

COMMERCIAL BANKING



# Bank of Scotland Research Series – Oil & Gas

Home and Abroad



# Growth ambitions

**The UK's oil and gas sector is keeping its sights firmly set on international expansion – without ever taking an eye off rapidly emerging domestic opportunities.**

The latest Bank of Scotland survey of more than 100 oil and gas companies demonstrates that firms clearly know what they want to achieve from overseas growth.

What's more, they won't hesitate to pursue appropriate opportunities wherever they arise.

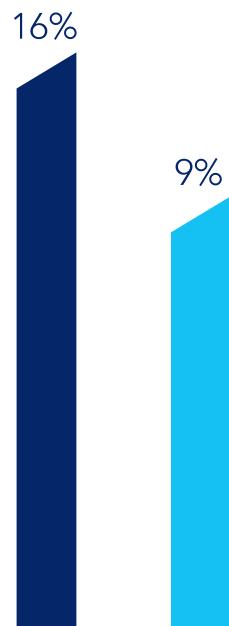
But the survey also shows that opportunities here in the UK now have an even greater appeal.

Rather than just venture overseas for growth, companies are increasingly looking to also exploit opportunities that exist specifically in the North Sea.

Indeed, a third (33%) of large firms (turnovers of more than £750m) said they will increase exposure to the UK Continental Shelf (UKCS), up from just 5% last year.

**Firms that plan to reduce their exposure to the UK Continental Shelf (all firms)**

2016    █  
2017    █



## Overseas potential

**Currently, seven out of ten companies (70%) believe that the business climate presents opportunities for international growth.**

The types of overseas opportunities being eyed by companies range from new contracts (46%) to exporting opportunities (33%) and diversification (33%), to acquisitions (23%) and investment in new technology (15%).

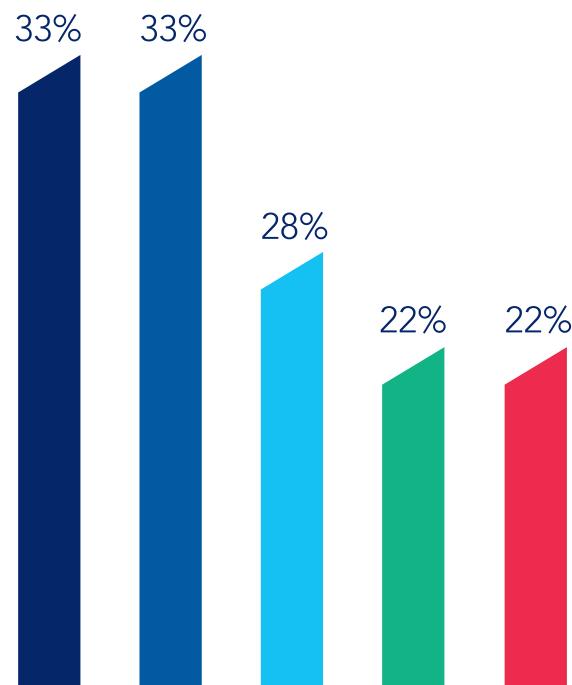
Among the larger oil and gas companies surveyed, there is greatest interest in securing new contracts (78%) and investment in research and development projects (67%).

The main types of overseas contract that have been won recently by UK oil and gas companies include logistics (56%), equipment supply (44%), supply chain (44%) and construction contracts (44%).

Larger oil and gas companies are currently most interested in expanding in South America (up from 22% to 33%), likely driven by the fact that 40 new offshore developments are planned to start in Brazil by 2025<sup>1</sup>, and the rapid development of the Vaca Muerta shale play in Argentina.

In the Gulf of Mexico, where reforms by the Mexican government have opened up exploration and production to foreign firms, large company expansion intentions have also increased, from 17% last year to 22% this year.

1 Oil & Gas Technology: Brazil continues to lead the world, November 2016



**Large firms' top five markets for expansion in the next 12 - 24 months**

South America    █  
Middle East    █  
Australasia    █  
West Africa    █  
Gulf of Mexico    █

# Domestic growth

**In addition to overseas opportunities, companies are still targeting growth here in the UK.**

Over half (54%) said the current business climate has presented new opportunities in the UK, with the research pointing to an industry looking to exploit the remaining reserves and resources to still be found in the North Sea.

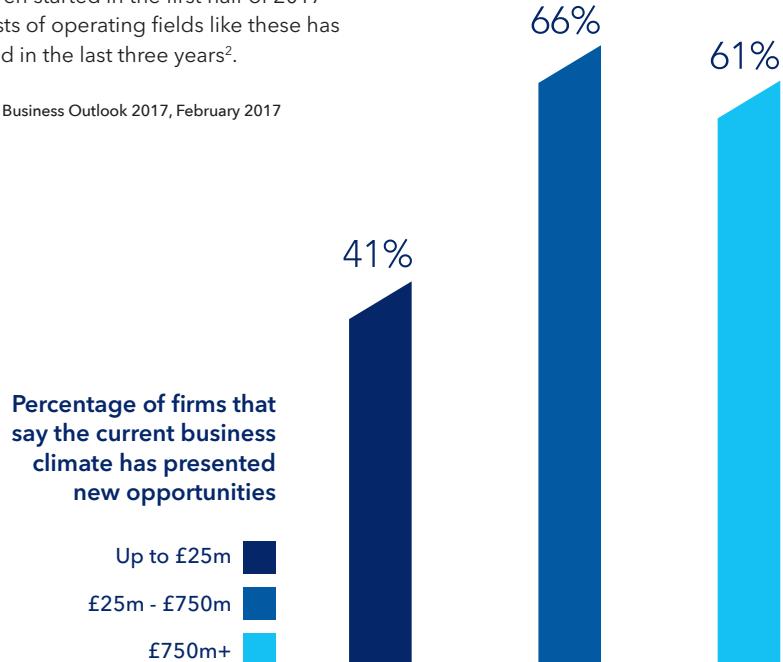
Indeed, nine out of ten (91%) companies surveyed intend to maintain or increase exposure to the UKCS in the next year.

The majority of those surveyed said they expected to either maintain (69%) or increase (22%) their exposure to the UKCS, up from the 84% that planned to maintain (63%) or increase (21%) their exposure to UKCS in 2016.

And all the indicators are that companies targeting domestic growth could prove highly successful.

Nine new fields began production in 2016 and a further seven started in the first half of 2017<sup>2</sup> - and the costs of operating fields like these has nearly halved in the last three years<sup>2</sup>.

2 Oil & Gas UK: Business Outlook 2017, February 2017



## Striking a balance

**The general picture is of an industry getting back to what it knows best - scrutinising opportunities for overseas growth while simultaneously exploiting the oil and gas reserves of the North Sea.**

On the one hand, there's rising interest in South America, the Gulf of Mexico and West Africa in line with increased development activity levels there.

On the other, major developments on the UKCS have also whetted appetites for increased domestic activity.

Indeed, the billion barrel oil find in the Greater Lancaster Area - 60 miles west of Shetland - in spring 2017 was the largest discovery on the UKCS this century<sup>3</sup>, with an early production system scheduled to start in 2019.

It all adds up to a significant improvement on the bleak wintery outlook of three years ago.

3 Financial Times: Hurricane Energy makes oil discovery west of Shetland Islands, March 2017



believe actions to reduce costs and improve efficiency will help stimulate activity in the UKCS



believe it will require ongoing investment to secure the long-term future of the UKCS

# The Support You Need

Our teams have the experience and know-how to help make your growth plans a reality. We're proud to work closely with some of the leading businesses in the sector and can provide a range of solutions for your business.

For more information, get in touch with us



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**Methodology:**

Field research for this report was undertaken in April and May 2017 by Coleman Parkes Research. To gather representative data, a cross section of 105 oil and gas businesses were interviewed. Companies ranged in size, from less than £25m, to between £25m and £750m, and more than £750m annual turnover.

**References:**

- 1 - Oil & Gas Technology: Brazil continues to lead the world, November 2016
- 2 - Oil & Gas UK: Business Outlook 2017, February 2017
- 3 - Financial Times: Hurricane Energy makes oil discovery west of Shetland Islands, March 2017