

Survey of international activity in the oil and gas sector 2017/18



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David Rennie
Head of oil and gas
Scottish Enterprise

Scottish Enterprise foreword

It is not surprising that the results from our latest survey indicate a fall in the value of Scottish oil and gas supply chain sales, both in the domestic and international markets during 2017/18. The period in question was very much in the eye of the downturn storm which had a significant impact upon activity, confidence and investment right across the globe. Having said that the results do suggest some interesting trends and indeed hope for the future.

Firstly, the share of total sales accounted for by international related activity has remained above 50% and indeed has accounted for over half of the total each year since 2012. So, despite these global challenges the Scottish oil and gas sector remains truly global in its reach, mindset and performance; a testimony to our decades of experience and know-how being in demand in a range of areas including drilling, subsea, training, and education amongst others.

It is also interesting to note that in terms of looking ahead, views on prospects in the sector are improving, reflecting the increase in optimism within the sector. But perhaps the most interesting point from the results is the significant increase in sales to non-oil and gas markets. Total sales from non-oil and gas activity now makes up almost a third of total sales from the sector, up from around a fifth a few years ago.

This is an encouraging trend and reinforces the point that while oil and gas will continue to be at the heart of our energy supply for some

time yet, the energy transition will provide significant opportunities for our oil and gas supply chain to develop new technologies and products for a wide set of sectors. The oil and gas sector can be part of the solution for our energy transition.

At Scottish Enterprise and our international arm, Scottish Development International (SDI), we continue to support the sector both domestically and overseas in a variety of ways such as assistance with international related activity, innovation and market intelligence amongst others as set out in the case studies in the report. For example, we have recently announced via a partnership with the Scottish Government, SDI and Opportunity North East (ONE), the appointment of five international market specialists in key overseas markets to support Scottish companies to maximise export opportunities in the energy sector. And where we do not have resources in markets overseas, we work closely with the UK Department of International Trade (DIT) to maximise support, demonstrating that the sector remains important both for ourselves and the Scottish economy.

Finally, as ever, can I place on record my thanks to the Aberdeen & Grampian Chamber of Commerce for carrying out the survey and the companies who have taken the time to respond. Without this, we simply wouldn't be able to do this so thank you to all those who contributed towards this report. I hope you find it interesting.

Executive summary

This is the 18th year that Scottish Enterprise has published an annual benchmark of international activity in the Scottish oil and gas supply chain. This research report is independently administered by the Research Unit at Aberdeen & Grampian Chamber of Commerce (AGCC). Fieldwork for this research was conducted between October 2018 and January 2019 with the financial data relating to the 2017/18 year.

Main findings

£9.7bn

Total international sales from the Scottish oil and gas supply chain.

Made up of £3.5bn export sales (-22.7%) and £6.2bn sales from international subsidiaries (+5.0%)

This represents a 7% decline in total international sales compared to 2016/17



52.7%

International activity accounted for 52.7% of total sales

Companies reported operating across



different countries internationally

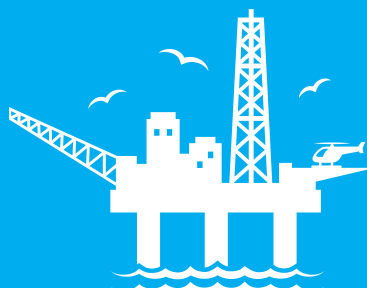


Top growth countries for the immediate future include the USA, Norway and the UAE



95%

of respondents are 'very' or 'somewhat' optimistic about the next two years



Over the next five years businesses forecast

8% growth in Scottish domestic oil and gas sales

48% growth in Scottish oil and gas direct export sales

2% growth in sales via international subsidiaries



1. Introduction

1. Introduction

This report aims to provide an overview of Scotland's international oil and gas activity. Financial data on the industry has been used to assess the scale of the sector in 2017/18.

Our wider analysis also allows us to reveal:

- International markets and target countries in the future
- Approaches to diversification
- Reasons for market withdrawal
- Perceptions of supply chain competitiveness
- Forecast growth over the next two and five years

We would like to thank all the companies who have supported this research by responding to our survey. This year's respondents represent over **30,000 employees** across the sector. Our surveys and desk research combined covers over **240 companies** in the subsectors shown in **Figure 1**.

Figure 1: The research responses

Source: AGCC

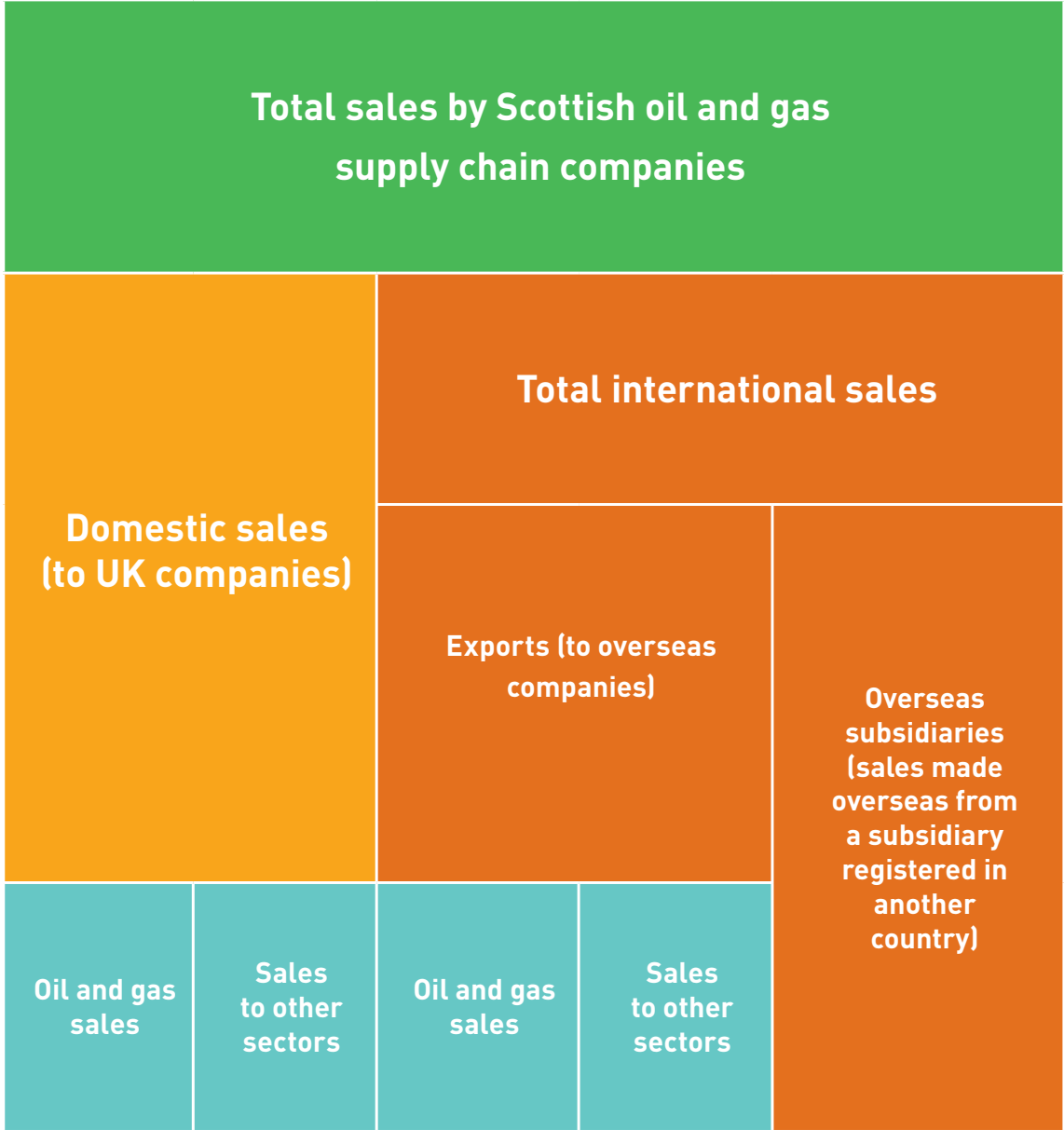


2. The scale of the sector in 2017/18

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The chart below shows the data that we measure to estimate sales from the Scottish supply chain.

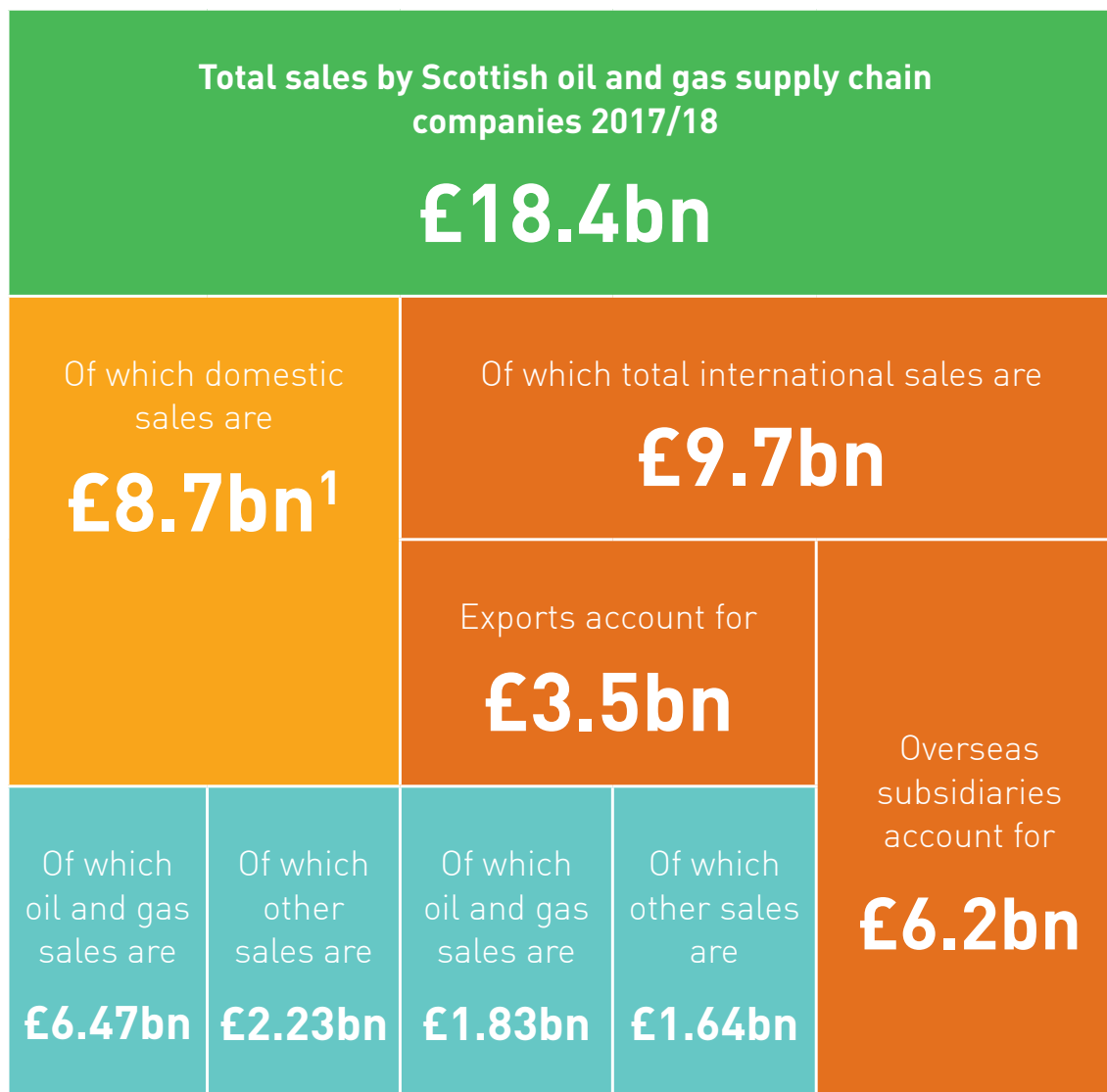
Figure 2: Break down of supply chain sales in 2017/18
Source: AGCC



The results of our latest research are shown in figure 3.

Figure 3: The scale of the sector in 2016/17

Source: AGCC



International sales accounted for 52.7% of total Scottish supply chain sales in 2017/18

¹ Please note that although domestic sales are at a similar level to 2016, we continue to report a rising trend in the proportion of 'other' sales which are not derived directly from oil and gas. A total of £2.23bn of domestic sales and £1.64bn of export sales are estimated to be derived from non-oil and gas activity. This comprises 32% of total domestic and direct export sales, up from 22% in 2016 (see page 13 for further details).

Supply chain trends

The scale of the oil and gas sector fluctuates and is understandably influenced by factors such as global oil and gas capital investment. Our research allows us to look at 2017/18 but also compare against recent trends as shown in the charts below. Although it is perhaps unsurprising that total and international supply chain sales have declined in this period compared to the previous year, there are some interesting trends to explore.

Total supply chain sales



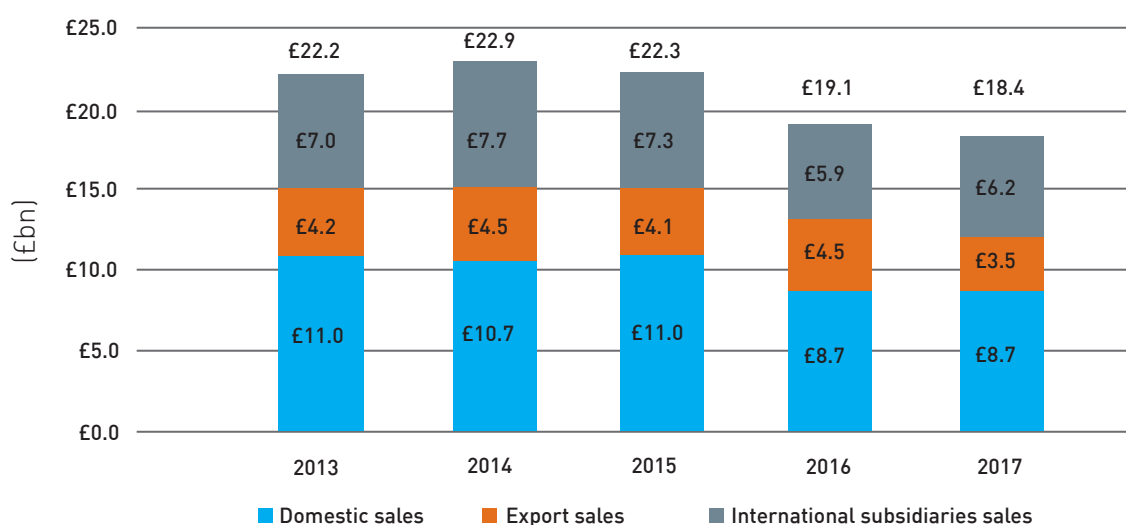
Total sales by Scottish oil and gas supply chain companies 2017/18 (Figure 4)

£18.4bn

(a fall of 3.8% since 2016,
compared to a 14.4% drop
reported the previous year)

Figure 4: Total sales by Scottish oil and gas supply chain companies

Source: AGCC



Total supply chain international sales



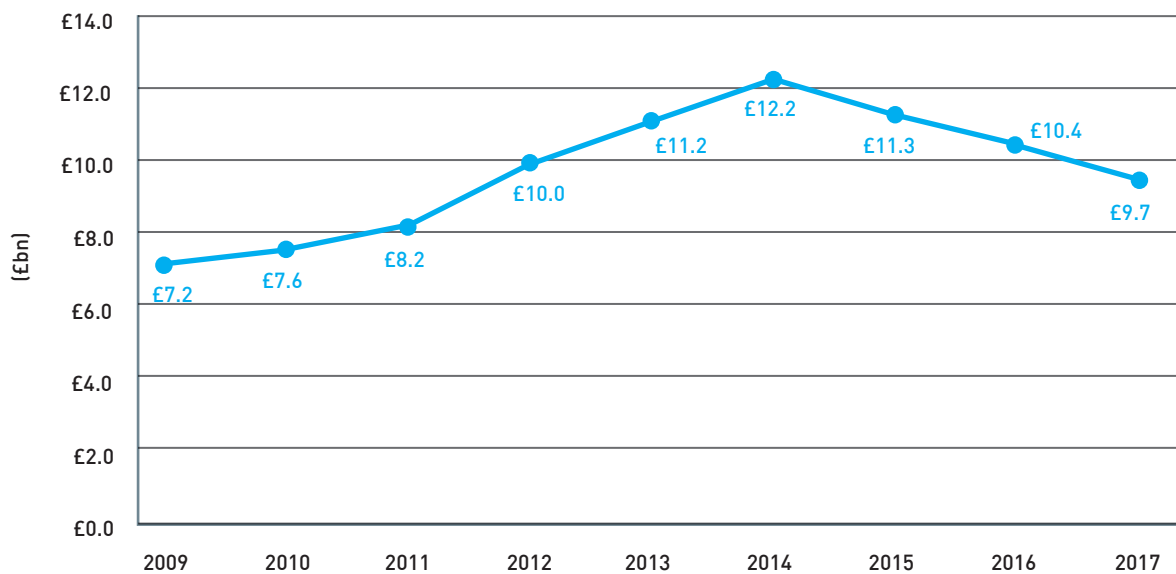
Total international sales by Scottish oil and gas supply chain companies 2017/18 (Figure 5)

£9.7bn

(a fall of 7.0% since 2016/17)

Figure 5: Total international sales (exports plus subsidiaries) by Scottish supply chain companies 2017/18

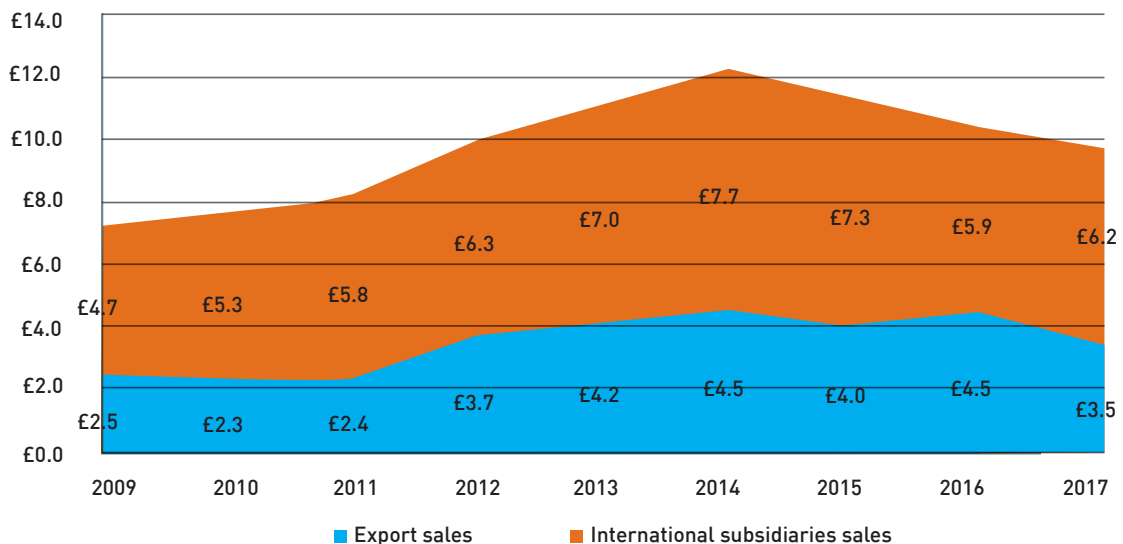
Source: AGCC



Please see Appendix B for more detail on the composition of the £9.7bn.

Figure 6: Total international sales (by sales type)

Source: AGCC



Total supply chain international sales

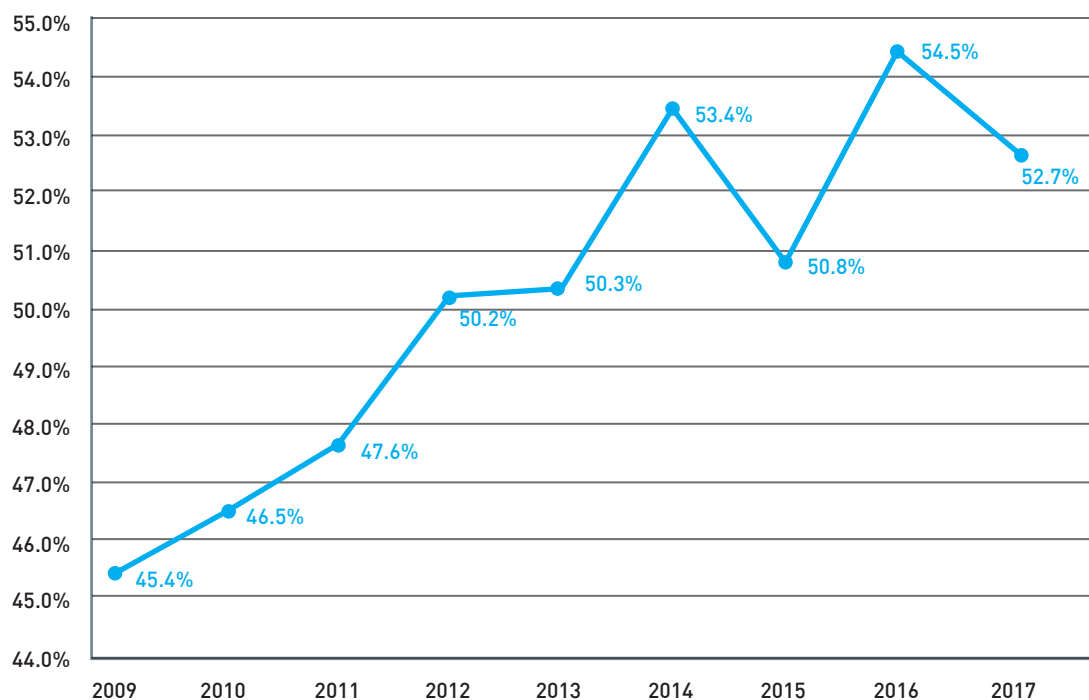


International sales accounted for
52.7%
 of total Scottish supply chain sales
 (down 1.8 percentage points, or 3.3%,
 compared to 2016)

Although the 2017 data reveals a slight decline in the proportion of international sales, our historic data reveals a positive overall trend since 2009.

Figure 7: International sales as a percent of total sales

Source: AGCC



Key fact

Although the percentage of international sales has slightly decreased since 2016, there is still an overall positive trend across the nine year period.

Diversification from oil and gas

Although this survey predominantly focuses on oil and gas, there has been increased focus on diversification in recent years. The latest survey reveals a considerable increase in the percentage of sales from non-oil and gas sources compared to last year. This reflects the changing nature of the supply chain and the contribution that the oil and gas supply chain can make to the transition agenda. The £2.23bn of domestic sales and £1.64 of export sales derived from non-oil and gas activity now comprises 32% of total domestic and direct export sales, up from the 22% recorded in 2016.



32%

of total domestic and direct export sales
from non-oil and gas sources
(22% in 2016)

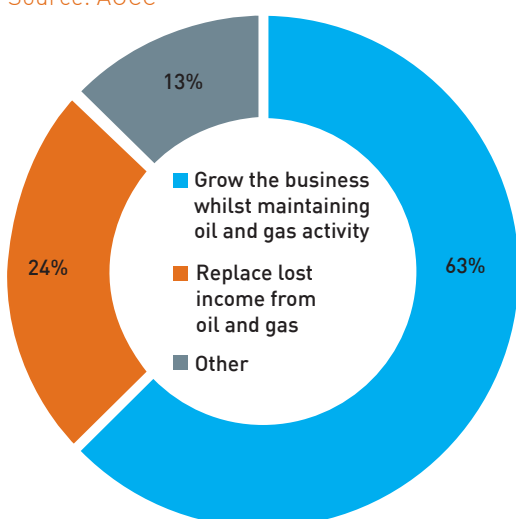
The most common reasons why companies have diversified away from oil and gas can be seen in Figure 8. For the majority of respondents (63%), the reason for diversification was to grow the business rather than as a replacement for lost income (24%). This is a higher proportion than was seen in 2017 and suggests that diversification is being considered as a profitable route to business growth rather than a reaction to the oil and gas downturn.

63%

of respondents have
diversified to grow
their business not to
recoup losses

Figure 8: Reasons for diversifying from oil and gas

Source: AGCC



‘Other’ reasons for diversifying included being led into new markets by customers and diversification activity that was already ongoing within the company.

As was the case last year, moving into similar sectors where the company’s existing skills and equipment can be used was the most common form of diversification reported by respondents (see Figure 9 on page 16).

“

“It is really encouraging to see the increase in sales from other sectors which reflects a more diverse supply chain more ready to withstand oil price volatility and playing its part in the low carbon transition.”

David Rennie,
Head of oil and gas, Scottish
Enterprise



Case Study: MSIS Group



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

MSIS is a specialist industrial services provider. Founded in 1998, our core service lines include tank cleaning, NORM decontamination and high pressure water jetting. In addition we provide a range of high quality pumps and pressure washing equipment for rental.

Our products and services are provided to the offshore oil and gas industry in the UK and overseas and we also operate from our Invergordon operations base to provide the same services to onshore industrial clients in the distilling, utilities and general industrial markets.

Our services are provided through our highly trained and experienced workforce who make the real difference to our quality of service. Our training programs and operational standards have created a successful and high quality business model where the emphasis on health and safety sets the tone for our operational activities.

Where are your offices based and since when?

Our international operations extend from the Middle East to West Africa and to South America. In the last 10 years we have worked in countries including Qatar, Egypt, Abu Dhabi, Nigeria, Cote D'Ivoire, Equatorial Guinea and Brazil. Most of our services are provided from Scotland but with local partners/agents providing additional operational manpower as required.

Can you tell us about how your company has diversified internationally?

Our international diversification has been a mix of responding to specific enquires or taking a more strategic view of markets or regions to focus on those where demand for our services is likely to be highest.

What made you decide to do this? What market research did you conduct beforehand?

The ability to grow our business internationally is an important part of our strategy. We do not wish to be over dependent on one service line or geographic area or market sector. In assessing any overseas market we will always carry out market diligence and research either from published sources, local professional advisers or with the help of Scottish or UK government agencies or organisations. Additionally we will speak to companies which are or have been in the identified markets to hear and learn from their experience.

How have your business values (i.e. those relating to competency, people, awareness and reputation) helped MSIS when operating internationally?

Our core skills and standards help to set us apart from other companies. Our business approach is to seek to work with customers who value and share our thoughts on HSEQ and operational performance. By relating our past and proven experience in providing a safer and more efficient service to our customers in different countries we are able to expand our areas of operation to new markets.



What has been your biggest business challenge when working internationally and how have you overcome this?

There are different challenges in different places. The personal safety of our people is always our main concern and ensuring they have the right equipment and support in country is key. At the other end of the job getting paid can be another challenge. Having the right commercial, legal and financial advice and doing your diligence before starting work overseas is absolutely vital. Knowing who you are dealing with is key to success.

What are your company's plans for the next couple of years?

To continue to build upon our UK and International platforms and to look to extend our services and equipment fleet to support this growth. The oil and gas market has been showing some signs of improvement and it's important we are positioned to respond to increasing activity levels.

What one piece of business advice would you give to companies who might be looking to get into an international market?

Take your time (although it's likely you will not have much choice in this!). Do your research and diligence. Make sure you know who you are dealing with and what you are getting into before you make that final commitment.

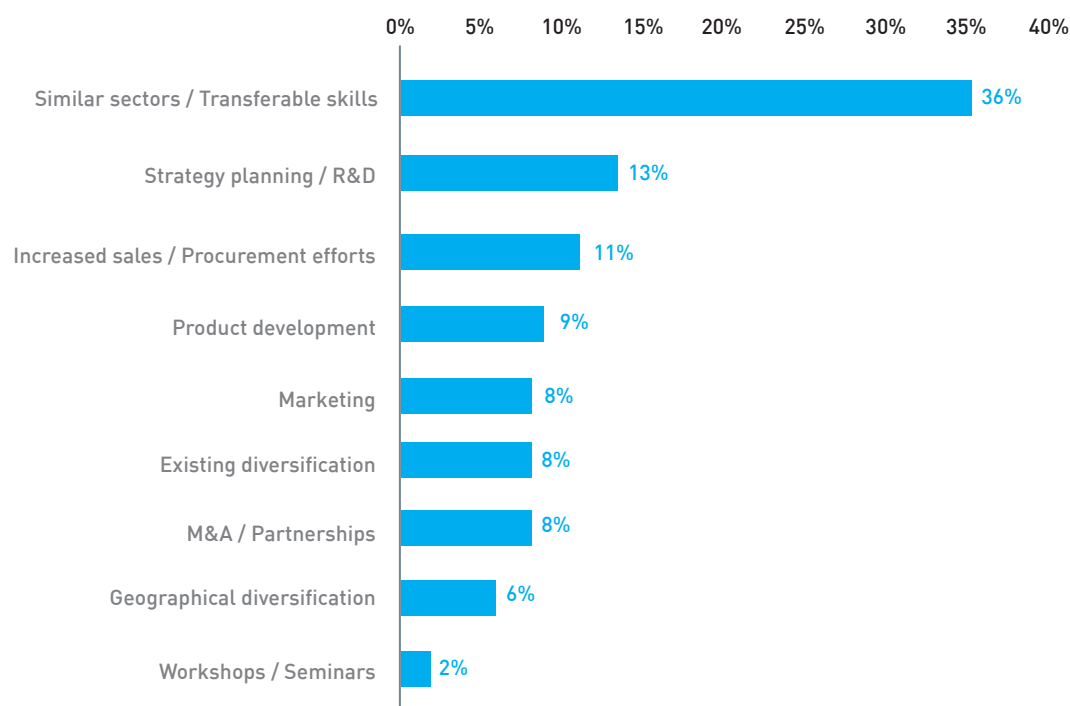
"SE have been privileged to support MSIS as they have taken their highly skilled services to international markets. Our specialists throughout the globe are on hand to support ambitious companies reach their target audience."

Philip Hendry

Account Manager, Scottish Enterprise

Figure 9: How have companies diversified?

Source: AGCC



"We have given equal priority to all new enquiries, whereas in the past non-oil and gas business would not have been approached with the same focus. Additionally we have developed new products, purchased equipment for use in all sectors and modified existing equipment to allow us to meet the needs of non-oil and gas businesses."

"We took our innovation in fire safety to the other markets. This involved seeking the opportunity to tender on new projects in Europe, meeting the clients and explaining the cost savings of the new technologies that we have previously used in oil and gas."



"We have looked to apply our marine project experience in offshore wind projects. We have approached this by answering calls for ideas and looking for funded support projects to overcome specific challenges in the offshore wind sector. As later entrants to the offshore wind industry we have found it difficult to enter the supply chain and compete with established companies in standard tendered scopes."



"By introduction of technology driven solutions (namely IOT) that can be employed both for the oil and gas sector and also in other sectors."

"Marketed in other industries and expanded the international footprint."



"Purchase of a company that deals in sectors outwith the oil and gas industry. Also direct sales contact with potential new customers outwith oil and gas."



3. Future growth

3. Future growth

In order to assess future growth aspirations, we asked companies a number of questions on optimism for the future, forecast growth and future plans for internationalisation.

95%

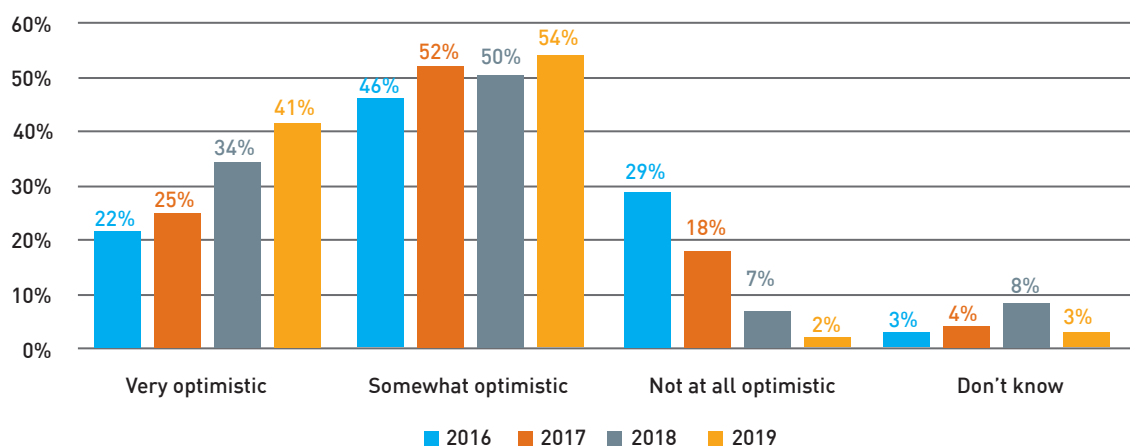
of companies are optimistic about international growth over the next two years

Business optimism

The latest research reveals that business optimism over the next two years continues to improve, with 95% of companies reporting that they are 'somewhat' or 'very optimistic' and only 2% reporting that they are 'not at all optimistic'. This is the highest level of optimism in the past four years and reflects a gradual improvement in trading conditions and optimism for the sector as a whole.

Figure 10: Optimism within supply chain companies – next two years

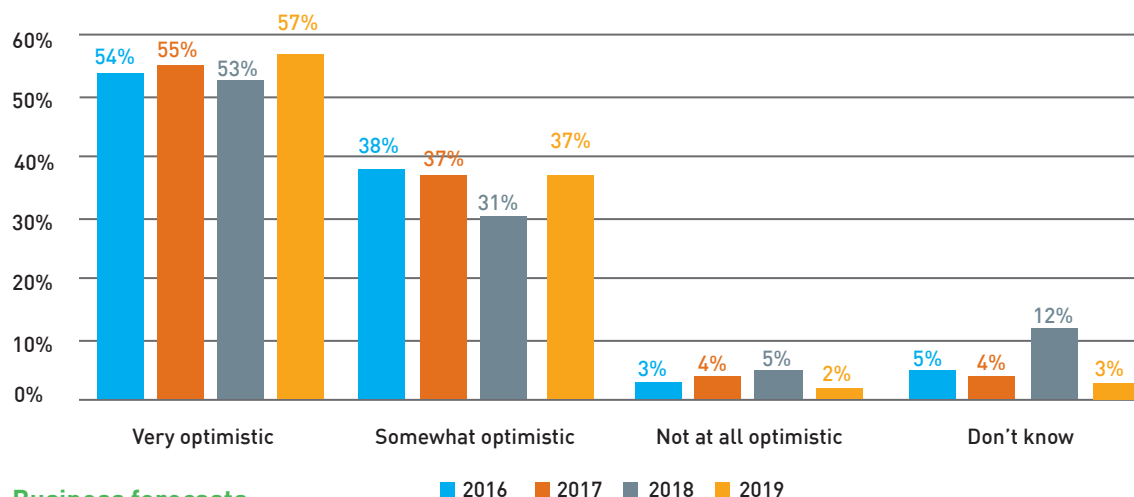
Source: AGCC



Optimism over the next five years is similarly high, with 94% of companies reporting that they are 'somewhat' or 'very optimistic'. This is higher than last year (84%) but close to the levels seen in the 2017 survey (92%).

Figure 11: Optimism within supply chain companies – next five years

Source: AGCC

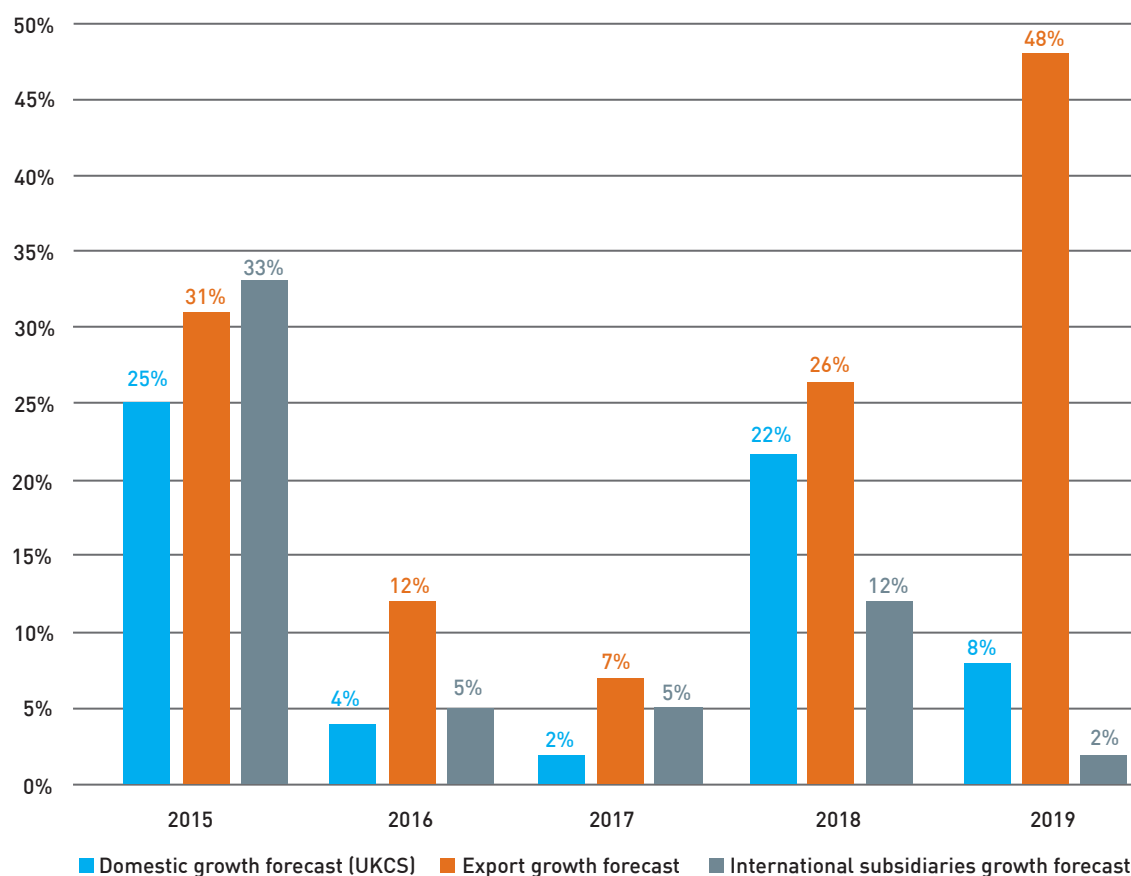
**Business forecasts**

We asked companies for an assessment of growth in sales for domestic, export and subsidiary business over a five-year period. Based on the sales forecasts shared by respondents, the following levels of growth are anticipated in the Scottish supply chain over this period:

- 8% growth in Scottish domestic oil and gas sales
- 48% growth in Scottish oil and gas direct export sales
- 2% growth in sales via international subsidiaries

Figure 12: Growth forecasts over the next five years

Source: AGCC





Case Study: Well-Safe Solutions



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

Well-Safe Solutions offer an innovative P&A well abandonment club that allows operators to meet the challenges and regulatory imperatives around late life transition and decommissioning, while significantly reducing cost. We bring together a wealth of decommissioning oil and gas expertise with dedicated bespoke P&A marine and land-based assets and equipment. We provide the complete P&A package from front-end engineering and design, through to project execution, including well operatorship, while retaining key learnings from multi-operator, multi-well campaigns which are fed back into future projects.

Well-Safe Solutions was launched in August 2017. What were your company's ambitions at that time?

Our ambition at launch remains the same today: to be a ground-breaking first-of-its-kind 'Tier 1' Well P&A Company providing the complete solution for safe and cost-efficient decommissioning of onshore and offshore wells via our P&A Clubs. Our offering also includes strategic services such as corporate cost estimation & ARO support, advisory services, bespoke engineering packages and people services.

Where do you have offices based and since when?

Well-Safe Solutions headquarters have been based in Aberdeen at the newly refurbished H1 Building at Hill of Rubislaw since September 2017. We also have our marine support base which is located at the Port of Dundee giving us direct access to quayside facilities and 40,000 square feet of covered space. The Port of Dundee is rapidly establishing itself as a North Sea decommissioning hub, which will provide us with direct access to deep water quaysides, heavy lifting capabilities, significant dedicated warehouse space and unconstrained access into the established and operating ANSS decommissioning facilities.

Does your company have plans for international growth, and if so why?

When we launched, we were very focused on the UKCS offshore market, with our priority to establish our presence and business here. However, soon after launch it became clear that there were opportunities in continental Europe. Soon afterwards we launched Well-Safe Solutions BV and we have been working closely with a number of businesses in Europe to progress our presence in this area. Our vision is to continue that growth and in time provide a global service.



Have you undertaken any market research to inform or support your international plans?

As you would expect, prior to our launch back in 2017 we had undertaken a significant amount of market research in the UK and internationally to establish the size of the addressable market. Our plan was always to focus on the UKCS market in the first place. However, when our launch was announced we received a huge amount of interest from Brazil, Mexico, Australia and Europe. We carried out some further market research and decided to initiate an engagement process in Europe to introduce Well-Safe Solutions.

What are your company's plans for the next couple of years?

Our plans are to continue building the business within the UKCS and continental Europe with the introduction of our own bespoke marine and land based P&A assets enabling us to provide the complete 'Tier 1' P&A solution for our customers.

What do you view as your biggest challenge when looking to grow internationally?

There are many challenges such as engaging with the local supply chain and establishing relationships, employing local personnel to gain knowledge and understanding, but also to support the local economy. Understanding the different legislations, regulatory bodies and standards in different countries is another challenge we face. However, having our own very experienced team who have worked in several different international locations has allowed us to overcome these challenges.

Have you received any specific advice on entering international markets which has encouraged you to progress with your plans? If so what was it?

Take the time to research your market, ensure the addressable market is there to support your business investment plan, make sure your business offering is a desired/required solution within the targeted location, make sure that your offering takes the relevant legislation at that location into consideration and seek the right level of support from the likes of Scottish Enterprise.

"Scottish Enterprise is delighted to support exciting and ambitious companies such as Well- Safe Solutions. Through our Account Management Service, we work with businesses in a variety of ways, providing tailored support to help companies realise their growth potential"

Carri Cusick

Company Growth Team Leader, Scottish Enterprise



4. Future markets analysis

4. Future markets analysis

To consider future markets, companies were asked to state the countries which they viewed as their top growth countries for the immediate future and over the next five years.² A total of 69 different priority countries were mentioned by respondents.

Growth – Immediate future

Table 1 reveals the top ranked regions for the immediate future and how the rankings compare to recent years. The latest data reveals that the Middle East continues to be the top region for growth in this period. This is followed by Africa, the EU, North America and non-EU, all of which also ranked highly in the previous report.

Table 1: Change in growth regions – immediate future

Source: AGCC

Region	2017 report ranking	2018 report ranking	2019 report ranking
Middle East	1	1	1
Africa	2	4	2
EU	6	2	3
North America	4	5	4
Non EU	5	6	5
Asia Pacific ³	3	3	6
South America	8	9	6
Caspian	7	7	8
Australasia	9	8	8
Latin & Central America	10	10	10

■ Up in ranking

■ Down in ranking

■ Stayed the same

When examining the countries for immediate future growth, the top international country is once again the USA, followed by Norway and the UAE. Further information on this is provided in Figures 21 and 22 in Appendix D.

² The UK has been excluded as the focus is on international markets.

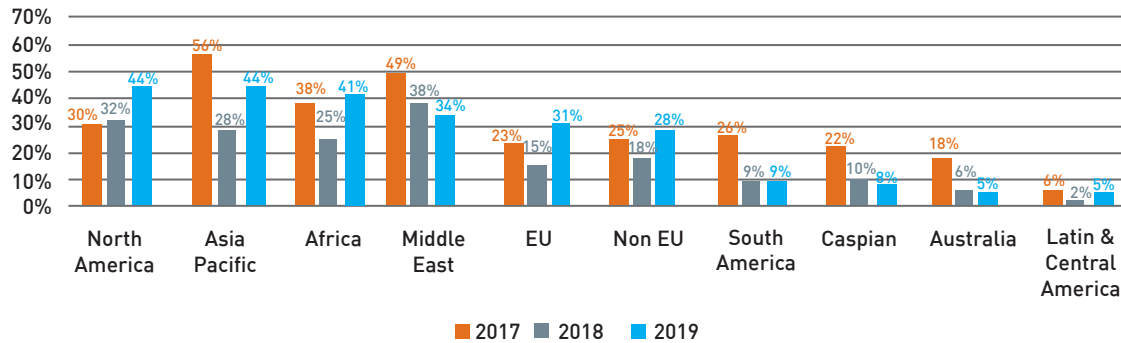
³ As in previous years, the Asia Pacific and South-East Asia regions have been grouped for the purpose of this report.

Growth – Next five years

Looking further ahead, North America and Asia Pacific emerge as the top growth regions over the next five years (see Figure 13), replacing the Middle East which featured as the top growth region in the 2018 report.

Figure 13: Percentage of companies reporting the region as a growth opportunity in the next five years

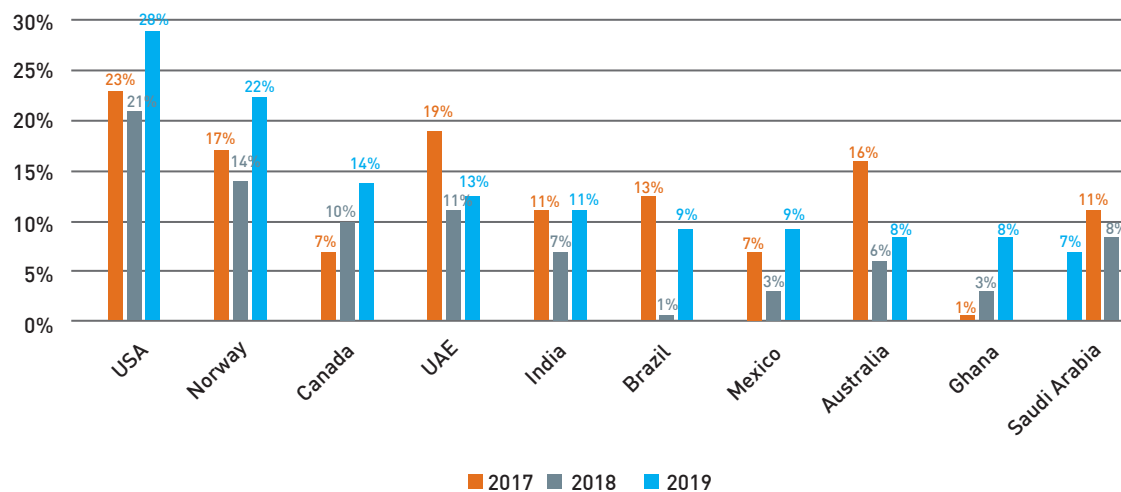
Source: AGCC



The top growth countries over the next five years are revealed in Figure 14. As was the case for the immediate future, USA also remains on top of the list of countries which companies are focusing on over the next five years.

Figure 14: Percentage of companies reporting country as a growth opportunity in the next five years

Source: AGCC



Sub-sector focus in the immediate future

The figures below illustrate the future focus of different sub-sectors based on their growth countries for the immediate future.

Figure 15: Drilling and wells growth ambitions

Source: AGCC

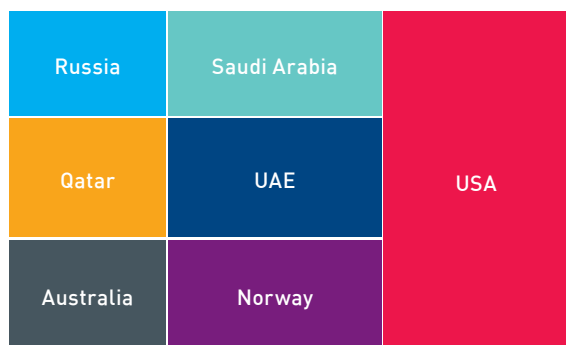


Figure 16: Marine, subsea and pipeline growth ambitions

Source: AGCC

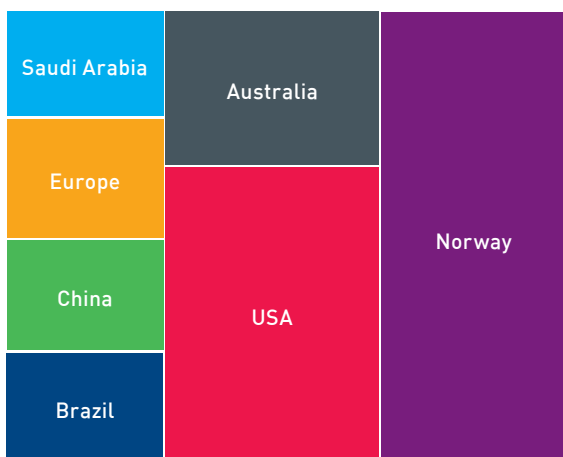
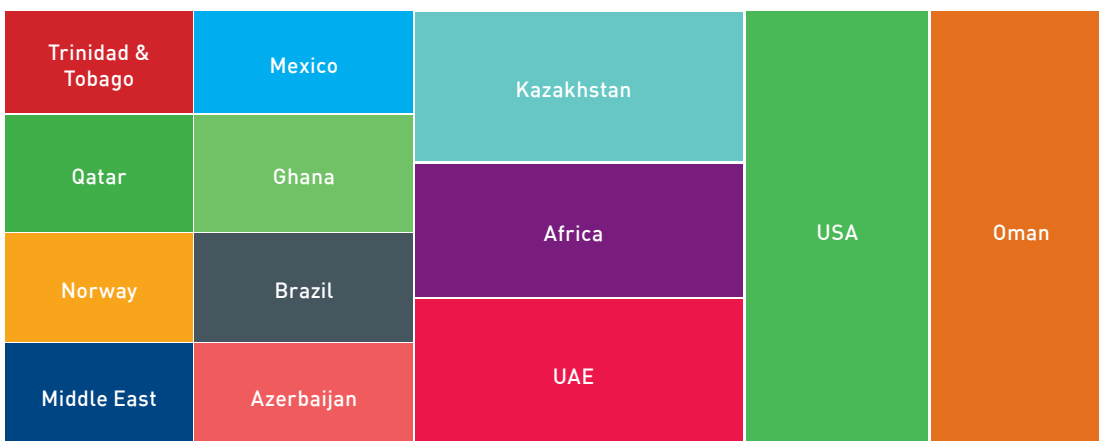
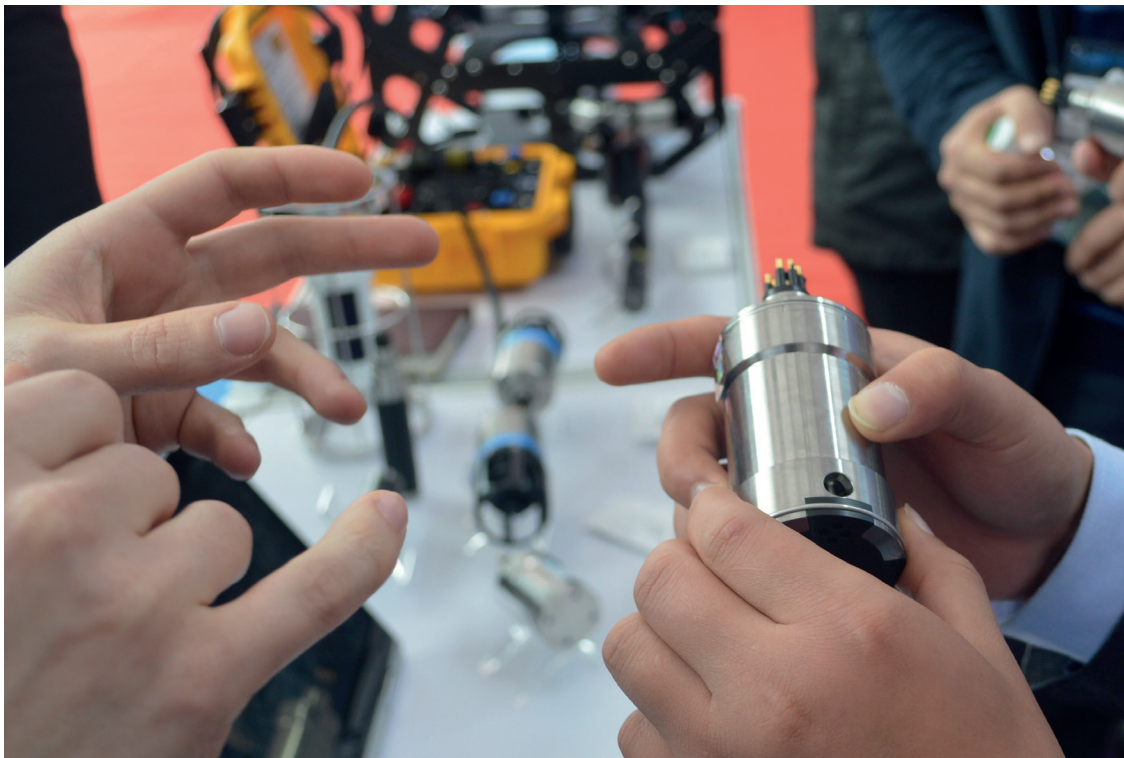


Figure 17: Integral and support services growth ambitions

Source: AGCC





Case Study: Impact Subsea Ltd

ImpactSubsea

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

Impact Subsea was formed early in 2015 with the aim of creating a new generation of sensors for use on underwater vehicles.

Since that time we have developed a range of sensing solutions for determining underwater Altitude, Depth, Temperature, Heading and Motion.

We have also developed a Flooded Member Detection system for detecting the presence of water in a cavity along with a range of underwater housings.

Early in 2019 we will launch our next innovative product – the world's smallest imaging sonar, providing high resolution imagery for all underwater vehicles.

All our sensors lead the market in terms of raw capability and build quality.

Impact Subsea recently received a place in the Marine Technology Reporter's MTR100 list for the second year running. How important is that recognition to your company?

The MTR100 list is an industry recognised list of the top 100 influential subsea companies globally. To be recognised for our highly innovative products is a great honour.

To achieve this recognition two years running is an excellent accomplishment for a young company, competing against well-established multi-million-pound incumbents.

Tell us about your international capability, where do you have offices based and since when?

Impact Subsea headquarters are based in Ellon, Aberdeenshire, Scotland. We export world-wide with a distributor network to generate business in specific international locations.

The company has local representation in China, Germany, Hong Kong, India, Japan, The Netherlands, Norway, Singapore, Spain, Taiwan and the United States. We are continuing to grow our distributor base, with plans to bring further distributors on board in 2019.

Can you tell us about how your company has diversified internationally?

The international distributor model allows us to operate in multiple international geographic regions. This has proved very successful in helping generate markets while also providing local technical support to the existing customer base.



**What made you decide to do this?
What market research did you conduct
beforehand?**

The underwater sensors that we produce have a world-wide market. In order to access as much of this market as possible, local support in various geographic regions was required.

Forming an Impact Subsea office abroad had high up-front costs and would require a great deal of market research in advance to get the correct location and local people on board to help run the office.

The distributor model allows markets to be accessed quickly with relatively low up-front costs and reduced levels of risk.

What has been your biggest business challenge when working internationally and how have you overcome this?

When searching for potential distributors, there are many companies keen to represent your brand and product. Finding ones which have both a technical understanding and sales capability has been the challenge.

Through attendance at various international subsea technology exhibitions, we have managed to identify a number of excellent distributors to work with. We introduced trial periods for all new distributors to allow

a working relationship to be established prior to committing to a formal agreement. This has worked well in identifying proactive distributors.

What are your company's plans for the next couple of years?

Impact Subsea aims to continue its high growth rate and double its turnover over the next two years.

To facilitate this continued growth we will launch further innovative underwater sensors, hire more staff and appoint distributors in new geographic regions.

What one piece of business advice would you give to companies who might be looking to get into an international market?

If you have a potential international market for your product or service, it is a logical way to grow a business.

To begin to expand into international markets, target those with a good market demand and minimal restrictions. Finding good partners to work with in the region will help significantly.

“Scottish Enterprise have supported numerous innovation, international and business infrastructure projects which have aided Impact Subsea’s growth in turnover and employees. Ben and Alistair have created a fast growing, cutting edge subsea technology driven company and it is a privilege to work alongside them both on their journey.”

Kevin Taylor

Account Manager, Scottish Enterprise



5. Challenges and constraints to growth

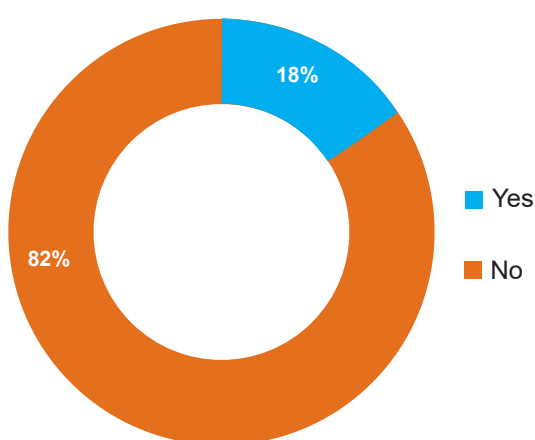
5. Challenges and constraints to growth

In order to assess challenges and potential constraints to businesses realising growth, the experiences of companies in the sector were considered.

Less than a fifth (18%) of companies reported withdrawing from any markets in the past year, only slightly higher than the proportion that withdrew in the previous year (16%).

Figure 18: Market withdrawal

Source: AGCC



Fewer than

1 in 5

companies reported market withdrawal, only a slight increase from last year

Reasons given for withdrawing from markets included issues with a key contract or partner and unfavourable or risky political conditions.

Reasons for market withdrawal – example comments

“Political, currency and commercial risks too high.”

“Loss of expertise due to redundancy.”

“Very hard to break into the market and win new clients, then a key client was sold.”

“Due to unfavourable business conditions.”

“Our customer’s customer thought our product/service was too expensive.”

Supply chain competitiveness

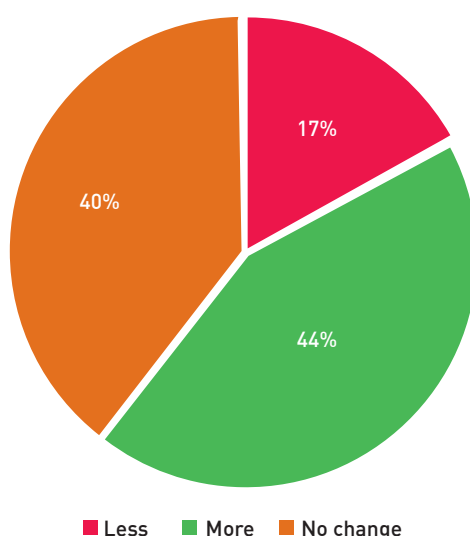
When asked about supply chain competitiveness, the largest proportion of companies (44%) believed the supply chain has become more competitive in an international context over the past 12 months. This was followed by 40% who felt there had been no change, while only 17% said that it had become less competitive over the past 12 months.

44%

of respondents think the supply chain has become more competitive in an international context over the past 12 months

Figure 19: Has the Scottish supply chain become more or less competitive in an international context over the last 12 months?⁴

Source: AGCC



We then explored the reasons reported by those who felt that the supply chain had become more competitive. The main reason the supply chain has become more competitive is reportedly due to better cost management and more efficient ways of working.



“The supply chain has become more competitive in general response to the market downturn - the slump ensured a focus on cost effectiveness.”

“Significant savings have been targeted (and made) in the cost base as a result of the low oil price - the challenge going forward will be to maintain these as market improves. There has been a significant focus on finding new and innovative ways to deliver projects and I believe great strides have been made in this area.”

However, some respondents noted that this was due to necessity rather than out of choice:



“Supply chain still looking for further cost savings even though oil price has risen and everyone is working on a lower lift cost.”

“Almost all companies are looking for a reduction in costs.”

Although the largest proportion of respondents referred to costs or efficiency, other reasons included diversification / international growth and general response to the market downturn.

⁴ Percentages may not sum to 100% due to rounding.



“Companies see the growth areas to be overseas so placing more resources into winning work in that market.”

“More focus by UK companies in international markets due to declining UK opportunities.”

“Scottish companies have a great deal of resilience and flexibility.”

“More positive signals and less redundancies, retention of staffing levels, companies have weathered the storm better than expected over the last 3 years.”

For the 17% who felt the sector was less competitive there were a range of opinions expressed. Some felt that costs are still too high in the UKCS supply chain while others worried that cost cutting measures had been too severe:



“In my specific area, more of the available work has been won by companies operating outside Scotland or with their primary bases outside Scotland.”

“Less competitive, excess supply in international markets reduces rates in these areas and makes the markets unsustainable at UKCS cost base.”

“The recent downturn has led to too much streamlining of the supply chain. Experienced staff have been let go, offices shut, etc. If things start to increase even slightly I don’t think the support in Scotland and the UK as a whole is there.”

“We set ourselves a high standard in Scotland which, internationally, companies (even the same companies) are not interested in. The level of safety, competency and professionalism expected in Scotland is not sought elsewhere as the cost is too high.”

Stay or go?

Businesses were also asked what one thing would help them ensure their base remained in Scotland. A number of key themes emerged as instrumental in companies keeping their base in Scotland:

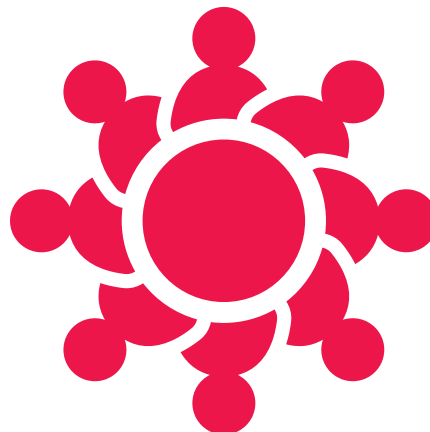
Access to good employees/skills

Some businesses highlighted the need for a skilled workforce:

“Access to more qualified workforce.”

“Continued access to high quality people.”

“Skilled workforce capable of working in international markets.”



Post-Brexit support and political stability

There was a greater focus from businesses this year in regard to political issues, specifically Brexit and the Scottish independence referendum:

“Outcome of Brexit, if barriers to trade (Duties and Border Controls) with EU and EFTA countries are introduced it will add cost to our offering and make it easier for EU competition to grow, in which case we may have to join them.”

“Support with Brexit after deal – exports.”

“A stable UK government.”

“The elimination of the Scottish Independence referendum. The majority of our business is with the UK, indeed one division is 100% non-Scottish UK focused.”

“The political and industrial peace will help to ensure our company will remain based in Scotland.”

Continued or increased activity levels

Other businesses cited the importance of continued, or in some cases an increase, in activity:

“Continued demand for products from the UK North Sea.”

“Drilling activity especially in the North Seas remains at a decent level.”

“UK North sea growth and local Fiscal structure.”

“Winning some more business from clients in Aberdeen is the main one.”





6. Concluding remarks from industry

6. Concluding remarks from industry

In order to help identify support required by the industry, companies were asked which one aspect of their business they would most like support with.

For the past few surveys, similar themes have emerged and this year the top two concerns remained consistent with last year: financial support and making introductions.

What one aspect of your business would you most like support with?

Financial support / funding

"Access to funding opportunities"

"Additional Scottish Enterprise funding support - developing new business overseas takes time, effort and a lot of funding - sometimes outwith the time bandwidth of SE"

"Funding towards attending overseas exhibitions, etc."

"Funding exploratory R&D trips"

"Financial assistance with shipping costs"

Networking support and help with making introductions

"Encouragement from other exporters as to the processes (networking)"

"Overseas contact list and overseas drilling programmers"

"Support to establish connections and networks"

"Organised events for presenting our company's capabilities to potential customers"

General Advice/Support

"In-depth knowledge of import/export terms and costs"

"More support from government organisations"

"Increased knowledge of taxation and employment law regimes across the EU"

Marketing support

"A general profile at a national level, showcasing UK expertise"

"Still at an early stage of development but when ready, help with marketing trade booths, etc."

"Advanced news of trade events"

How can Scottish Enterprise help your business?

If your business is looking to export for the first time or grow internationally, Scottish Enterprise can provide support to assist with this.

Help available includes:

- Market research support
- Free export advisory service
- Help creating an export plan
- Support with Brexit planning
- Funding to enter international markets
- Help reaching international customers online
- Support with identifying and accessing opportunities

Has Scottish Enterprise assisted you with your international activity, and if so how?



“SE has helped in many ways. Provision of funding support is always very much appreciated, but local support in places such as Brazil or the Middle East is very important. Introductions to key advisers, individuals or companies with country specific experience as well as market specific research has been very important to MSIS.”

MSIS Group



“Scottish Enterprise has assisted greatly in our capability to seek out and identify new distributors. Impact Subsea was part of the Scottish Pavilion at the Offshore Technology Conference in Houston, USA. Scottish Enterprise has also assisted with attendance at other international exhibitions.”

Impact Subsea



“We have made good use of GlobalScot’s network, a part of Scottish Enterprise. Tapping into this powerful, supportive network, giving quick and practical advice and guidance when looking to establish a company start-up internationally, covering all areas including: employment law, tax, supplier and local custom practice.”

Well-Safe Solutions

Further information can be found at www.scottish-enterprise.com or by contacting enquiries@scotent.co.uk



7. The detail

7. The detail

Appendix A – Sales in other subsectors

Table 2: A breakdown of non-oil and gas domestic sales 2017/18

Source: AGCC

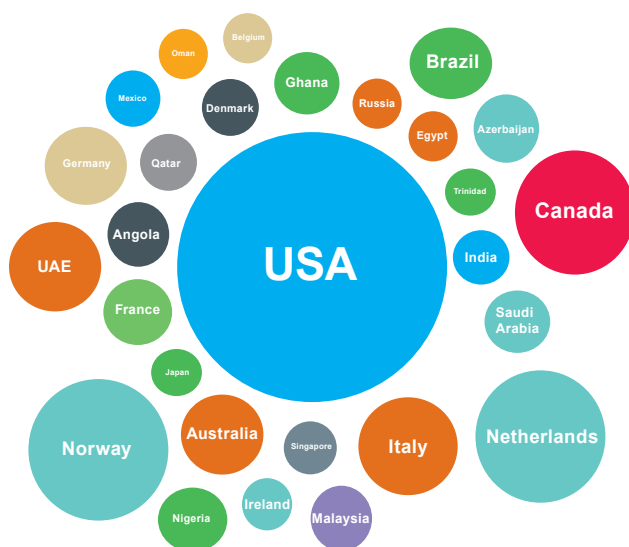
Sub-sector	2014	2015	2016	2017
	£bn	£bn	£bn	£bn
Other general engineering	0.41	1.28	0.65	0.46
Power generation	0.47	0.04	0.12	0.30
Defence	0.23	0.29	0.30	0.00
Renewables	0.45	0.08	0.49	1.31
Other civil engineering	0.00	0.00	0.12	0.00
Carbon capture and storage	0.01	0.00	0.00	0.00
Nuclear	0.20	0.20	0.04	0.09
Decommissioning	0.00	0.06	0.02	0.05
Offshore wind	0.00	0.19	0.08	0.01
Unconventional gas	0.00	0.01	0.00	0.00
Hydrogen	0.00	0.00	0.00	0.00
Other	0.14	0.03	0.04	0.01
Total	1.90	2.18	1.87	2.23

Appendix B - Country level analysis

The figures below reveal where the £9.7bn of international related (i.e. export and subsidiary) sales comes from around the globe.⁵

Table 3: Sales by country (top 20)

Source: AGCC



Country	International related sales
USA	£2.89bn
Norway	£0.71bn
Netherlands	£0.66bn
Canada	£0.56bn
Italy	£0.35bn
UAE	£0.26bn
Australia	£0.21bn
Germany	£0.20bn
Brazil	£0.18bn
Nigeria	£0.14bn
Ghana	£0.14bn
France	£0.14bn
China	£0.14bn
Malaysia	£0.13bn
Saudi Arabia	£0.13bn
Azerbaijan	£0.12bn
Angola	£0.11bn
Denmark	£0.11bn
Qatar	£0.11bn
Singapore	£0.10bn
Other	£2.31bn

Table 4: Country rankings 2017 vs 2016

Source: AGCC

	USA	Norway	Netherlands	Canada	Italy	UAE	Australia	Germany	Brazil	Nigeria
2017 financial year ranking	1 Same	2 Same	3 Up	4 Up	5 Up	6 Down	7 Up	8 Up	9 Up	10 Down
2016 financial year ranking	1	2	12	7	Not in the top 30	3	16	13	15	4

The countries falling out of the 2016 top 20 list include Kazakhstan (now 23), India (now 21), Iraq (now 37) and Kurdistan (not mentioned).

⁵ Country and regional level sales data is by nature more approximate than the overall sales level analysis and so extra caution should be taken when interpreting and utilising this data.

Countries that respondents reported international activity for are listed below.

Algeria	Greece	Qatar
Angola	Guyana	Romania
Antigua and Barbuda	Haiti	Russia
Argentina	Hong Kong	Saudi Arabia
Australia	Iceland	Senegal
Austria	India	Singapore
Azerbaijan	Indonesia	Slovakia
The Bahamas	Iran	Solomon Islands
Bahrain	Iraq	South Africa
Bangladesh	Ireland	Spain
Belgium	Israel	Sri Lanka
Bermuda	Italy	Sudan, South
Bolivia	Japan	Suriname
Brazil	Kazakhstan	Sweden
Burundi	Kenya	Switzerland
Canada	Korea, South	Syria
Central African Republic	Kuwait	Tanzania
Chad	Latvia	Thailand
Chile	Libya	Trinidad and Tobago
China	Lithuania	Tunisia
Colombia	Luxembourg	Turkey
Congo, Democratic Republic of the	Malaysia	Ukraine
Congo, Republic of the	Malta	United Arab Emirates
Côte d'Ivoire	Mexico	United States
Cyprus	Morocco	Vietnam
Czech Republic	Mozambique	
Denmark	Netherlands	
Dominica	New Zealand	
Egypt	Nigeria	
Equatorial Guinea	Norway	
Finland	Oman	
France	Pakistan	
Gabon	Papua New Guinea	
The Gambia	Peru	
Germany	Poland	
Ghana	Portugal	

Regional sales

The table below shows sales by geographical region in 2017 compared to the previous two years.

Table 5: Sales by region

Source: AGCC

Rank	Region	Value £bn 2017	Value £bn 2016	Value £bn 2015
1	North America	3.64	2.89	2.58
2	Europe inc non-EU	2.62	1.60	1.18
3	Africa	0.72	1.35	0.95
4	Asia Pacific	0.66	1.21	0.54
5	Middle East	0.62	0.88	0.38
6	Australasia	0.23	0.41	0.26
7	South America	0.20	0.34	Not measured
8	Caspian	0.18	0.66	0.12
	Other not allocated	0.64	1.06	5.31
	Total	9.7	10.4	11.3

Appendix C – Description of the sector

Figure 20: The oil and gas supply chain

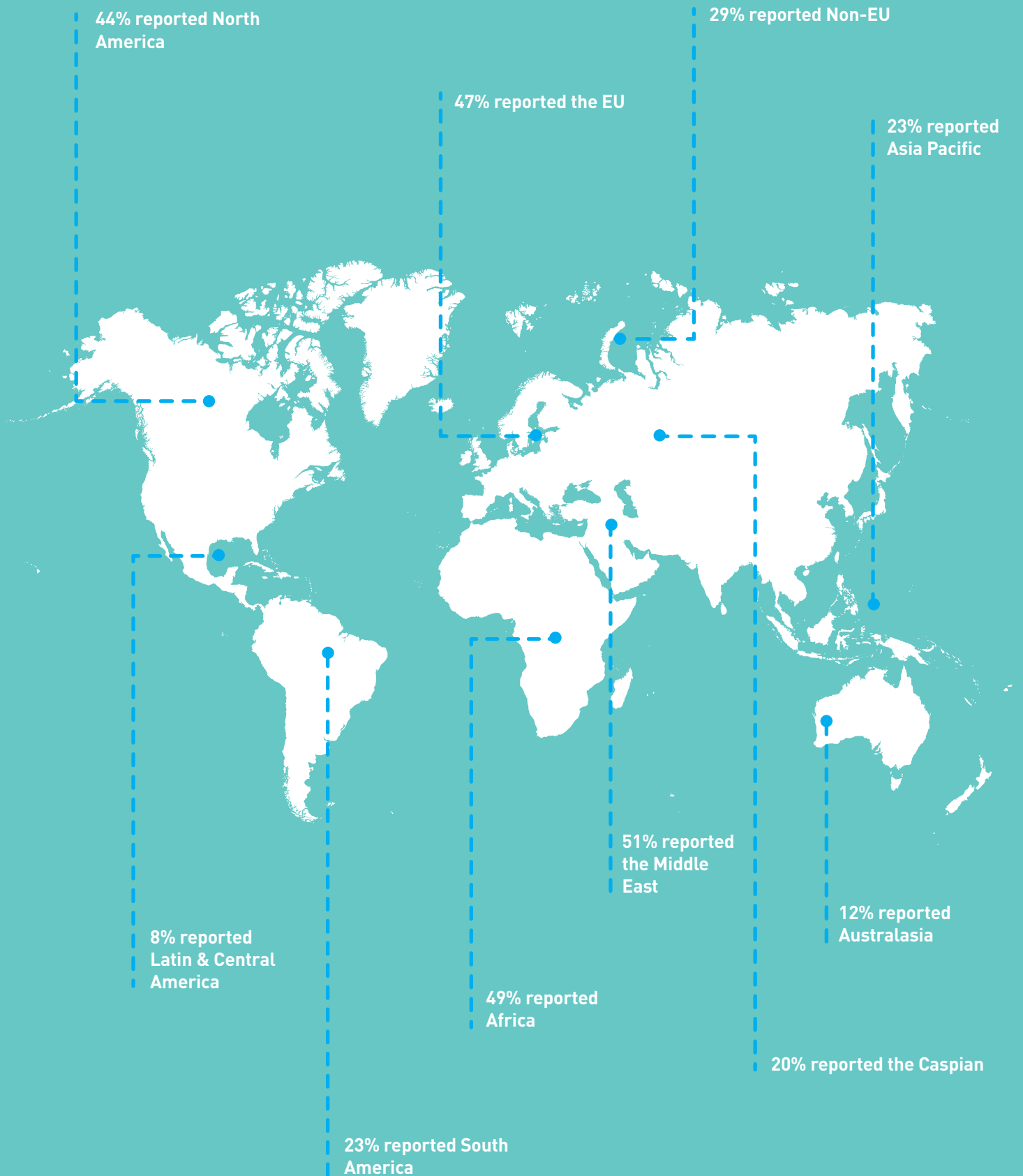
[Source: adapted from Oil & Gas UK]

Services and products provided to the upstream oil and gas industry can generally be segregated into 5 sectors. It should be noted that many multi-service companies straddle more than one category

	Operators arrange the financing, licensing, and organisation of a project. They vary in size and in-house capability and thus in how they use the supply chain.				This segment provides support and services directly to both operators and contractors. This can range from the specific (e.g. offshore catering and specialist training) to the generic (e.g. recruitment and IT support)
Tier 2 Main contractors and consultancies	Operators (Tier 1) All types of exploration, development and production companies: integrated majors, large and small independents, energy utility companies, non-operating companies, exploration companies				Integral and Support Services Catering facility management Sea/Air transport Warehouse/ logistics Communications Recruitment Training Health, safety and environment services Medical services Banking/finance Legal Insurance Accountancy Energy consultancies
	Reservoirs	Drilling and Wells	Platforms and Topsides	Marine, Subsea and Pipelines	
	Reservoir engineering/ management consultancies Seismic data acquisition & processing contractors	Well services contractors Drilling contractors Well engineering consultancies Cement contractors	Engineering, operation, maintenance and decommissioning contractors Engineering consultancies Structure and topsides design and fabrication	Marine/subsea contractors Heavy lift contractors Pipelay contractors Floating production storage units	
Tier 3 Products and services suppliers, components sub-contractors and sub-suppliers	Geoscience consultancies Data interpretation consultancies Seismic instrumentation Data storage IT/Hardware software	Drilling & well equipment design and manufacture Drilling tubulars Laboratory services	Machinery/ plant design and manufacture Engineering support contractors Specialist engineering services Inspection services Specialist steels and tubulars	Subsea manifold/ riser design and manufacture Marine/subsea equipment Subsea inspection services	

The supply chain includes all companies involved in a project including the end user (e.g. the operator). The nomenclature typically refers to the operator as tier 1, the main contractors as tier 2 and sub-contractors as tier 3. Companies can straddle more than one tier

Top countries named for growth in the immediate future



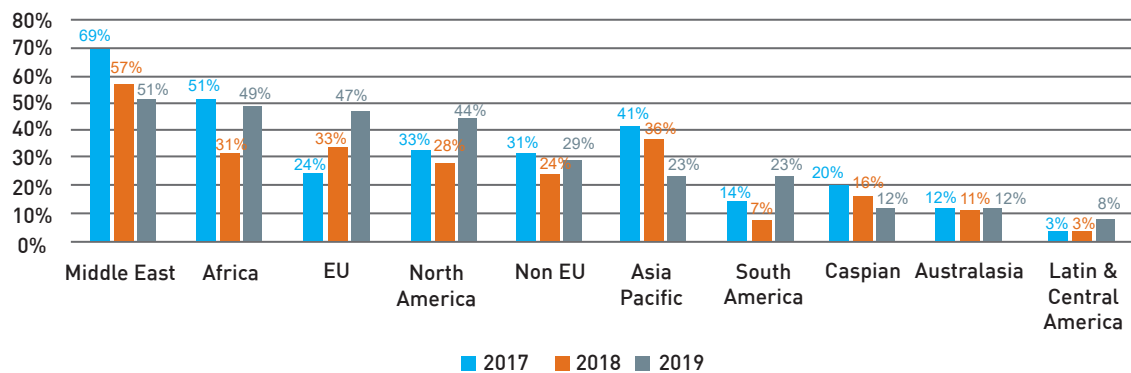
Appendix D – the detail on target growth countries

The immediate future – further analysis

The figure below reveals the percentage of countries reporting each region as a focus for growth in the immediate future. Despite further decline in the proportion of respondents naming the Middle East as a region for growth in the immediate future (down to 51% from 57%), it remains the top country for this time period. In contrast, other regions have seen increases in the proportion of respondents considering them as a growth region (including Africa, the EU and North America).

Figure 21: Percentage of companies reporting region as a growth opportunity in the immediate future

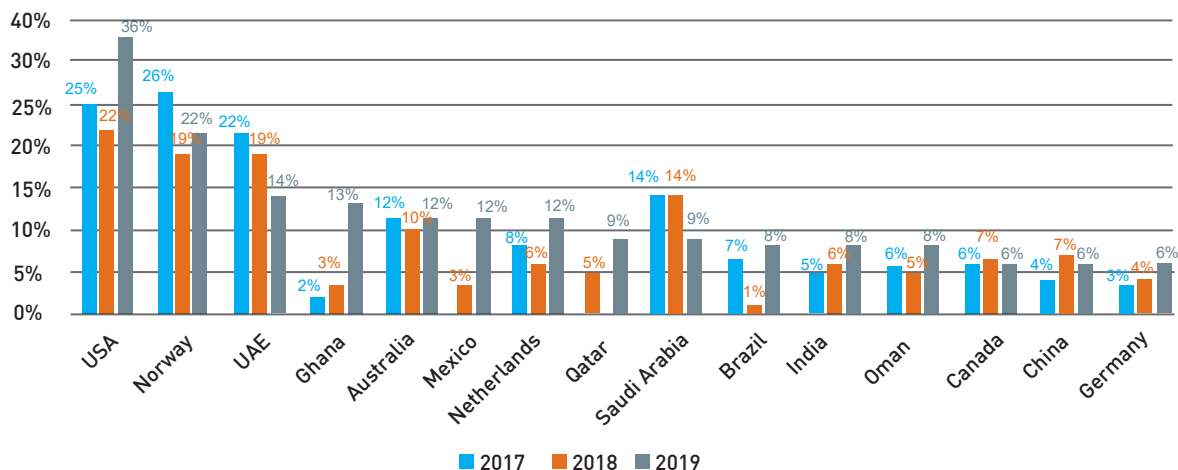
Source: AGCC



The top international country for future growth in the immediate future is once again the USA, followed by Norway and the UAE.

Figure 22: Percentage of companies reporting country as a growth opportunity in the immediate future

Source: AGCC



Middle East

Although the Middle East remains the top growth opportunity for the immediate future, the percentage of respondents reporting the region as a growth opportunity in the immediate future and in the next five years has again declined.

Similarly, the percentage of respondents naming the UAE as a top growth country in the immediate future has also declined in recent years (e.g. down to 14% from 22% in 2017).

Africa

Following a drop last year in the percentage of respondents reporting that Africa was a top growth opportunity in the immediate future or in the next five years, this year sees an increase both in terms of the shorter (up to 49% from 31%) and longer-term (up to 41% from 25%).

EU

In last year's report the EU climbed from sixth to third place in terms of regions for immediate future growth. Although it has dropped to third place in the ranking this year, there has been an increase in the proportion of respondents identifying this as a growth opportunity in both the immediate future (up to 47% from 33%) and next five years (up to 31% from 15%). Specific countries mentioned included the Netherlands and Germany.

North America

Once again the USA emerged as the most popular market for immediate and future growth. The latest survey reveals an increase in the proportion of companies naming the country as a growth opportunity over the next five years (i.e. up to 28% from 21%), reversing trends of a slight decline in recent years.

After Canada moving up the future growth rankings from tenth to fifth place last year, the latest survey rankings see the country climb higher to third place when companies are considering growth in the next five years.

Norway

Norway has once again ranked second in terms of the percentage of respondents reporting the country as a growth country in the immediate future and in the next five years, with only the USA ranking higher.

In terms of future growth, there has been an increase in the percentage of respondents reporting the country as a growth opportunity in the next five years (up from 14% to 22%).

About Scottish Enterprise

Scottish Enterprise is Scotland's main economic development agency and aims to deliver a significant, lasting effect on the Scottish economy. Our role is to help identify and exploit the best opportunities for economic growth. We support ambitious Scottish companies to compete within the global marketplace and help build Scotland's globally competitive sectors. We also work with a range of partners in the public and private sectors to attract new investment to Scotland and to help create a world-class business environment.

There is an opportunity to increase Scotland's impact in overseas markets and by aligning our trade and investment activities with the work of our partners, we can maximise Scotland's international presence and visibility.

We achieve this through Scottish Development International (SDI), which is a partnership between the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise and its work is guided by the Scottish Government's strategy for economic development in Scotland.

SDI International Activities and Support

SDI works to attract inward investment and knowledge to Scotland to help the economy grow. It also helps Scottish based companies to trade overseas and promotes Scotland as a good place to live, work and do business.

SDI has a network of over 40 overseas offices in over 20 countries across the globe, staffed by a mixture of local and expatriate staff. Its offices are a key entry point and interface into local companies and economies within a country or region. SDI also collaborate with its partner organisation, the Department for International Trade, in regions where SDI does not currently have an office to ensure that in-country support is available in those areas.

For companies that engage with us in the energy sector, SDI undertakes a series of targeted energy focused missions and exhibitions that are designed to match company capabilities within country opportunities.

If detailed information is required on the business environment in a particular region, then we can rely on the support of a network of GlobalScots who hold positions of influence within international companies. They can provide valuable insights into the operating landscape in their respective regions and industries.

Comment from the Chamber of Commerce



Russell Borthwick
*Chief Executive
Aberdeen & Grampian
Chamber of Commerce*

I hope you found the results of this year's International Activity survey valuable. A personal thanks from me to all firms that took the time to respond. It's through your input that we're able to build this valuable resource for the industry.

As I sit down to review the findings of the survey, an Oil and Gas Authority report has highlighted that production in the North Sea has reached a seven-year high, averaging 1.7m barrels a day across 2018, the highest level since 2011. You need only review the results of the questions on business optimism in this study to see that this increased activity has translated into heightened positivity across the industry, with this survey recording the most encouraging optimism results for the past four years.

While sales have declined from their 2014 peak, what we can observe from these results is an industry which has tenaciously focused on competitiveness, maintaining its world-leading expertise in an extremely challenging environment. With our focus at the Chamber on the economic diversification of the Aberdeen City Region, ensuring that any future price volatility does not impact the North-East as significantly in the future, we're also equally enthused to see the results around the increasing proportion of sales outside of oil and gas. Furthermore, as is clear from our results, firms are no longer engaging in this activity just because times are tough in oil and gas, they're engaging because they see it as a profitable route to growth.

In my mind, what we're seeing is incredibly encouraging. An industry that's managed to persevere through a period of tumultuous change and which is now overwhelmingly optimistic about the future. One which continues to diversify and which still exports more than 50% of its total sales across the globe.

In this context, it's not surprising to see that the industry is now looking for a stable political and fiscal environment on which to build upon this optimism, alongside seeking the skills they need to grow. At AGCC, a large part of our role this year will involve working with partners in the region to attract that talent to Aberdeen, showcasing that the industry, and the region, still has an enormous amount to offer.

Firms in the sector hold ambitious targets for export growth across the coming years, and alongside our partners at Scottish Enterprise and Scottish Development International, we look forward to playing our part to support the continued internationalisation of one of Scotland's most dynamic sectors.

Disclaimer

We hope you find the contents of this publication interesting and informative. The contents are intended solely to provide general information only and should not be relied upon.

The publication and its contents do not constitute professional advice and should not be regarded as comprehensive or sufficient for making decisions. Additionally, the information contained in the publication should not be acted on without obtaining specific professional advice.

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Survey of international activity in the oil and gas sector 2018/19

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involved in the
next survey...**

**...and your company
could feature as a
case study**



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