University of Strathclyde Glasgow

Aberdeen & Grampian Chamber of Commerce

Aberdeen & Grampian Chamber of Commerce

Oil and Gas Survey

22nd Survey: Published June 2015

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Chamber Viewpoint

This is the 22nd Aberdeen & Grampian Chamber of Commerce Oil and Gas Survey developed in collaboration with the University of Strathclyde's Fraser of Allander Institute and delivered with the valued support of our sponsor Bond Dickinson.

In this survey, in addition to the regular sections on business optimism and trends in activity, we again examine views and trends in Research & Development and investment in the UKCS and the results provide valuable time-series data on these key issues to accurately measure change across time.

In many respects it isn't a surprise to see the results marking the lowest confidence levels since the survey began. This is of course driven by the triple whammy of oil price falls, cost issues and falling exploration levels, at least the UK Government acted in March. Overall the Budget was mainly received positively with 75% of operators and 58% of contractors saying that the measures announced in the Budget met their expectations.

It is concerning that investment spending is less positive than previous years particularly the significant declines in staff development and training. Investing in staff and our future workforce is critical and with very low vacancy levels this does not feel like a good long-term response. Hopefully once we are through the current round of rightsizing investment in staff will return. We need to be ready for a successful future.

While sentiment looks negative for the next two years we must focus on a long-term competitive and successful industry. The increase in planned investment for 2015/16 in mergers and acquisitions, is one signal that some see opportunities in difficult times.

If we have now reached the bottom we can start to grow from here.

The new Oil and Gas Authority will help drive change but cannot do this alone. An emphasis on encouraging collaboration between firms was highlighted as a potential area for the Oil and Gas Authority to address as their first challenge. We would suggest that this is something industry should face up to rather than wait for the OGA to use its levers.

Contractor involvement in decommissioning continues to grow 79% reporting possible or definite involvement in the next three to five years. Of those currently involved in decommissioning, only 24% foresee a decline in the value of this type of work. This is a clear signal that new opportunities exist in this area and that companies will benefit from decommissioning. The priority remains to grasp the significant opportunities which still exist to explore and produce even more in the UKCS.

We would like to thank all survey participants, without your support we could not have delivered this research.

Your Chamber remains committed to bringing you independent and impartial insights into your sector on the key issues for you and your business. We will also continue to challenge where necessary to ensure that our region is prosperous and retains its international status.

Robert Collier
Chief Executive

Bond Dickinson comment

As the UK oil and gas industry goes through a regulatory and fiscal transition at blistering pace amid the oil price crash, this survey once again takes the pulse of the sector. It reveals a sector with several ailments but one which can make a full recovery, even if a little slimmer than before.

One of the most worrying statistics in the survey, and one which sets off a big red flashing light, is that four out of five contractors are now working below optimum level in the UK.

This is the lowest level since the survey started in 2004. Just two years ago, four out of five contractors were working at or above optimum levels.

I fear that decline suggests there could be many more job losses to come on top of the 5500 estimated so far.

There is little comfort when you look at the international figures even though they are significantly better. More than half (52%) are working at or above optimum levels but that has fallen from 72% last year. Confidence has plunged to its lowest level since the start of the survey with 76% of contractors less confident than they were last year.

Investment trends also make grim reading with only one operator anticipating increased investment in the next two years and most saying they expect it to be reduced.

In reality it has never been more important for contractors to focus on technology improvements and internationalisation. In world terms, there are new opportunities in unconventionals and in new opening jurisdictions such as Mexico.

Mexico has a special relationship with the UK, highlighted by the fact that earlier this year President Peña Nieto visited Aberdeen to sign a memorandum of understanding on collaboration in the energy sector. We have top quality people, products and technologies here in the North-east so we should be competitive for quality in most markets.

A bittersweet positive in the survey is around decommissioning. Bond Dickinson is, or has been, involved in 25% of all decommissioning projects on the UKCS and the survey findings confirm our experience with our clients.

Decommissioning is definitely getting off the ground. Until last year Aberdeen University was producing graphs which showed that a spike in decommissioning activity was imminent - but it kept being pushed back and pushed back.

That spike is now upon us and the fact that more than 80% of contractors involved in decommissioning are experiencing increasing activity is evidence of that. Decommissioning is driven not by oil price or demand and could be very important in maintaining the value of activity in the North Sea. The downside is that decommissioning hastens the decline of offshore exploration and production.

The new regulatory authority, the OGA, has been tasked with returning the industry to good health but it is not yet clear whether it will have a gentle persuasive bedside manner or will dish out some bitter pills to swallow whether the patient likes it or not.

Decommissioning is just one area where the present lack of clarity is causing confusion. There is key infrastructure in the North Sea, such as pipeline spur lines, which, with falling throughput, are becoming too costly to run and important decisions will have to be taken now and in the future about whether to continue or decommission.

If companies do decommission, it will have an impact not only on fields which are currently producing but also on the potential for new fields in the area. What powers will the OGA have to delay decommissioning of vital infrastructure?

Will the OGA be able to insist on the right behaviour - to maximise economic recovery - and does it have the powers? It will have powers to fine, for example, but for what?

Let us hope that by the time of our next survey later this year there is greater clarity and the industry is on the road to recovery.

Uisdean Vass
Oil and gas partner,
Bond Dickinson

Executive summary

The key findings from the 22nd Oil and Gas survey are:

Confidence and activity

- Contractors' confidence in the UKCS is at its lowest measure since the start of the survey. Only 7% of contractors are more confident about their activities in the UKCS than they were a year ago, while 76% are less confident. This net balance of -69% is down from a net balance of -31% in the last survey.
- Current confidence levels for contractors and operators are similar.
- With regards to expectations of UKCS for the next year, 9% of contractors are more confident, while 63% of contractors are less confident. This net balance of -54 is down from -25 in the last survey. Again, this pattern was consistent across operators and contractors.
- Confidence is relatively higher in non-UKCS markets, however the survey records negative net balances for contractor optimism about both current (-26%) and future non-UKCS activity (-14%). This is a notable change from the 21st survey delivered in November 2014.
- Both operators and contractors report similar optimism levels for the non-UKCS operators.
- The percentage of firms that report working at or above optimum levels in the UKCS has fallen to its lowest rate since the start of the survey. Just over one-fifth of contractors (21%) are working at or above optimum levels (down from 47% in the last survey), while 52% are working at or above optimum levels in overseas markets (down from 72% in the last survey).
- Over 80% of contractors involved in decommissioning have seen increases in their activity in the last 12 months – while only 24% of contractors involved in decommissioning expect the value of this to decrease in the next 12 months.
- Seventy per cent of all firms involved in exploration have seen the value of exploration activity fall in the last 12 months, while just 8% of these firms expect the value of exploration to increase in the coming year.

Chamber Viewpoint

Confidence and working levels are at historic lows particularly in the UKCS. A negative sentiment exists for forward looking measures too. The data outlines the scale of the challenges the sector is facing in the near term.

Investment and investment intentions

- Investment trends over the last 12 months were more positive than the outlook for investment over the next two years, once again reflecting the sentiment that near-term growth appears highly unlikely. Only one operator was anticipating an increase in investment spending.
- The net balance for investment spending in 2014 across all categories of expenditure remains positive, however there was a sharp fall in contractors undertaking staff development (the net balance fell from 46% to 13%) and research & development (down from 30% to 15%). While positive, these were the lowest net balances found over the last 10 years.
- Contractor investment in cost reduction increased in the last year (from a net balance of 25% to 40%).
- Investment intentions were weak for staff training. For the first time since the survey began asking this question in 2011, the net balance for contractors' expectations of spending on staff training is negative. The scheduled trend for operators spending on staff training is particularly weak, with a majority of operators anticipating a reduction in expenditure on staff training.

UKCS competitive advantage and constraints

- The three issues most commonly cited by firms as constraints on their activity in the UKCS are the level of demand (cited by 99% of contractors), the economic climate (97%) and the commodity price (94%). "Taxation issues" increased as a constraint in the last year, up from 28% of contractors to 81%[1], while there are also increases in the share of respondents reporting "complex regulations", "cost of capital" and "access to capital" as constraining their UKCS operations.

Impact of the recent fall in the oil price

- Firms were asked to identify, from a range of options, how the recent fall in oil price had impacted on their business.
  - The most frequently selected consequence for operators is "cancel projects", chosen by two-thirds of these firms, while half of operators chose "reduced staff training".
  - Over 40% of contractors have "accelerated plans for expansion into new markets" as a direct consequence of the fall in the oil price, while the second most cited option is "reduce staff training".

UKCS competitiveness

- Many firms identify increases in costs – staff costs were cited by many respondents – as continuing to damage the competitiveness of UKCS in the last year.
- Firms were asked to give examples of specific things they were doing to reduce costs, improve efficiency and/or collaboration. Examples given include:
  - Headcount reduction, including through non-replacement of departing staff; freezes on non-essential purchasing; production efficiencies in purchasing and management, working collaboratively with suppliers and clients to reduce costs and collaborate on new projects; and restructuring all costs across business.

Impact of Budget 2015

- Firms were asked if the measures announced in the 2015 Budget "met their expectations". 75% of operators and 58% of contractors said "yes".
- Comments from firms are typically supportive of the tax reductions announced, which are seen by some as being broadly in line with expectations. A smaller number caution over the lack of additional support for exploration and drilling and the short to medium-term support for the industry.

Perceptions of the role of the Oil and Gas Authority (OGA)

- Thirty nine percent of all contractors feel that the role of the OGA has been well enough explained. Operators are generally more likely than contractors to report an understanding of the role of the OGA.
- When asked about the first (major) challenge facing the OGA, respondents are split in their views. However, there is significant focus from respondents on creating a competitive cost base and short-term measures such as collaboration, including a role for the OGA in encouraging practical steps in collaboration between firms.
- On the long-term potential of the UKCS, respondents are aligned on the need to stimulate exploration activity as a precursor to investment. There are further notable comments too on maintaining the skills base of the current workforce, and attracting younger workers into the industry.

[1] Note the question sought views on the period before tax changes were made in March 2015 by the UK Government

Survey context

The 22nd Oil and Gas Survey comes at a critical time for the UKCS. Recent falls in the price of oil have brought into even sharper focus the economics of the maturing basin characterised in Sir Ian Wood's 2014 Review of rising extraction costs, and lower exploration and drilling activity.

Against this background, since the final quarter of 2014 a growing number of major firms have announced a reduction in headcount across their business. While the immediate consequence of these announcements will impact across the sector globally, the economy of the North-east of Scotland is now seeing the consequences too.

> These factors combined suggest – on current projections – a slowly rising oil price over the next couple of years, down from the relatively stable levels for the three years prior to summer 2014.

However. the oil and gas sector has in recent memory seen falls in the price of oil as rapid as those since autumn 2014 – during the 2008/9 recession, for example, the price of Brent fell from over $130 a barrel to below $50. From this perspective, the resilience of the industry referring to previous periods of low and volatile oil prices is clear.

There appear to be important factors which are different this time. First, the global picture of supply - including the behaviour of major oil producers to maintain market share at the expense of higher cost producers - is notable. Second, the outlook for global economic growth and energy demands appears sluggish. While growth forecasts have been revised up for developed economies, the opposite is true for emerging markets and developing economies, meaning that growth forecasts for 2015 are in line with relatively anaemic global performance in 2014. These factors combined suggest – on current projections – a slowly rising oil price over the next couple of years, down from the relatively stable levels for the three years prior to summer 2014.

At a time of such global challenges and uncertainty, the UKCS is also undergoing a period of change.

- The recent fiscal measures announced in March's budget of up to £1.3billion of support have been broadly welcomed by the sector: we describe firms' views on these announcements later in the report.
- The recently established Oil and Gas Authority (OGA) – a key recommendation of the Wood Review, and headquartered in Aberdeen – began life on April 1, 2015. Its guiding principle is *"to use its powers and influence to maximise the economic recovery of offshore oil and gas in the UK"*. As its stated purpose, it has the development of a tripartite strategy – with industry and government – to give effect to the strategy to maximise economic recovery. The requirements of this strategy will have consequences for the shape of the sector over the next phase of activity in the UKCS. Once again, the establishment of the OGA has been welcomed.

> The Oil and Gas sector has in recent memory seen falls in the price of oil as rapid as those since autumn 2014 – during the 2008/9 recession, for example, the price of Brent fell from over $130 a barrel to below $50

Business optimism

United Kingdom Continental Shelf (UKCS)

In the current survey, we find business confidence declining from the values seen in the survey at the end of 2014, and down considerably from the levels seen through the five years to 2014.

This survey found that 7% of contractors are more confident about their activities in the current year, while 76% are less confident. The net balance of -69% (7% minus 76%) of contractors is the lowest seen since the survey started in 2004 (see Figure 1). With regard to current UKCS activity, operators are similarly less confident in their current UKCS activities.

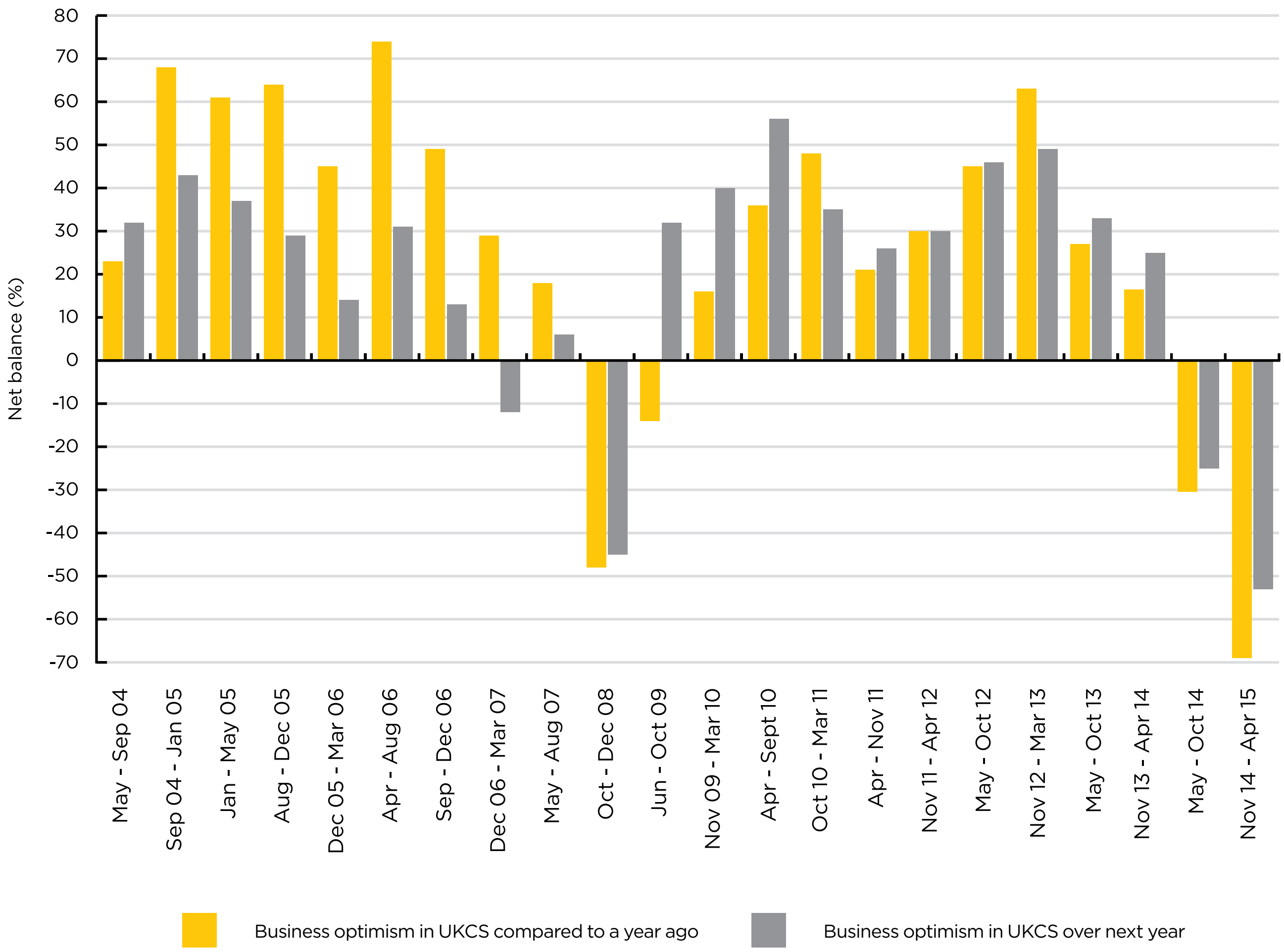
With regard to the outlook for contractors over the next year, 9% of contractors are more confident, while 63% are less confident. The net balance of -54% (9% minus 63%) is also the lowest value seen in the lifetime of this survey of UKCS firms, and is down from a value of -25% from the previous survey. This marks the first instance of two consecutive quarters of negative net balances for contractors' current and future confidence in the UKCS.

Chamber Viewpoint

Two quarters of negative growth is defined as a recession in economic terms.

This is the first time we have seen such a *'confidence recession'* during the period of our survey underlining the challenges being faced in the sector and the current sentiment of business leaders.

Figure 1 - Contractors: business confidence in UKCS



International

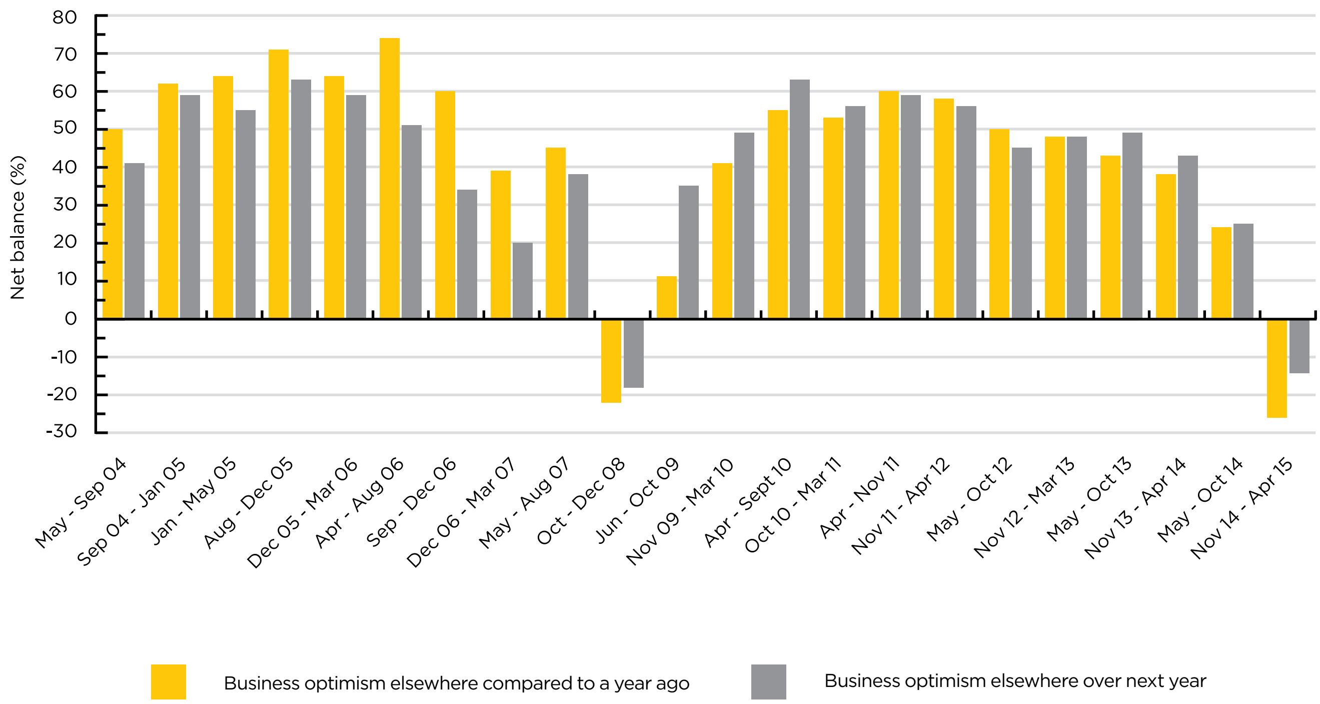
In the last survey, conducted six months ago, it was noted that "business optimism in international markets remains relatively strong", and indeed it was stronger than UKCS measures of confidence. While this remains true in a relative sense, net balances on current and future confidence have also fallen in non-UKCS markets in this survey.

A net balance of -26% of contractors (down from 24% in the last survey) reported being more confident about their current international activities. Half of all operators and 44% of contractors are less confident about their performance in international markets compared to a year ago. For the next year, the net balance has fallen from 25% to -14%. As with confidence in UKCS, there was higher confidence in international activity for the next year than in the current year.

Chamber Viewpoint

The data shows international markets remain relatively more attractive for most than the UKCS. However, the data again shows the global nature of the current downturn.

Figure 2 - Contractors: business confidence in international markets



Trends in business activity

While earlier questions discussed the issues of confidence, trends in activity for operators and contractors are measured in two ways in the survey.

• First, firms are asked about trends in their activity across production, exploration and decommissioning both in the UKCS and in international markets.

• Second, firms are asked whether they are working below, at, or above their optimum levels.

Figure 3 shows the percentage of contractors working at or above optimum levels, over the period since the survey started in 2004.

On this measure, recent activity in the UKCS peaked in the spring survey of 2013, with around 80% of contractors working at or above optimum levels.

The share of contractors working at or above optimum levels in the UKCS has, however, declined in each subsequent survey. This trend has continued in this survey, where we find that 22% of contractors are working at or above optimum levels in the UKCS. This is down from 47% in the last survey. On this measure, one in five contractors in the UKCS is working at or above optimum levels, which is the lowest level since the survey started in 2004.

International activity offers some degree of comfort, with over half of contractors (52%) reporting working at or above optimum levels. This is down from 72% in the last survey and does reflect a falling trend in international working over the last three years albeit remaining positive relative to the UKCS.

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

Decommissioning activity

Figure 4 indicates the expected trends in contractors' involvement in decommissioning work in the next three to five years. In the last survey, 71% of contractors reported that they were "definitely or possibly" likely to be involved in decommissioning work with 19% saying they would be "unlikely or not" involved. In the most recent survey:

• 30% reported they would definitely be involved in decommissioning: the highest reported levels since the question was added in 2010

• 50% reported they would possibly be involved

• 9% reported they would be unlikely to be involved

• 6% reported they would not be involved with the remaining 6% saying this was "not relevant"

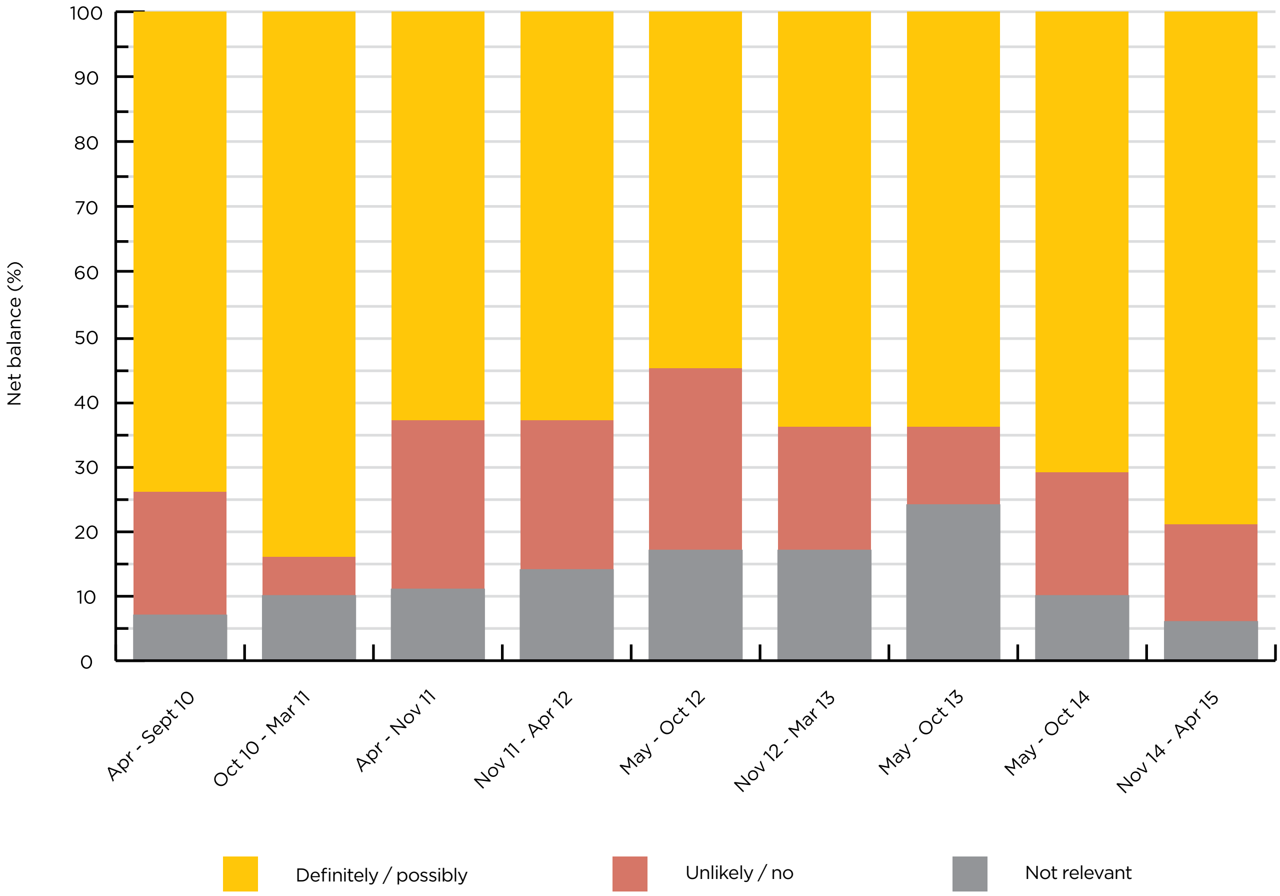
The last three times this question has been asked, we have seen a decreasing share of contractors saying that decommissioning **is not relevant for them**, and an increase in the share of contractors saying they were definitely or possibly going to be involved in decommissioning. This pattern has continued in the latest survey, with a rise to 79% of all contractors reporting they will definitely or possibly be involved in the next three to five years.

Bond Dickinson viewpoint on decommissioning

Decommissioning is definitely getting off the ground...and the fact that nearly 80% of contractors involved in decommissioning are experiencing increasing activity is evidence of that.

Figure 4

Contractors: involvement in decommissioning activity in the next three to five years



Investment in research & development

Every spring survey, we focus on investment, and research & development activity in the sector. With the launch of the Oil and Gas Authority earlier in 2015, this is an opportune moment to examine the sector's intentions towards these critical areas for both current activity and future potential. The annual question on investment was introduced in the third survey (May 2005) and has been repeated over the nine years since. This allows the reporting of trends in indicators on investment for firms over this period.

The survey repeats questions about firms' scheduled investments in the UKCS, both in aggregate and broken down across different categories.

Generally, measures of investment intentions are weak. The most common response (but not a majority) to the question on investment activity in the last twelve months is that firms' investments had remained level. There are marginally more firms reporting reduced investment (29%) than increasing investment (18%) investment.

Only one operator is anticipating increasing investment spending in the next 24 months, while the most common response (but again not for a majority of respondents) was for investment to be reduced over the coming two years. Almost one in five firms is anticipating increasing investment over the next two years.

Figure 5 shows the net balance between those contractors reporting an upward and downward trend in each category of investment spending (i.e. the share of contractors reporting an increase in spending in this category minus the share of contractors reporting a decrease in spending in this category). The net balance for investment spending in 2014 across all categories still remained positive despite the wider sector outlook.

What is significantly different from last year is the sharp fall in the net balance of contractors undertaking staff development (down from 46% to 13%) and research & development (down from 30% to 15%). Developing new markets showed the strongest area of investment spending in 2013, and this remained true in 2014. Investment in cost reduction increased in the last year (from a net balance of 25% to 40%) for contractors.

Future investment intentions are also weak, and this is especially true for staff training. While around half of all firms (46%) are maintaining levels of expenditure on staff training, more contractors (28%) are expecting to reduce than increase (23%) spending in this area, giving rise to a negative net balance for this measure (-5%). The scheduled trend for operators spending on staff training is particularly weak, with a majority of operators anticipating reducing expenditure on staff training.

Chamber Viewpoint

Investments are still being made by companies. At an aggregate level this investment may be falling but it has not stopped. However, at this point in the cycle, we are seeing companies shift investment priorities. We are seeing (unsurprisingly) a sharp focus on cost control and reduced investment in other areas.

Will we see a return to increasing investment in staff once the current 'rightsizing' activities are complete?

Figure 5 - Contractors: direction of investment spend 2014 and scheduled trend 2015-16 (net balances)

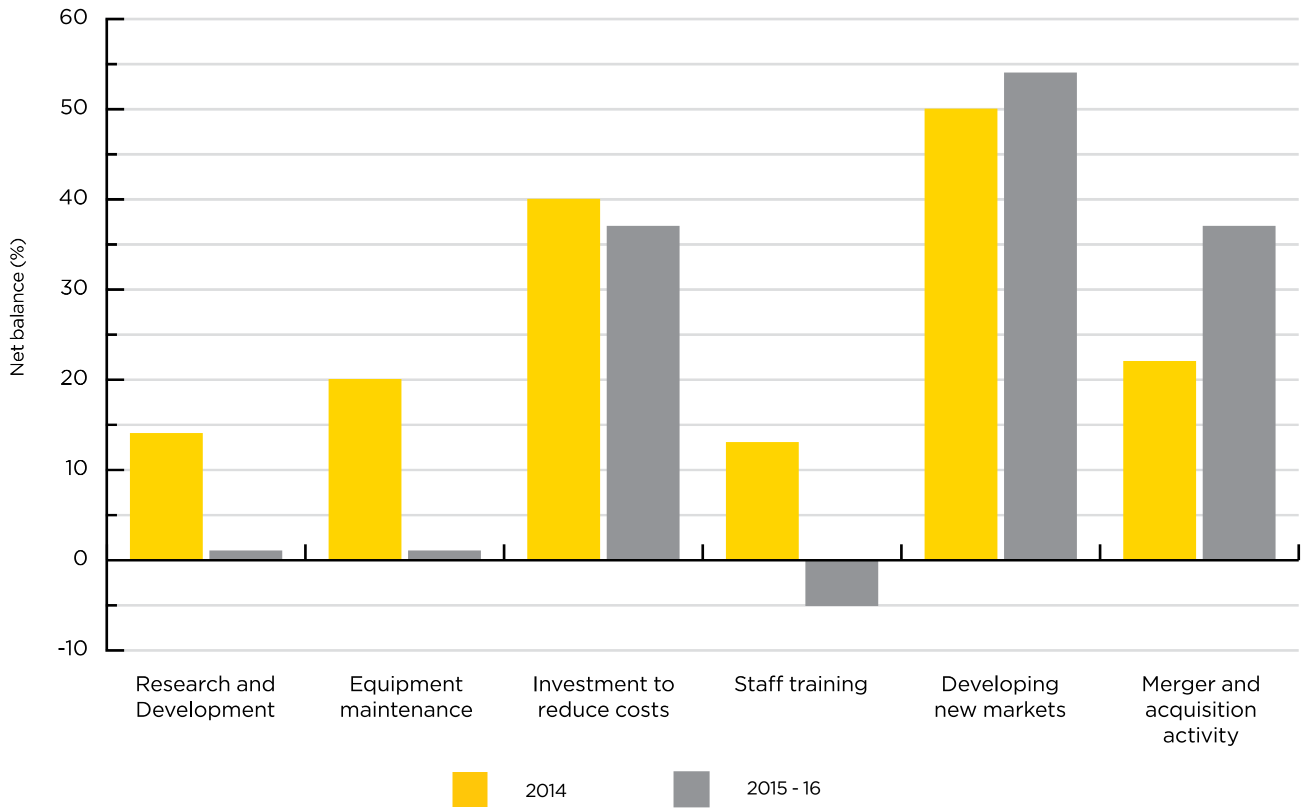


Figure 6 and Figure 7 illustrate the changing priorities for contractors' investment spending between 2005 and this survey. These are reported again as the net balances between positive and negative trends in investment spending in each of six categories. Figure 6 shows the expected trends in investment spend between 2011/2 and 2015/6, while Figure 7 shows the actual trends as reported by contractors between 2005 and 2014.

When this question was asked last year, we reported that for the first time we observed an increase in the investment made in staff training, and the link between skilled labour and working in overseas markets. The sharp fall in expectations of spending on staff training is evident from Figure 6, while there are also downward moves in intended investment in replacement of equipment and research & development (although the net balances on both measures remain positive).

Developing new markets remains the area with the strongest intentions over the next two years, albeit at a reduced level than in the previous two years. Expenditure in cost reduction is down (very) slightly, and suggests an increasing focus in this area will continue into the future.

Figure 6 - Expected trends in investment by contractors, 2011/12 to 2015/16 (net balances)

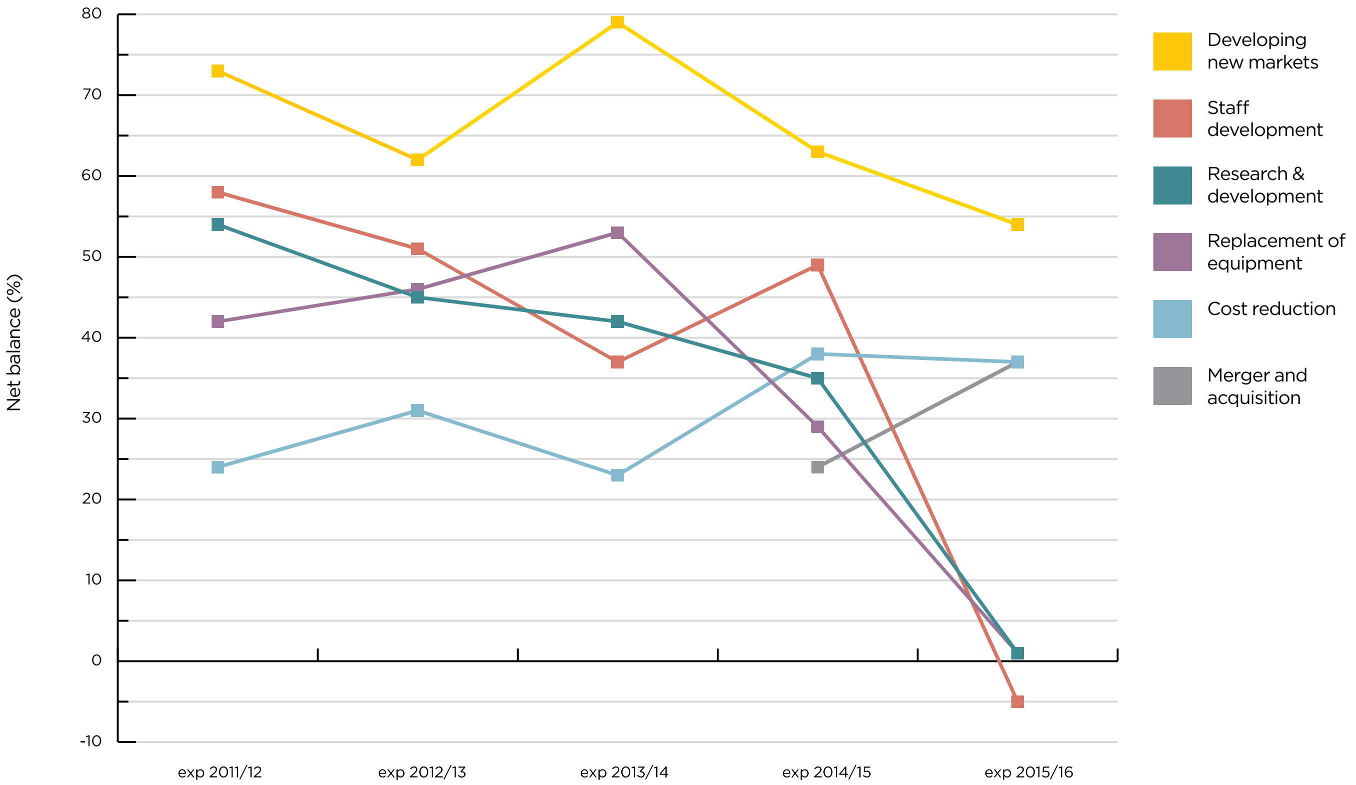


Figure 7 - Actual trends in investment by contractors, 2005 to 2014 (net balances)

Business constraints

Since 2005, we have asked respondents in our spring surveys to indicate (from a list) which factors they thought were most likely to limit activity over the coming year in the UKCS and elsewhere. The list of factors has evolved slightly over time, with the last survey (spring 2014) for the first time including factors related to local property, land and transport infrastructure. The changing patterns of factors rated by contractors to be important for limiting their activity in the UKCS since 2005 are given in Figures 8 to 11.

Figure 8:	Demand and economic factors
Figure 9:	Cost and taxation
Figure 10:	Employment
Figure 11:	Infrastructure and regulations

Figure 8 shows that the commodity price and level of demand have tended to move together over the 10 years of this survey, and both have increased sharply as the price has fallen sharply in the second half of 2014, before slightly recovering in the first half of 2015.

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

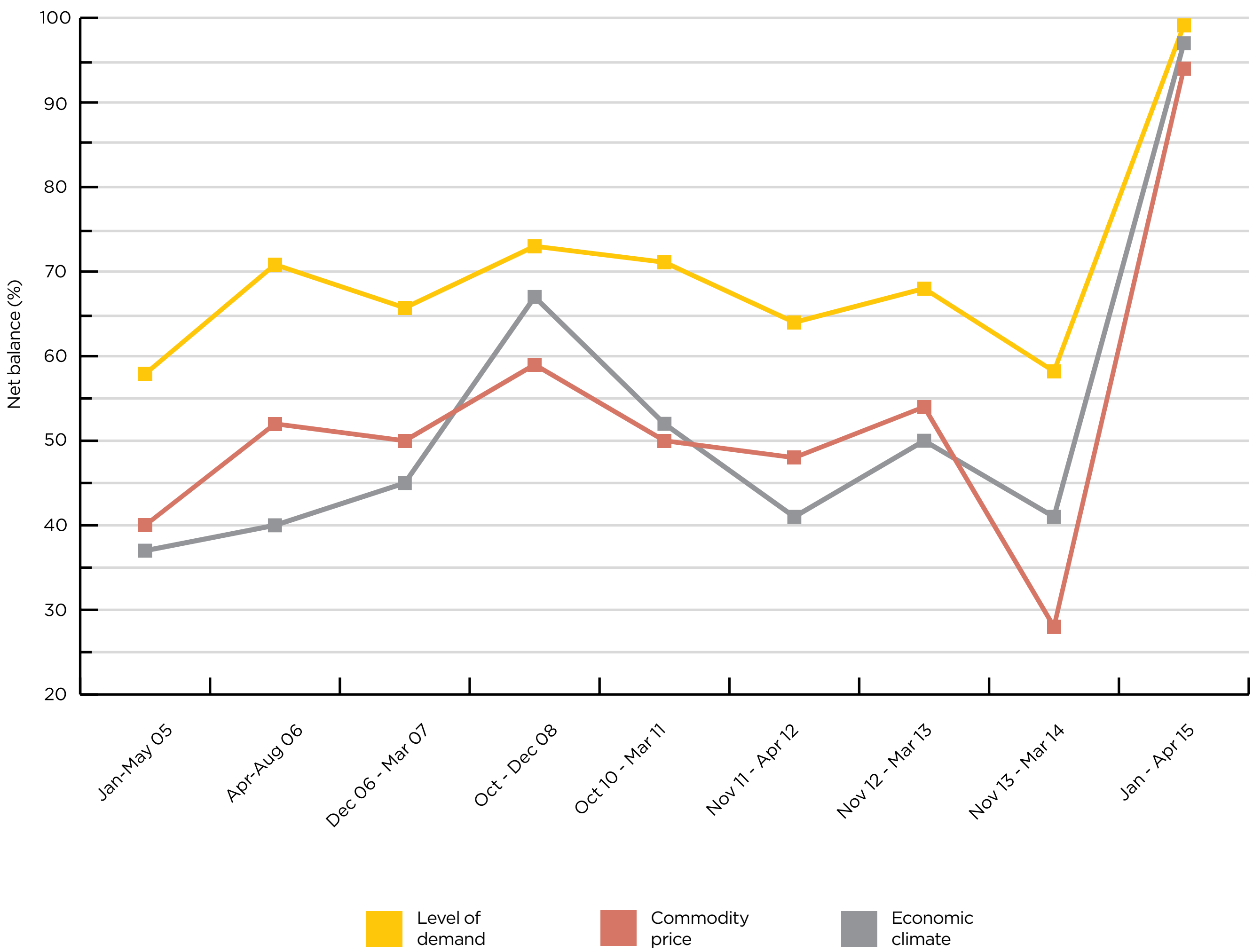


Figure 9 shows that there has been a surge in the importance attached to taxation issues in limiting contractors' UKCS activity. We suspect this is being driven by reduced investment through operators, rather than being caused by business taxation on contractors. These three specific cost and taxation factors were equally cited in the survey during 2014, and while each has increased in the last year, more than 81% of contractors cite the level of taxation as having affected their UKCS activity. It will be interesting to assess next spring what impact UK Government tax changes have had on this measure.

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

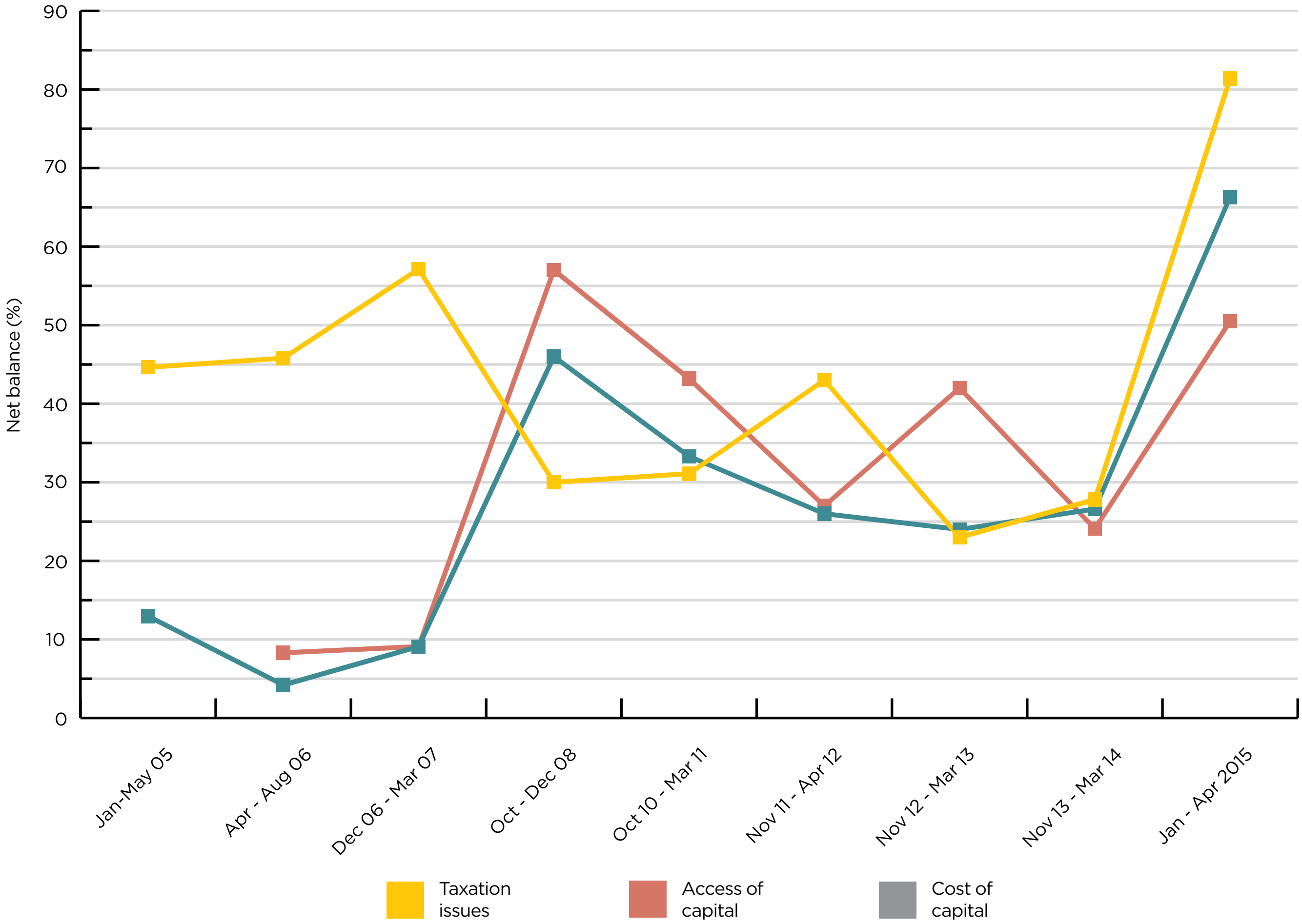


Figure 10 shows how skills and employment factors have been cited as limiting UKCS activity. Despite the fall in headcount reported by many firms in response to the recent fall in the oil price (see later), skill shortages and loss of staff have each increased as an issue for contractors. This suggests that there remains demand for skills in the sector, and the continued importance of the labour market in attracting and retaining appropriate staff through periods of change for the sector.

As with our last survey, we repeated a question about the current number of vacancies within operators and contractors. As we would expect with reductions in headcount, the number of vacancies has reduced sharply from those seen in the last survey. The vacancy rate (i.e. the number of vacancies per 100 jobs) was 1.0 for operators in the last survey while for contractors this was 3.7.

Our latest results confirm that the vacancy rate has indeed fallen, and stand at 0.04 vacancies per 100 jobs for operators and 0.42 for contractors. The official measure of the vacancy rate for the mining and quarrying sector as a whole – of which the firms in our survey are likely to be a sample – were published on May 15, 2015. Like our measure, the vacancy rate for the sector as a whole has declined over the last year and currently stands at 1.7 vacancies per 100 jobs.

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

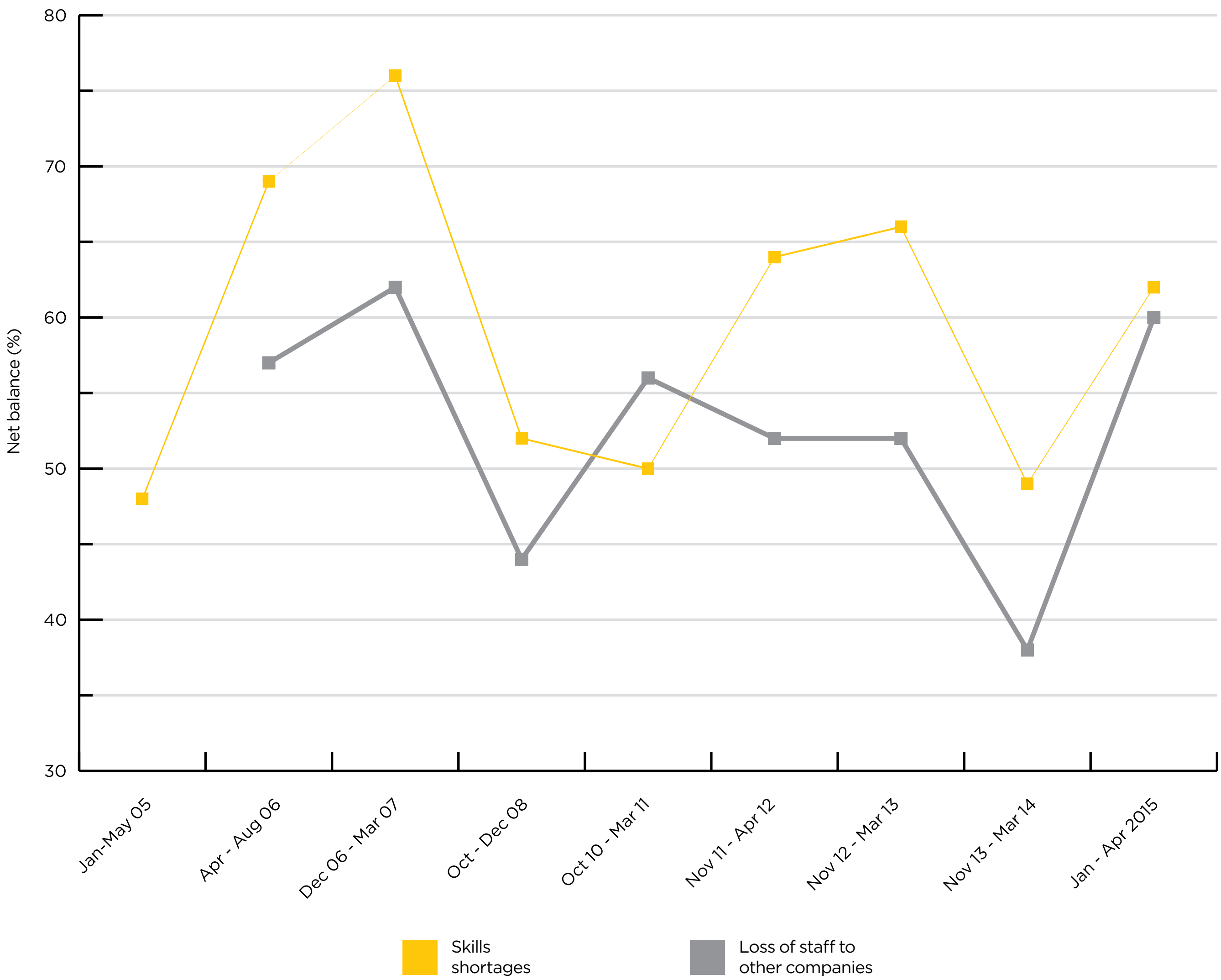
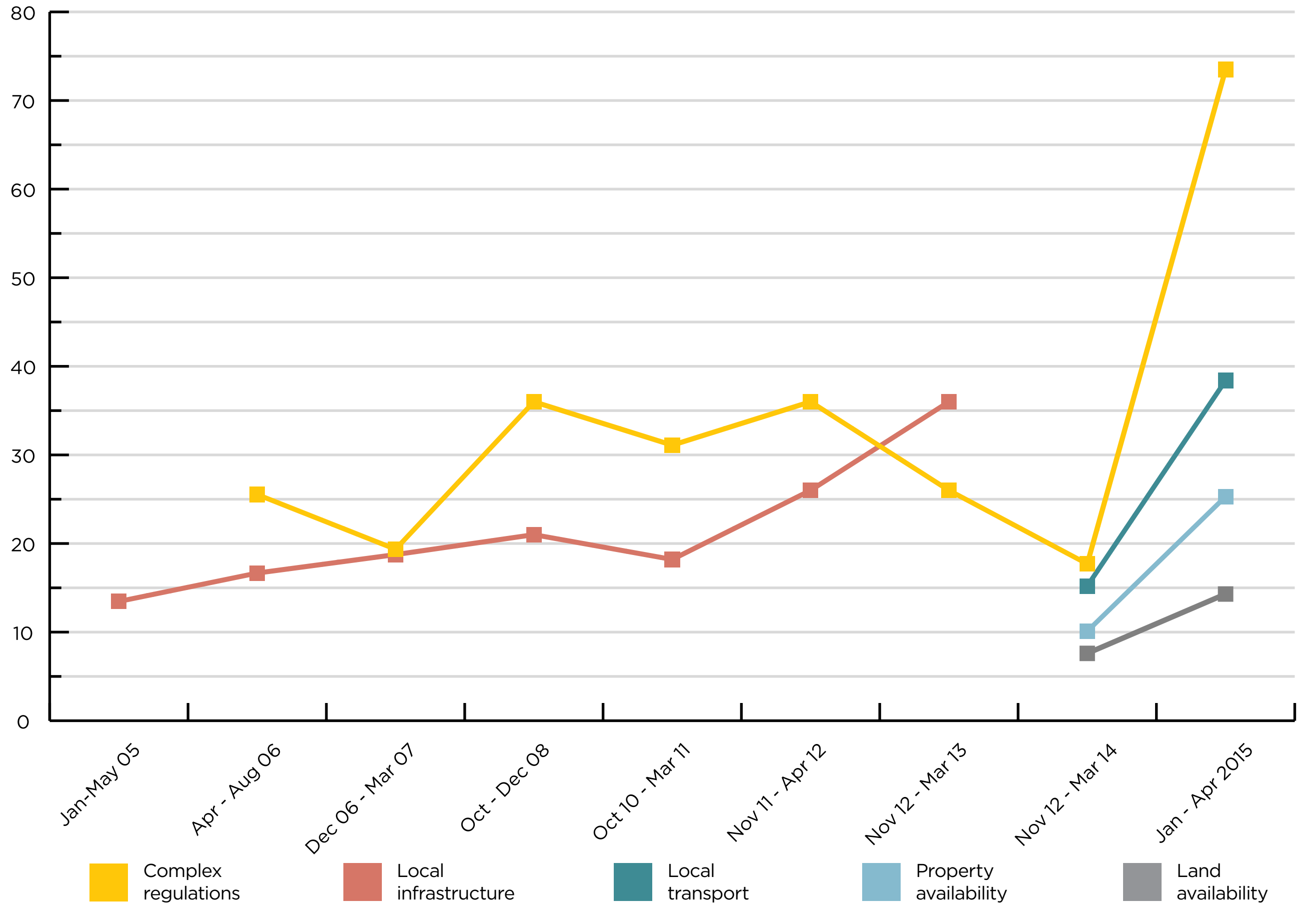


Figure 11 shows contractors' changing views on regulatory and infrastructure issues, which we break down into local transport, local land and property availability. Complex regulations have traditionally been a minor concern for contractors – cited as important by between 20% and 40% of firms in previous surveys. In this survey however, this increases to being an important issue for 74% of contractors. This could relate to a variety of factors including labour disputes and regulatory change. Local transport increased as an important factor for UKCS firms, and remains more important than land or property availability, suggesting the importance of transport connections in helping activity by UKCS firms both in local and international markets.

Impact of the recent fall in oil price

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



Arguably one of the biggest impacts on activity in the UKCS in the last year – although this has affected all basins across the world – is the fall in the oil price. After three years of relative stability, prices were above $110/barrel in June 2014. The decline in the price appears to have two distinct phases; first, the period to the start of October 2014 when the price fell by just over $10/barrel in three months, prior to a second phase – lasting slightly more than three months - when prices fell by over 50% to $50/barrel. The last time there was such a rapid decline in price was in the final half of 2008, at the start of the recession. Since the turn of the year, the price has rebounded slightly, however at the time of writing it remains below $60/barrel.

In this survey we ask about the consequence of this fall for the behaviours of operators and contractors, with firms asked to select those which applied to them from a range of options. Firms are asked to select all those which apply to their organisation. The options provided are:

- Cancel projects
- Delay equipment maintenance
- Reduce staff training
- Delay expansion into new markets
- Scale back R&D
- Delay infrastructure maintenance
- Reduce merger and acquisition activity
- Accelerate plans for expansion into new markets

The results show that operators most commonly cite the “cancel projects” option – selected by two-thirds of operators, and one-third of contractors. We did not ask if these projects were in the UKCS itself or in other markets. The second most common consequence for operators is reduced staff training, chosen by one-half of these firms.

Contractors are particularly likely to accelerate plans for expansion into new markets – selected by 41% of those firms – while the second most common option for contractors was to reduce staff training. This aligns with the observed trend in investment in staff training over the last year described earlier in this survey.

Impact of the Budget 2015

Alongside the fall in the price of oil and its knock-on impacts on production revenue, there was movement in the March 2015 Budget of the UK coalition government towards assisting firms operating in the UKCS. Among the package of measures announced were a reduction in the supplementary charge from 30% to 20%, a cut in petroleum revenue tax (PRT) from 50% to 35% and an exploration allowance and support for seismic surveys of the UKCS funded by government.

As the survey was carried out in the period immediately after the Budget, we ask whether these measures had met firm's expectations.

The overwhelming response to this question was "yes". Three-quarters of operators agree, while 58% of contractors also respond positively.

Asked to explain their answer, firms commented that the measures announced were what were expected from the industry,

"Measures give a point to work from and introduce some stability into the industry. They signalled the Government's willingness to support the industry"

"The tax relief measures were very much as anticipated"

"Tax reduction was very important for the industry"

Meanwhile others caution that, while welcome, further stimulus to exploration and investment is required, e.g.

"Allowances on producing fields was welcome, but more was needed to increase exploration drilling, without which there will be no new projects and decommissioning will accelerate, thus removing infrastructure and opportunity for good."

"Did nothing to stimulate drilling activity which we are dependent on."

Bond Dickinson viewpoint

The current taxation model for independent infrastructure owners is unfair and counter-productive to the overall needs of the industry and the UK economy.

Perceptions of the role of the Oil and Gas Authority

With its establishment from April 2015, the survey also asked firms' views on the Oil and Gas Authority (OGA). It asks three questions:

1. Do firms feel that the role of the OGA has been explained well enough?

2. Do firms feel that the OGA has the powers it needs?

3. What should be the first priority for the OGA?

The results found that 39% of all contractors feel that the role of the OGA has been explained well enough for them, while operators are generally more likely than contractors to report understanding of the role of the OGA.

When asked on the powers of the OGA, and whether these were adequate for the future of the UKCS, there is disparity between operators and contractors. Forty percent of operators report the powers as being sufficient, while only 20% of contractors express this opinion. The majority (57%) of contractors say that they are unsure whether the powers were either sufficient or not sufficient.

When asked what the first major challenge facing the OGA is, respondents are split. When aligned to the priority action areas as stated in the OGA's "Call to Action" report of February 2015, most comments are supportive of a short-term focus on costs, including collaboration, e.g.:

"We have heard a lot about collaboration and how companies need to work together more to get the best out of the industry, but in practical terms what does that mean and how do we start to work together now where we have been working as competitors (of sorts) before this?"

"Facilitating developments, and identifying synergies between companies to reduce costs or enhance value"

"Close gaps and improve real collaboration between operators and contractors"

There is also significant concern about the future of the sector and a need for a focus on exploration and investment, and maintaining the skills base of the industry, e.g.:

"Creating a better climate for exploration"

"Simplify regulations to encourage exploration and drilling of new wells"

"Maintaining the UK skill base – ensuring that it is not lost and therefore not available when the demand picks up again".

Appendix

The Aberdeen and Grampian Chamber of Commerce Oil and Gas Survey is conducted by the Fraser of Allander Institute at the University of Strathclyde. This survey was conducted in March/April 2015, and the report was published in June 2015.

Methodology

The Aberdeen and 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 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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About Aberdeen & Grampian Chamber of Commerce research unit

The commercial research unit within AGCC undertakes a variety of business focused research commissions. These bespoke commissions are delivered directly in response to business requests from the North-east, Scotland and the rest of the UK. Research varies from staff and customer surveys to more complex economic studies. The team also undertakes sponsored sector surveys and research such as this to support the regional economy and help build an evidence base for policy makers. We are available to support your business so please get in touch.

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Notes