

Good morning and thank you for inviting me to speak at this opening plenary session at the Oil and Gas UK conference here in Aberdeen, a city I am very familiar with through my own Weber Shandwick offices, which have been providing communications services to the oil and gas industry here for over 30 years and also through the Chambers of Commerce.

For those of you who are not familiar with British Chambers of Commerce, we are a national association of 52 accredited chambers across the UK representing tens of thousands of businesses of all sizes from all sectors. And we also have a growing network of Chambers across the globe - there are Chambers of Commerce in almost every country and city in the world and a growing number accredited to British Chambers as part of our International Trade campaign to provide a consistent standard of practical information and services on business opportunities in high growth, emerging markets.

Those international connections are particularly relevant to Aberdeen and the UK oil and gas industry – especially at this juncture of the industry's future – Recent research by Aberdeen & Grampian Chamber of Commerce shows that more than half of its members (56%) currently export, which is significantly higher than the UK average of 32%. This is in no small part due to the world class oil and gas supply chain we have anchored here in the North East of Scotland.

However, you do not need me to tell you that we have been facing extremely difficult challenges in the UK offshore oil and gas industry. The oil price has recovered slightly over the past few months, but it still less than half it was a few years ago. The reasons for the low oil price – the over supply of oil, with shale development in the US, the lifting of sanctions in Iran, the slowing of growth in China, appear to be with us for some time to come.

The low oil and gas prices have brought benefits to the wider economy – British drivers have benefited from a 30p a litre drop in petrol prices since the middle of 2014, but it has had a harmful effect on the UK offshore oil and gas industry and forced the industry to face up to new realities and adapt to this new environment.

The industry has certainly had a difficult few years with low levels of exploration and a drop off in the levels of investment. But, it is the job losses that always hit the hardest

In the Aberdeen & Grampian Chamber Survey for 2016, oil and gas operators say they have seen a 15% reduction in their UK based headcount over the past 12 months, and expect a further reduction of 17% over the coming year.

Just 14% of contractors report that they are working at or above optimum levels in the UKCS, a huge decline since the 79% reported just 3 years ago. Each job loss is a tragedy and business and unions should be working closely together to mitigate these losses as much as possible.

One of the consequences of the drop in the oil price has been an acceleration in the need for businesses to be more lean and efficient – indeed, we could see costs decrease by as much as 40% by the end of the year. However, what that does do is put the industry on a more sustainable long term footing, and give our supply chain a more competitive edge to compete internationally.

You know, the UK oil and gas industry has had an amazing ability to reinvent itself over the past 50 years. Many times, predictions have been made on the impending demise of the industry - with each time the industry rising to the challenge.

The Chamber of Commerce's Oil and Gas Survey has indicated that businesses **are** looking towards diversification - 55% of companies surveyed believed there are new opportunities out there.

But shouldn't that figure be higher? – at a time when companies know that the industry environment is challenging, shouldn't the industry be more ambitious – even to a small extent – in looking at new markets/services/ideas? Can it afford not to be curious?

The survey showed that 85% of contractors expect to increase their involvement in decommissioning work over the next 3 to 5 years, up from 79% in the previous survey and actually the highest figure since this question was first asked in the survey in 2010

63% of contractors are looking to increase their renewables activities; 70% of contractors are looking at unconventional oil and gas activities (fracking) And I am pleased to see that the survey recorded that smaller firms are more enthusiastic than larger firms about opportunities in renewables and fracking and actively pursuing opportunities.

As the recent PWC report urged: the UK should follow the example of other countries such as Norway and Saudi Arabia where governments have been bold in setting out an energy blueprint for the future, defining how the transition to a low carbon landscape will be managed. The UK needs a clear energy roadmap. In that way our skills - and industry knowledge - can be protected and retained.

There are huge opportunities for transferable skills. The development of onshore oil and gas, CCS, renewables, nuclear, biomass and waste management offer substantial opportunities to a supply chain which has shown its willingness to adapt and thrive over decades. The Scottish supply chain is already worth some £22BN but it must evolve to become more agile and flexible to the new opportunities in the UK and around the world. The maturity of the UK basin should be seen as an asset in maintaining a world leading supply chain that exports around the world.

As well as a more flexible supply chain, the ability to identify, invent and use new technologies, I think, will be critical if the oil and gas industry is to transform, 'rejuvenate' and reinvent itself. And you know the industry probably has a short window of opportunity of probably about 2 years, in which to implement the transformation of the sector.

The industry perhaps needs to look at how other engineering sectors have diversified and utilised new technologies and partnerships. Look at the likes of the Formula 1 motorsport industries who invest in and develop technologies that have wider marketable applications in other fields (such as kinetic energy storage, etc).

[McLaren Applied Technologies](#) is a subsidiary of the McLaren Formula 1 Group, and develops a range of products and solutions not only for motorsport but also for health, energy, transport and consumer use, working alongside partners such as GSK.

You know, the UKCS has been a 'laboratory' for new technologies in extracting hydrocarbons in an inhospitable and challenging environment

One example of applied technology which has opened up new diversification opportunities is horizontal drilling, which has been described as "[a marvel of engineering and scientific innovation](#)" and has reduced the cost base for unconventional oil and gas operations in the US, leading to the boom of those industries in recent years.

Of course, the opportunity to be able to diversify into areas such as fracking in a domestic context lies in the hands of political decision makers at Holyrood and Westminster. But perhaps the industry needs to collectively and collaboratively do more to convince governments and public alike of the merits and safety of these new technologies?

It is essential in moving forward that Oil and gas firms accelerate their activities to form new partnerships, particularly around technology and seeking new international opportunities

If we look at how other sectors have risen to the challenges of dealing with a falling market, there are perhaps lessons to be learned

The UK car industry should give us all confidence in how other sectors have adapted and thrived after overcoming similar challenges.

1.9 million cars were manufactured in 1972. Then there was a steady decline until the collapse of Rover Group in 2005 – when production fell to less than a million vehicles

The collapse of Rover was seen as the final nail in the coffin of volume car manufacturing in the UK. However, in the years after the financial crisis we have seen a renaissance in the automotive industry

International companies like BMW Mini, Jaguar Land Rover, Nissan and Honda saw investment opportunities in the downturn and repositioned the UK car industry to produce high quality, high value cars.

They saw that the emerging economies new middle classes were demanding the cachet of luxury British cars – indeed, in the past 15 years **the value** of cars produced in the UK has increased by 30% above inflation.

In 2015, UK car manufacturing reached a 10 year high of almost 1.6 million vehicles and now more cars are made in the North East of England than the whole of Italy; 80% of the cars produced in the UK now sold for export with the US now overtaking China as the main export destination

Why did they look at the UK - 2 things – the skills and expertise in the supply chain and the fact that the UK brand is trusted and admired across the world for its quality, innovation and expertise.

Developing a high quality, higher end product was as a result of strategic financial investment made during the lean years

So whilst bringing down costs is essential, now is the time for the UK oil and gas industry to ensure that it has a focus on investment in skills and innovation in order to secure its reputation for quality that is the envy of the world.

The UK and Scottish Governments, alongside the newly formed Oil and Gas Authority should be working together with the industry to consolidate the UKCS's position as a centre of excellence for skills and capabilities.

Even now, the government and automotive industry are investing £1 billion over 10 years in the Advanced Propulsion Centre to research, develop and commercialise the technologies for the vehicles of the future and automotive companies are ring fencing R and D monies making it exempt from cost cutting

Look also at the UK Aerospace Industry

The UK led the world in aviation after the Second World War but was quickly overtaken by the US

The last commercial airliner fully built in the UK was the BAE 146, launched in 1981

But the UK still boasts the world's second largest aerospace sector.

In 2014, UK aerospace revenue was £27.8 billion, with 91% of demand coming from exports The aerospace sector in the UK has grown by an average of 7% each year since 2008, bucking the trend of the global recession and now provides 109,000 direct jobs and supports 120,000 indirect jobs

Although the UK no longer builds complete passenger aircraft, what it has done is retain the skills and capabilities to design and manufacture almost all of the key components: from fuel systems and landing gear, through to wings, fuselages, flight control surfaces, nacelles and jet engines

Over a quarter of the parts and components of Boeing's 787 "Dreamliner" comes from UK manufacturers, including Eaton (fuel subsystem pumps), Messier-Bugatti-Dowty (landing gear) and Rolls-Royce (engines)

BAE Systems makes large sections of the Typhoon Eurofighter at its sub-assembly plant in Salmesbury and is a principal subcontractor on the F35 Joint Strike Fighter – the world's largest single defence project – for which it designs and manufactures a range of components

The UK is well placed to benefit from anticipated high demand for commercial aircraft into the future - and as an industry it is 'future-proofing' itself, establishing itself as a major centre for the development of Unmanned Aircraft Systems (drones)

The UK aerospace industry is supported by a widespread research base, with specialist facilities at Bristol University, Institute for Aerospace Technology at Nottingham University, the University of Cambridge and the Department for Aerospace Engineering and Aerospace Technology Institute at the University of Cranfield

The UK Government is planning to have a £40 billion **space economy** by 2030 and it is well on track - By 2012/13, the **space sector** was worth £11.8 billion to the UK economy, growing by 8.6% per year since 2008 and now employing over 37,000 people

So what are the KEY LESSONS from the aerospace sector?

- Focus on a niche, not everything
- Follow profitability – manufacturing high end aircraft components is more profitable than assembling aircraft
- Focus on development and R&D and nurture strategic partnerships
- Moving from aviation to space..... an underlying message to perhaps move from oil to the wider energy agenda?

Away from engineering, we all know the success of the UK whiskey industry, which generates £4bn of exports a year. The UK's gin industry can be somewhat overlooked. But it is another industry with a long history that has seen a rejuvenation in recent years.

The UK is now the biggest exporter of gin in the world – 70% of gin is produced in Scotland and two thirds of the gin distilled in the UK goes overseas, with exports rising by 37% in the last 5 years, with sales to 139 countries to the value of £1.76bn.

The success of the gin industry alongside the established whiskey industry shows that products from the same sector do not necessarily have to be rivals, but can complement each other in securing the UK's reputation for excellence in the spirits sector.

The UK oil and gas industry must take a similar approach and see how its supply chain skills can be transferred to other emerging energy sectors.

Let me just say a final few words about international markets and education. Just as important as the ability to develop new technologies or partner with technology companies, is having the ambition to take advantage of opportunities in new emerging markets. The UK can sometimes be slow, compared to our international competitors, in engaging in international trade – particularly smaller companies

Our world class supply chain cannot afford to be slow out the gates - The UK should be taking advantage of the new commercial activities that will arise from the lifting of international sanctions in Iran for instance.

Aberdeen & Grampian Chamber in partnership with the British-Iranian Chamber of Commerce is organising an oil and gas focused trade mission to Tehran, Iran later this year. Iran holds the world's second largest gas reserves and fourth largest crude oil reserves.

According to the 2015 BP Statistical Review of World Energy, Iran has proven oil reserves of 158 billion barrels, equivalent to more than 150 years of production at the rate of extraction recorded in 2014.

The investment priorities in the oil and gas industry there include enhanced oil recovery projects and the construction of liquefied natural gas (LNG) export facilities.

Iranian businesses are keen to tap into our country's expertise, built up over the past 50 years in the oil and gas industry. Doing business in Iran is not a short term project. Things take time – government capacity, procurement process, intermediaries.

You need to invest time and effort in Iran, but international companies are there and winning substantial business.

And looking further afield, there are current opportunities in Mexico, the US, Canada, Brazil and other basins across the world that will benefit from the expertise developed over decades in the UKCS.

And in terms of education, you know, Aberdeen is already a global Centre of Excellence for the oil and gas industry.

[Robert Gordon University's Oil and Gas Institute](#) is home to a number of academic/business centres of excellence, covering drilling and well excellence, operations excellence, subsea excellence, decommissioning excellence etc

The Aberdeen City Region Deal proposes investment in a series of innovation hubs that aim to attract and retain key skills and expertise in the region. There will also be a new investment in an Oil and Gas Technology Centre. .

Those investments help to consolidate the region's global reputation as a hub for the oil and gas industry – But the industry can't just sit back and wait for the world to come here, we have to go to the world and invite them here.

We don't need to BECOME a Centre of Excellence, we need to MAINTAIN our position as a Centre of Excellence. That means executing a clear business strategy - creating partnerships between education and technology companies to open up interest from new 'paying audiences' and marketplaces and marketing that capability and product with a clear strategic plan and focus.

The glass is still half full you know. Whilst the UK oil and gas industry faces some difficult challenges – they have faced them before and they will face them again. We cannot influence the oil price, but we can control the drive for sustainable efficiency, we can improve the diversification of our supply chain and we can improve the performance of our exports.

The future is in the hands of the industry, but we do not have the luxury of time or complacency to take our time in grabbing it. The great city of Aberdeen can secure itself as the energy capital of Europe if not the world for decades to come – but we must all work together and the industry must have ambition to ensure that bright future becomes a reality. Thank you.