EXECUTIVE SUMMARY

In a year defined by Brexit and the energy transition, which follows one of the most protracted downturns in the oil and gas sector, the subsea industry has turned a corner.

The total value of UK subsea output in the 2019 fiscal year has increased to almost £7.8billion from £7.5billion in 2017.

While employment figures remain fairly static, rising from 45,033 in 2017 to 45,163 in 2019, the forecasts for recruitment in the next 12 months are much more promising. Almost 80% of companies anticipate recruiting in the future, with forecasts suggesting employment in the industry could rise to over 54,000 by 2022.

From 2003, when the first Subsea UK business activity review was conducted, the subsea industry grew year on year, reaching a peak output of just under £9billion in 2013 which supported 53,000 jobs. The sharp decline, reported in 2017, was a direct result of the collapse in oil price which led to the deferral or cancellation of major projects around the world by the E&P companies.

The findings in this report reveal that this decline has been arrested with a clear upturn in activity, largely due to an increase in output from subsea SMEs and more activity in renewables, particularly offshore wind.

The growth projections provided by both the Tier 1 companies and SMEs reveal much greater optimism, due to both the recovery in oil and gas and the opportunities presented by the energy transition.

Exports account for around 43% of the total 2019 output. This is down on the 55% reported in 2017, largely due to the aforementioned deferral of major projects in oil and gas, the subsea industry’s dominant market sector.

However, output derived from the renewable energy sector has risen to 23% of total output from £1.3billion in 2017 to £1.82billion and is expected to continue to increase to as much as 30% of total output in the next three years.

While oil and gas and renewables remain the largest markets for the UK subsea industry, revenues from other sectors, such as defence, subsea mining and marine science are on the increase and interest in these, along with the emerging aquaculture sector, is growing. These findings underline the subsea industry’s potential to capitalise on the Blue Economy and become an even more vital contributor to the UK economy.
This is the seventh comprehensive review of activity in the UK subsea industry conducted by Subsea UK. It follows previous reviews undertaken in 2003, 2005, 2007, 2010, 2013 and 2017 and covers manufacturing services, employment and exports. With the industry in flux, following the oil price collapse in 2014, a review was not conducted in 2015.

The purpose of the review is to estimate the scale of the industry in the main hubs across the UK, track its growth and gauge the approach to exports and activity in all its markets.

This Business Activity Review serves to:
• Quantify the UK subsea industry output in the fiscal year 2018/19
• Qualify the relative importance of exports and diversification to the industry
• Determine the contribution of different geographic regions to the UK’s performance
• Identify the export markets and growth trends in the industry

Each of the reports has followed the same rationale and, where possible, methodology in order to provide a like for like comparison to tell the continuing story of the development of the subsea industry.

This report has been compiled by Subsea UK’s market intelligence analysts.

ABOUT

Subsea UK, formed by government and industry in 2003, is a self-sustaining organisation which champions the sector at home and abroad. Globally recognised as the UK’s underwater industry body, representing the widest cross-section of companies and working in partnership with industry, academia, regulators and government, Subsea UK enables the delivery of world-class underwater products and services in oil & gas, offshore wind, marine renewables, ocean science, defence, subsea mining and aquaculture.

As the voice of the country’s underwater industry, Subsea UK:
• Advances company growth
• Promotes innovation and technology
• Supports international trade and exports
• Advocates skills development and fosters future talent
• Champions cross-sector opportunities and collaboration
Subsea UK’s membership, which makes up around 90% of the value of the whole subsea supply chain, provided the survey base. The sample size for the survey was 668 companies.

The turnover and exports of non-participating SMEs was estimated using averages and extrapolations of the data provided by participating SMEs.

Additional data in this review has been obtained from various public and private sources in the public domain including Scottish Enterprise (SE), Highlands and Island Enterprise (HIE), Crown Estates, OGUK, the International Marine Contractors Association (IMCA), Westwood Energy and others.

This information was used to provide a setting for this report and also to act as a basis of confirmation of findings. However, the major findings and results of this study are independent of these third parties, as they are based entirely from information provided directly by companies within the industry or information that those companies reported in their Companies House 2018/19 filings.

Total output of the UK subsea sector was calculated based on responses to the survey along with Companies House data for organisations that chose not to participate. A company’s contribution to UK output is considered to be equal to its sales directly to UK-based oil and gas operators or renewables companies plus its total subsea exports. Within-supply-chain sales to UK-based prime manufacturers or subsea contractors were discounted to eliminate double counting of sales revenues.

Using this data, the sector’s output during the most recent complete fiscal year (2019) was quantified, including the relative importance of exports and renewables to the industry, and the contribution of different geographic regions of the UK to the industry’s performance. Key export markets and growth trends were identified based on survey responses.
FINDINGS

Image courtesy of National Oceanography Centre
Based on the results of Subsea UK’s survey, supplemented by information from Companies House, the total value of UK subsea output, as represented by sales to operators plus exports is 7,761,366,166.

This total output is up by £216,055,093 from £7,545,311,073 in 2017.

Much of the output is generated by a small number of Tier 1 contractors and major manufacturers (20). The total output was calculated based on survey responses along with Companies House data for organisations who chose not to respond.

A company’s contribution to UK output is considered to be equal to its sales directly to UK-based energy companies plus total subsea exports. The total output value of the UK subsea industry cannot be calculated by simply adding the subsea related revenue from each subsea company as this would result in double-counting of products & services within the supply chain. Instead the output of the subsea industry is generated from:

- Direct sales to oil and gas operators or renewable companies domestically or abroad
- Exports to non-UK based operators, contractors and manufacturers within the subsea supply chain

**TOTAL REVENUES**

**FUTURE OUTPUT**

Respondents were also asked to provide growth projections by estimating their revenues in the next three years.

80% of Tier 1 and larger companies are projecting strong growth with 60% estimating growing revenues by between 10% and 20% and a fifth predicting growth of more than 20%.

SMEs have a similar outlook, with 74% expecting to grow in the next three years with 37% expecting to grow revenues by more than 20%.

**EXPORT REVENUES**

Using the same methodology, the value for UK exports of subsea-related goods and services totals £3,357,744,201.

This figure is down £806,208,482 from £4,163,552,683 in 2017.

This accounts for 43% of total annual output, compared to 55% in 2017.
FUTURE EXPORT REVENUES

80% of Tier 1 and larger companies are predicting growth in export revenues in the next three years, with a third expecting exports to grow by more than 20%.

Meanwhile, 71% of SMEs are forecasting growth in exports with 31% expecting to increase their export sales by more than 20%.
RENEWABLES REVENUES

Respondents were asked to provide their total revenues which relate to activities in renewable energy.

Total revenues from renewables have risen by over half a billion from £1,304,931,264 in 2017 to £1,823,769,348. The bulk of this increase relates to output from activity in offshore wind.

This total reveals a dramatic increase from the £770 million reported in 2013 and demonstrates continued growth in the sector.

FUTURE RENEWABLES REVENUES

80% of Tier 1 and larger companies are predicting growth in their revenues from the renewable energy sector, with half of the companies expecting a growth of between 1% and 10% and a fifth of them predicting to grow their revenues from renewables by 20% or more.

Almost 70% of SMEs expect to grow their revenues in renewables with over a fifth anticipating growth in this sector or more than 20%.
A total of 668 companies were identified throughout the UK as directly providing subsea-related goods and services. Although 63% of these are located in the North-east of Scotland, significant numbers are distributed throughout the country, with the South-west of England and North-east of England the largest hubs outwith Aberdeen and Aberdeenshire.

While some respondents offer a range of services, their core business activities can be broken down into the disciplines shown below.

Manufacturing continues to play a large role in UK subsea activity. Over 50% of subsea companies specialise in manufacturing and engineering (manufacturing alone accounts for 23%). This is closely followed by services.
EMPLOYMENT

From the survey results and interviews with industry, the estimated total number of employees in the sector is 45,163.

While employment figures remain fairly static with only around 130 more than in 2017, the forecasts for recruitment are much more positive. 78% of respondents expect to recruit in the next 12 months with 75% expecting to create 8,928 jobs in the next three years.

These forecasts suggest that employment in the sector could rise to 54,091 by 2022, which compares favourably with the peak employment figure of 53,000 reported in 2013.

The 2019 figures have been broken down as follows:

- 13,207 employed as Tier 1 staff
- 2,026 employed as Tier 1 contractors
- 23,782 employed as SME staff
- 6,148 employed as SME contractors

EXPORT MARKETS

 Respondents were asked to provide their current and future export markets.

The largest current export markets for Tier 1 companies are West and North Africa, followed closely by Scandinavia then South America and Australasia.
Current export markets for SMEs meanwhile are Scandinavia and South-east Asia, closely followed by West Africa.

These regions are forecast to remain priorities but more focus by SMEs will be placed on opportunities in the Middle-east and South America.

For the first time, respondents were asked to provide the sectors in which they had the most interest in for the future. While oil and gas remains of most interest in the short-to-medium term, renewables have increased in interest, particularly in offshore wind, with more and more companies branching out into renewables as the industry increasingly prioritises energy transition.
The last five years have taken their toll on those subsea companies predominantly operating in oil and gas. But the findings in this business activity review reveal that the UK subsea industry has weathered the storm and, despite the downturn in its largest market, is still the world-leader with around 37% of a global market estimated to be around £21billion annually (Westwood Energy).

The oil and gas market volatility has made the supply chain more efficient and companies are reshaping to meet the needs of a different energy market. These recalibrated, rejuvenated and more efficient companies are now the new norm and are well placed to operate on a global stage across multiple underwater markets.

The Blue Economy presents an enormous opportunity for the UK’s subsea industry which has the proven technical excellence, the skilled workforce and the ambition to drive operational developments across all aspects of offshore energy, aquaculture, defence, subsea mining and marine science.

The upturn in oil and gas will lead to renewed interest and investment in large subsea developments around the world, which will provide export growth potential for UK businesses. Indeed, the increase in optimism revealed by the growth projections in this review are already supporting this.

There has always been an international appetite for British underwater engineering expertise, with regions such as West Africa, Scandinavia, the Gulf of Mexico, South America and South-east Asia tapping into UK know-how and technology. However, the findings show that other regions are attracting interest from subsea companies.

India, China and Myanmar are just three examples of regions beginning to develop large-scale subsea projects which UK companies can explore and exploit. Changes are afoot in the Middle East where the industry is moving towards ‘subsea to shore’ developments, with a multitude of R&D projects and investment on which UK subsea companies can capitalise.

The drive towards net-zero, is also presenting exciting opportunities to develop solutions that accelerate the energy transition. With the largest offshore wind market in the world right on our doorstep, the UK subsea industry must do more to capture the underwater aspects of these developments and use them to showcase our technical excellence to the rest of the world.

As the emphasis on the energy transition continues and the industry sharpens its focus on achieving net-zero targets, there will be huge potential for the transfer of offshore oil and gas subsea expertise to carbon capture and storage, hydrogen and wave and tidal.

Our oil and gas heritage serves us well as we move into unchartered waters where further exploration of emerging markets requires alternative action and lateral thinking. With a new narrative and new ways of applying our energy expertise, we will capitalise on the rich resources from our oceans. Our undoubted ingenuity will be a key enabler of the Blue Economy.

CONCLUSION

The conclusions contained in this report are the results of the exercise of Subsea UK’s best professional judgment, based on publicly available information and confidential materials provided to us by third parties. Use of this report by any third party for whatever purpose should not, and does not, absolve such third party from using due diligence in verifying the report’s contents.

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Like the majority of the work the UK underwater engineering industry carries out, its contribution to the economy has been largely hidden from view nationally.

The findings in this Business Activity Review however underline the resilience of the subsea industry. its scale and high-growth, high-value potential of underwater engineering and technology across diverse sectors.

Ensuring that the UK remains the global centre of expertise in this space and turns the natural resources from our oceans into sustainable economic opportunities must be a key priority.

This is one of the reasons Subsea UK is working with government and other stakeholders to explore how the industry can be further supported to maintain and increase its global marketshare.

Subsea UK’s manifesto centres around support for the transfer of subsea expertise from energy, defence and oceanology into emerging markets, facilitating more concerted activities between Government, industry, education and academia to ensure a sustainable pipeline of talent into the sector. Further collaboration and co-ordination between agencies in pursuit of internationalisation and exports is key, helping secure co-ordination between agencies in pursuit of internationalisation and exports, and ensuring sustained, strategic investment in a national subsea research and development programme.

With the right support and infrastructure, these ambitions can be realised; creating and expanding new avenues and opportunities that result in a stronger supply chain, greater exports and diversification. This activity, in turn, delivers additional value to UK PLC and creates high-paid, sustainable employment.

With an unrivalled 40-year track-record, the subsea industry has the willingness and ability to exploit the Blue Economy. We have an excellent education and training network in underwater engineering, a world-class research, development and innovation community and a highly skilled mobile workforce.

Building on these strengths, we can deliver much greater collaboration between the sectors in which we operate and between the research institutions across the country, to deliver a single export strategy and route to the commercialisation of new technologies with clarity on how funding, support and government agencies work together.

Recognising that not all underwater activity resides in the North-east of Scotland, there needs to be greater connectivity and recognition of the importance of the regional capabilities, such as manufacturing in North-east England and maritime expertise in the South of England.

British subsea companies understand the demand and the opportunities. They have what is required to commercialise and export the technology, creating the jobs and wealth for our country. This, in turn, will ensure the UK is at the forefront of the global Blue Economy that will provide sustainable opportunities, while helping fight climate change.