a technology hub we need to ensure that the UKCS is still where the technology and expertise is deployed. It is crucial that the UK Government recognises the supportive role it can play by introducing attractive long-term fiscal and legislative policies to protect the competitive position of the UKCS against the relative attractiveness of foreign market opportunities. Return on Investment indexes will inform future investment decisions rather than geographic boundaries and the UK Government and Exchequer must play its part in stimulating the UKCS opportunity.

The survey clearly charts that both operators, but more importantly, the contractors are now eyeing growth opportunities beyond our shores. Whilst this is good news for Aberdeen City and Shire, as it provides opportunities to export expertise and technologies, we need continued investment at home in exploration levels and both our offshore and onshore infrastructure to ensure the longevity of our indigenous oil and gas industry.

Apart from the considerable revenues still available from the remaining reserves in the UKCS consideration needs to be given now to the opportunities presented by the future de-commissioning of the dormant and present infrastructure. This process would retain a core of expertise and presence in this region by multinationals keen for a share of this very lucrative market. The employment opportunities throughout the UK servicing this sector of the industry would be considerable. The skills and experience gained in the UKCS on de-commissioning could be exported to other markets in the future.

Prolonging the life and therefore the contribution of the UKCS to the Exchequer is central to the future well being of the UK, let alone the security of supply benefits, so a major review of how this can be achieved is now very timely. We cannot stop major organisations internationalising their operations. The challenge is to make any decision to shift their emphasis from the UKCS less attractive by making continued inward investment in the region as attractive as possible.



Geoff Runcie  
Chief Executive  
Aberdeen and Grampian Chamber of Commerce  
January 2007

# Executive summary

## The key findings from this seventh survey are:

- A sense of consolidation of previous increased activity coupled with continued but slower rates of growth expected over the next year;
- A net of both operators and contractors reported continued rising trends in both UKCS and overseas-based work and once again these trends are expected to strengthen further over the next year;
- The percentage of contractors working at or above optimum levels continued at a high level;
- Rising trends in employment were reported by both operators and contractors and these upward trends are expected to continue through 2007 for a net of respondents. Over 40% of contractors reported working above planned hours over the past four months and more than a quarter anticipate working above planned hours in 2007;
- Rising trends in the level of UKCS framework based agreements were reported by 34% and rising trends in new UKCS-based agreements by 36% of contractors;
- A comparison of survey results between 2004 and 2006 suggests a declining emphasis on cost reduction, risk sharing and penalty clauses in contracts, and a trend towards longer agreements. In contrast, little change in the emphasis attached to safety and environmental issues was noted;
- Almost two thirds of contractors, that responded, reported they had developed new markets over the past two years, either as part of an explicit policy of growth, responding to new market opportunities and/or, for a small number, a decision to diversify.

# Survey context

The price for Brent crude eased to under \$60 bbl in October and rose to over \$60 bbl in December, only to ease to approximately \$50 bbl in January 2007. These short-term fluctuations reflect a combination of short and medium-term demand and supply concerns coupled with currency movements.

The milder than anticipated U.S. winter has led to increased stocks and lower demand. As the Royal Bank of Scotland notes in the Index for December 2006, OPEC's announcement to reduce output in February 2007 reflects their view that short-term demand will not absorb current supply. However, price moves continue to be influenced by a combination of political uncertainties, and renewed unrest in Nigeria, and a trend towards Governments seeking more control over national oil supplies. In the medium-term new energy policies with different priorities towards oil production will influence price moves.

Supply side changes also reflect the decline in the U.S. dollar, the trading currency for oil and its impact on the value or purchasing power of oil. The Royal Bank of Scotland notes in the Index for December 2006 that 'between September 2000 and November 2006 the U.S. dollar has fallen by around 35% against the Euro and 27% against sterling'.

Within the UKCS activity remains buoyant with an increase in oil output in October; however, the continued high demand has raised concerns as to rising costs.

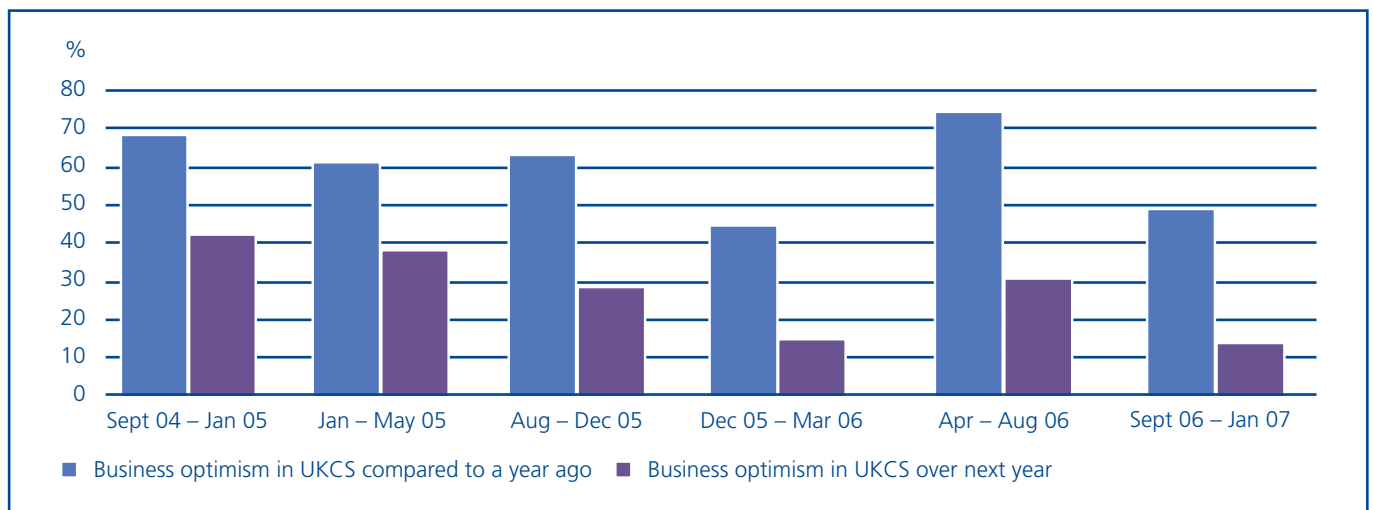
# Business optimism

## UKCS

Net level trends in business confidence were reported by operators in the period September 2006 – January 2007, notwithstanding the current high levels of activity. On the one hand ‘access to reserves and production’ led to increased business confidence, whilst for others the impact of the ‘the growing strain on resources – people and skills’ contributed to a reassessment of business confidence for 2007. The declining levels of oil production in the UKCS, coupled with rising operating costs increases UKCS unit costs, and hence adversely impacts on the international competitiveness of the UKCS.

Amongst contractors, the net trend in business confidence continued to rise although at more modest rates. Overall, a net balance of 49% (compared to 72% in the last survey) reported being more optimistic about the UKCS business environment and a net of 13% (31% in the last survey) were more confident about the year ahead. Contractors employing fewer than 100 staff were generally more confident compared to a year ago than those employing more than 100 staff.

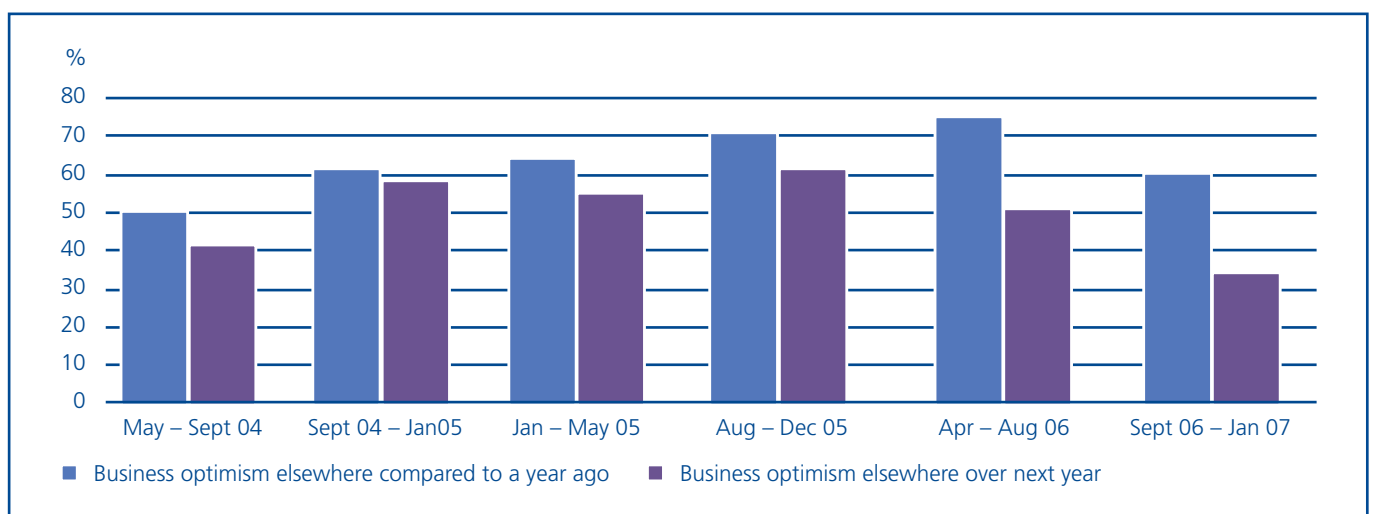
**Table 1: Contractors – business confidence in UKCS (net balances)**



## International

Both producers and contractors were more confident as to the international market than the UKCS. Oil and gas operators were also more confident in terms of the international market for 2007, with the majority reporting rising business confidence. Amongst contractors business optimism continued to strengthen, although at more modest rates with net of 60% (74% in the previous survey) reporting feeling more confident than a year ago, and a net of 34% (50% in the previous survey) were more confident about the international business environment in the year ahead. Amongst contractors business confidence as to the international market in the year ahead was stronger in firms employing less than 100 staff than larger firms.

**Table 2: Contractors – business confidence in international markets (net balances)**

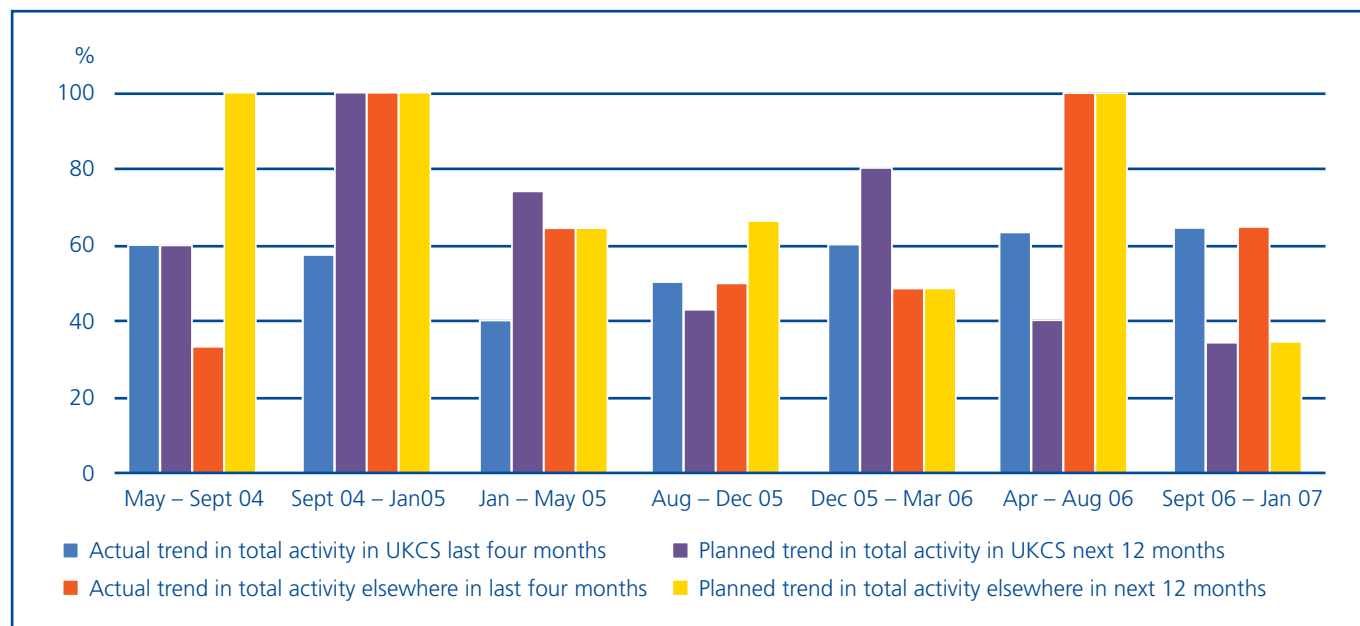


# Trends in business activity

## UKCS

Once again, a net of operators reported more increased UKCS activity in the period September 2006 – January 2007. A net balance of operators expect this pattern to continue over the next twelve months. Table 3 indicates the actual and planned UKCS and internationally-based activity by operators from May 2004 to January 2007. In this latest survey, a third of respondents anticipate production related activity in the UKCS in the next year.

**Table 3: Trends in operators' UKCS and internationally-based activity**

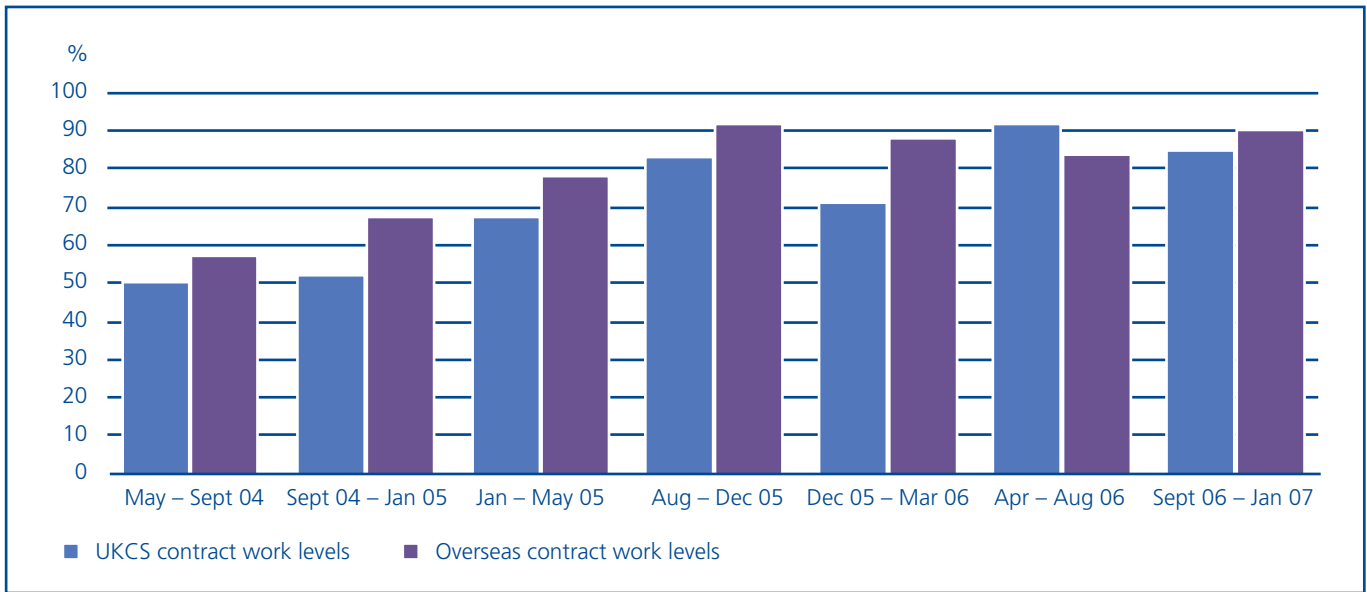


Once again contractors continued to report rising activity. 58% of contractors reported increased total activity in the UKCS over the past four months, and 64% (61% in the previous survey) anticipate increased activity, and only 8% reduced UKCS activity, over the forthcoming year. Overall, 64% (69% in the previous survey) of contractors reported increased overseas-based activity during the last four months, and no respondent reporting a decline in overseas-based activity. 68% of contractors anticipate rising trends (and 32% level trends) in overseas-based activity over the next year.

44% of contractors reported increased (and only 12% reduced) UKCS-based exploration related activity over the last four months and 39% expect this rising trend to continue during the next twelve months. A net of 46% of contractors reported rising trends in development work and 57% expect this rising trend to continue over the next year. 54% of contractors reported increased (6% reduced) UKCS development related activity since September and 58% expect this increasing level of development related work to continue throughout 2007. Only 9% of contractors expect reduced levels of development related work in the UKCS over the next year.

With regard to UKCS-based work, 85% of contractors reported working at or above optimum levels. This ranged from 57% amongst firms employing less than 10 staff to 100% of firms employing between 10 and 30 members of staff. Furthermore, 89% reported working at or above optimum levels in respect of overseas-based work.

**Table 4: Contractors work activity levels (percentages reporting working at or above optimum levels)**



**International**

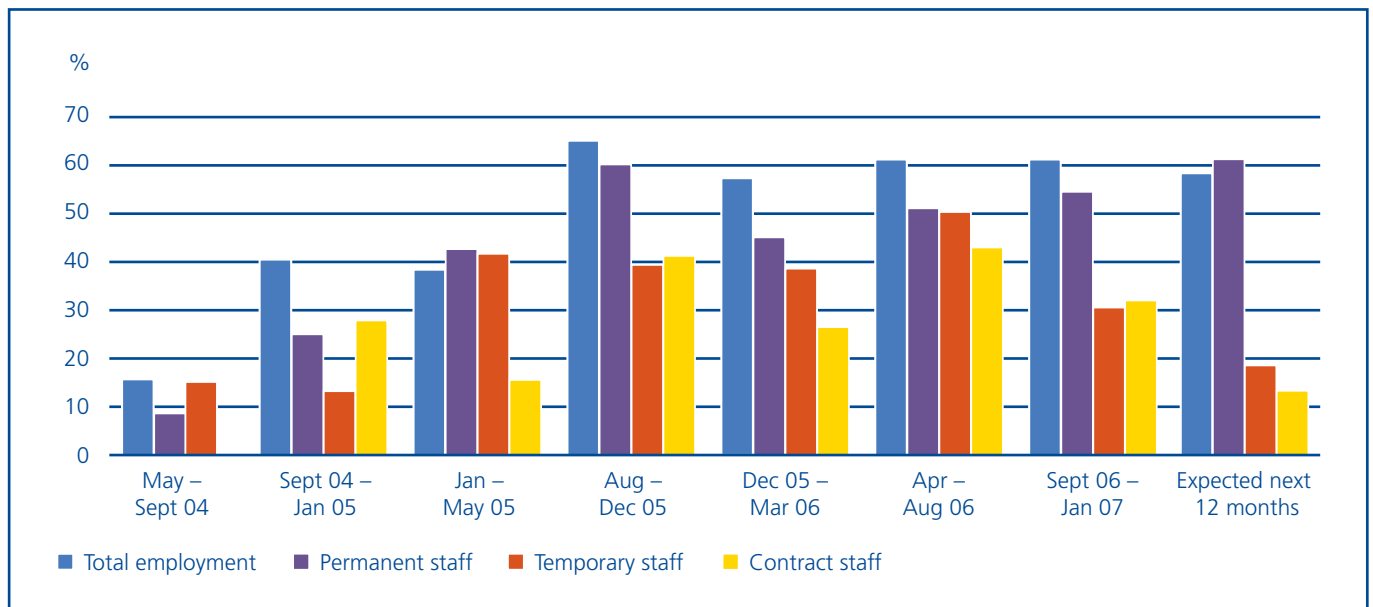
Operators reported rising trends in activity outside the UKCS and anticipate these trends to continue through 2007. 64% of contractors reported increased overseas activity, and 68% expect rising trends in international-based activity to continue over the next twelve months. Additionally, 78% of contractors that employ more than 100 staff expect rising trends in overseas activity in 2007. Also, 60% of contractors expect increased exploration and 63% anticipate increased levels of production related activity overseas during 2007.

# Employment trends

Rising employment trends continued amongst operators, and a net of operators anticipate increasing employment during 2007. Unlike contractors, the operators continue to make more use of temporary and contract staff. Further evidence of continued high work levels amongst operators is indicated by the continuing trend in total hours worked being above planned levels.

Overall 63% of contractors reported increasing employment during the period September 2006 to January 2007, and 62% expect to increase employment in 2007. Increased employment during the survey period was reported by 89% of firms with between 30 and 100 employees and 71% of firms employing over 100 staff. In contrast to operators, contractors continued to make more use of permanent rather than temporary and contract staff, although larger contractor firms tended to make slightly more use of temporary staff.

**Table 5: Contractors – employment past four months and expected next twelve months (net balances)**



# Contract conditions and issues

In the first and fourth surveys we explored the changing patterns and contents of contracts, and return to this topic in the current survey. Respondents were asked to comment on what changes, if any, they had experienced in terms of framework, renewed and new contracts. Secondly, information was sought as to changes in the terms of the contents of contracts.

## Trends in framework agreements

Changes to the trends in UKCS framework agreements were reported by 62% of operators in 2004 and by 61% in 2006. Overall the percentages reporting an increased trend rose from 26% in 2004 to 34% in 2006. The trends in internationally-based framework agreements between 2004 and 2006 were mainly a consolidation of earlier increases. Rising trends in international framework agreements were reported by 44% of operators in 2004 and 23% in 2006, but by 2006 a level trend in international framework agreements was reported by 77% of respondents.

## Trends in renewed contracts

Between 2004 and 2006 there were only marginal changes in the trends in UKCS and international-based renewed contracts. In both 2004 and 2006 approximately a quarter of contractors reported rising UKCS and internationally-based renewed contracts. Between 2004 and 2006 the proportions reporting level trends in renewed contracts increased slightly.

## Trends in new contracts

Information as to the trends in new contracts was only asked in 2005 and 2006. In 2005 24% reported rising trends in new UKCS contracts, by 2006 this had risen to 36%. In contrast the trend in new international contracts eased slightly from an increase of 35% in 2005 to 23% in 2006.

## Trends in contract contents

Respondents were asked to indicate the changed emphasis on a number of issues in contracts. The most notable changes between 2004 and 2006 were:

1. A declining emphasis on cost reduction, risk sharing and penalty clauses in contracts. In the 2004 survey, 58% of contractors had reported increased emphasis and 42% a stable emphasis on cost reduction, by 2006 this had declined to 16% reporting increased and 63% a stable emphasis on cost reduction. 32% of contractors reported an increased emphasis on risk sharing in contracts in 2004, by 2006 the proportion reporting an increased emphasis had declined to 13%. Increased emphasis on penalty clauses had been noted by 30% in 2004, but by only 10% in 2006.
2. A stable trend between 2004 and 2006 on the emphasis on safety and environmental issues.
3. A trend towards longer agreements, in 2004 18% had reported increased emphasis and 75% a stable emphasis on longer agreements; by 2006 44% were reporting increased emphasis and 56% a stable emphasis on longer agreements.

# New business

Almost two thirds of the contractors that responded indicated they had developed new markets over the last two years. Three main sets of reasons were given for these policy changes:

1. New markets were entered and developed as part of an explicit policy of 'strategic growth', 'to increase turnover' and expansion.
2. New markets offer more opportunities; firms have been responding 'to rising oil and gas production developments in other countries' and 'following the oil producers'. 'Increased opportunities in North and West Africa', 'new frontiers like Russia and Australia are becoming busy' and 'offering more work opportunities'.
3. A small number of respondents indicated that their development into new markets reflected a wish to reduce their reliance on the oil sector. This was mainly evident amongst smaller firms, employing less than 20 employees, and was a reaction to 'previous uncertainty in UKCS oil and gas industry'. 'We were too reliant on the oil and gas sector and wanted to spread our turnover to other, non oil related industries.'

For almost 50% of respondents these new markets required the development of a new area of work and expertise.

# Appendix

The Aberdeen and Grampian Chamber of Commerce Oil and Gas Survey is conducted by Strathclyde University's Fraser of Allander Institute in collaboration. The present survey, which covers the period September 2006 – January 2007, was conducted in December, and the report was published January 2007.

## Methodology

The Aberdeen and Grampian Chamber Oil and Gas survey, in common with most national surveys, seeks evidence as to changing trends, and uses net balances as the principle survey statistic. Most questions ask the respondent to indicate whether the trend, over the past four months, and expected for the next twelve 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].

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