DNV GL conducted an industry survey towards the end of 2017 and published it in January 2018. This is the eighth consecutive year the survey has been published and each edition builds on the finding of the previous research. The report assesses industry sentiment, confidence and priorities and demonstrates the key pressures facing the industry in the year ahead. The companies surveyed vary in size and were drawn from across the value chain.

- What challenges does Scotland’s oil and gas industry face, and how can they be addressed?

Our research, conducted towards the end of last year and published in January, ‘Confidence and Control: the outlook for the oil and gas industry in 2018’ indicates that the oil and gas industry is becoming more confident after a sustained focus on cutting costs and building new efficiencies into the value chain. A new optimism is now emerging, driven from a common understanding that cost levels are under control and operators can make reasonable margins from an oil price that is expected to stay lower for much longer. The winners in our industry this year are those who can continue to make a clear shift from an expansion mindset to a margin mindset, and recognize the importance of implementing new models and technologies to improve operational efficiency. There are however five key barriers to growth, with each given roughly equal weight: these are lack of investment in innovation (19%); oversupply of oil and gas (19%), operating costs (18%), reduced exploration activity (19%) and competitive pressure (22%).

- How can the economic return from Scotland’s oil and gas reserves be maximised?

Maximisation of the remaining recoverable reserves will be achieved by a continuance of the work set out by the Wood Report. See pages 57 and 58, bearing in mind the areas not covered in the report (page 63). In addition, Oil & Gas UK are leading sector specific initiatives such as Vision 2035,
specifically looking at the North Sea, the challenges and what the industry needs to do to facilitate a sustainable future for all Stakeholders.

- What action is the UK Government taking to support the long-term future of the oil and gas industry in Scotland, and how effective has this been?

Support from the UK government is extremely important for the industry given the turmoil over the last few years when market conditions were challenging. Agreements, in part, are in place on the fiscal and regulatory regimes and it is important that, to attract new investors to the region, that the government supports fiscal stability and supports new entrants. Following the Wood report the introduction of the Oil and Gas Authority (OGA) were welcomed, as a body which would enforce practical measures to mitigate the risks facing the UK oil and gas industry.

*In our survey over a third (36%) of senior oil and gas professionals expected to increase spending on R&D and innovation in 2018 – the highest level in the four years since we started the survey. In the past two years, only 15% (2016) and 14% (2017) respectively were planning increases. This suggests an imminent turnaround after three years of cuts and freezes.*

*For some, investment is deemed as urgent. One in five respondents (19%) said a lack of investment in innovation as a key barrier to growth in 2018 – on a par with oversupply of oil and gas (19%), operating costs (18%), reduced exploration activity (19%) and competitive pressure (22%). Only the oil price (37%) is a significantly higher barrier.*

The Oil and Gas Technology Centre (OGTC), which is supported by Aberdeen City Council, the UK Government, Scottish Government, Aberdeenshire Council and Opportunity North East opened in 2017, so we are seeing both individual companies and supportive bodies collaborating to bring new technologies to the market.
• How well do the different stakeholders (UK Government, Scottish Government, companies) work together? Does the current devolution settlement enable all stakeholders to support the sector?

It is imperative that both the UK and Scottish Governments work together. Particularly, with Britons exit from the EU looming. The impacts should be clearly communicated and levels of complexity should be non-ambiguous. A simple regime would encourage new investors to the region and so alignment between the two energy strategies i.e. UK and Scottish Government would help.

• How can Scotland maximise its expertise, technology and infrastructure in oil and gas industry to secure the industry’s future as reserves decline? What support is needed from Government to maximise these opportunities?

In the short-term, we are seeing offshore projects move again; in the medium-term we are seeing investment in digital transformation to improve efficiency; and for the long term we are seeing investment in the energy transition. Confidence comes from a more stable, less volatile oil price. It comes from tight cost control. It is important to retain critical knowledge in an aging workforce to enable a safe and sustainable future for the oil & gas industry. Digital technologies will improve efficiency and ensure that the infrastructure is in good shape and able to support the long-term viability of the industry.

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