Aberdeen struggles to return to glory days of oil

Decline of North Sea industry after 2014 slump has triggered a downturn, with many blaming policies on tax and exploration licences

SIMEON KERR — ABERDEEN

In the early 1990s, one ATM on Aberdeen's grand thoroughfare Union Street boasted the highest value of withdrawals in Europe.

The rollout of innovative offshore technologies following the 1975 energy crisis had attracted leading producers to the "oil capital of Europe", bringing high salaries, soaring property prices and conspicuous consumption.

But Scotland's third-largest city — unlike other fossil fuel hubs — has struggled to recover from the global oil slump of 2014, when prices plummeted 75 per cent over two years to $27 a barrel.

In the decade since, prices have averaged more than $65 a barrel, fuelling renewed growth in boomtowns from Dubai to Houston, which have benefited from revived oil and gas activity.

As the government considers its future energy policy this autumn, Aberdeen's glory days remain in the past.

"They [governments] have made it a difficult place to sanction investment — and Aberdeen has seen the consequences," said businessman Bob Keiller, former chief executive of energy multinational Wood Group who started out in oil and gas in 1986.

A few years ago, rows of empty shops on the denuded Union Street reflected the city's wider decline, with a quarter of its 200-odd units empty. Keiller has since been working to encourage businesses to relocate to the granite-clad city centre, bringing vacancies down from 48 to 23.

Weakness in the historic fossil fuel sector is cascading through Scotland's wider north-east economy, where one in six workers is in offshore energy — two-thirds of them in oil and gas.

Aberdeen has lost about 18,000 jobs, or 10 per cent of the workforce, since 2010, largely due to the decline in the local oil and gas industry, according to EY. Industry fears for the city's future elicit condemnation of the government's plans to end new exploratory drilling in the North Sea.

Cutting the "windfall" levy on energy profits and raising investment allowances would allow half of the UK's oil and gas needs by 2050 to be sourced domestically, oil lobbyists argue, up from forecasts of less than a third.

Climate activists counter that chasing the final barrels of fossil fuels from the mature North Sea basin would hamper efforts to meet legally enshrined environmental targets.

"Aberdeen is at the centre of our clean energy mission," said the Department for Energy Security and Net Zero. "We are delivering a fair and prosperous transition in the North Sea."

While many Aberdeen executives applaud the "drill, Scotland, drill" mantra espoused by US President Donald Trump, they decry his opposition to wind farms. A premature end to oil and gas extraction would hollow out the domestic supply chain needed for offshore wind, they claim.

With Scotland's offshore workforce forecast to fall from 75,000 last year to between 45,000 and 63,000 in the early 2030s, the country needs to "capture a significant share of future renewables activities," according to a recent report by Robert Gordon University.

The renewables sector in Scotland, which faces challenges such as slow consents and higher transmission costs, may fail to create enough employment to replace lost fossil fuel jobs, it warned.

One company at the forefront of the transition is Aberdeen-based North Star. In the past five years, the ship operator has gone from having all of its chartering commitments with the fossil fuel sector, to 70 per cent in renewables, said chief executive Gitte Gard Talmo.

When Talmo, a Norwegian, moved to Scotland last year, she assumed competition for offshore wind business would be "crowded" while the oil and gas industry would be doing "very well". Norway, which generates most of its electricity from hydropower, continues to drill for fossil fuels in the North Sea as it expands its renewables sector.

"Actually, it turned out to be the other way around, due to policy weakening the outlook for the main [oil] operators in Aberdeen," she said.

The region, which used to top business sentiment surveys, has slipped down, said Russell Borthwick of the Aberdeen and Grampian Chamber of Commerce. "We are now rock bottom on almost every measure," said Borthwick. "The hand that has fed them for 50 years has stopped feeding."

Aberdeen's faltering economy is illustrated by the "to-let" signs visible on Victorian mansions across the West End, where grand former corporate offices are being renovated into homes.

Rivalling London in its 1990s pomp, the city's property market has long been correlated to oil prices. Although Aberdeen's property market recovered faster than other cities following the global financial crisis, it has struggled over the past decade, noted Chris Comfort, partner at Aberdein Considine.

Upstream woes: as the government considers its future energy policy this autumn, Aberdeen is feeling the squeeze Jeremy Sutton-Hibbert

"The delay in investment in renewables is leading to a number of skilled workers moving away," he said.

Nick Dalgarno, of investment bank Piper Sandler, said the trend of staff moving to markets with more favourable tax regimes, especially the oil-rich Gulf, was "most worrying".

Some companies, such as UK-listed Hunting, have been public about plans to grow in the Gulf, while others are quietly expanding their Middle East footprint. Wood Group has received a takeover offer from Dubai-based Sidara.

"High earners are moving out — that's not only damaging for Aberdeen, but the UK more broadly," Dalgarno said. "The exodus could be slowed, but lots needs to be done."

One such worker is Gavin, who had worked in the North Sea subsea sector for 25 years before he decided to "jump ship" last year. He joined a maritime firm in Qatar, where five of the 40 staff come from the Aberdeen area. "Oil and gas aren't dirty words here, like in the UK," said the 52-year-old engineer. "I don't see any incentive to come home."

Labour goal

Lower affordable homes target studied to spur London building

JULIE STEINBERG AND JIM PICKARD

The Greater London Authority is drawing up plans to lower the proportion of affordable homes developers must provide when trying to fast-track planning, in a bid to spur housebuilding in the capital.

Developers that want to speed up their proposals must generally allocate 35 per cent of a scheme to affordable housing as part of an agreement with their local authority. The GLA has been discussing lowering that threshold, people familiar with the plans said, to quicken the sclerotic pace of housebuilding in the city, which was an important plank of Labour's election manifesto.

London mayor Sir Sadiq Khan has been under pressure from the government to boost housebuilding. Last week he met Steve Reed, the secretary of state for housing, communities and local government, to discuss the matter, according to a social media post by the mayor.

The government wants to deliver 88,000 homes a year in London, part of its pledge to deliver 1.5mn houses this parliament. But only 3,950 were completed in the first half of the year, according to research group Molior.

Developers have complained the 35 per cent target renders schemes unviable. It is unclear what target is being considered but the industry has pressed for between 10 and 15 per cent, say people familiar with the matter.

An ally of Khan said: "The GLA continues to work closely with ministers to accelerate housing delivery in the capital." Reed declined to comment.

The lower threshold would be a "welcome step", said Steve Turner, executive director of the Home Builders Federation, which represents commercial housebuilders responsible for 80 per cent of new homes in England and Wales. "Clearly any reduction will improve viability on a number of sites."

But he cautioned that "it needs to be part of a broader suite of moves to get housing moving in the capital", including solving application delays at the Building Safety Regulator.

Some developers warn that a figure above 15 per cent would still leave them unable to proceed with a scheme and would fail to produce the type of housing growth the government wants.

The number of new homes given planning approval in England in the first three months of this year was the lowest for 13 years.

Separately, ministers named three sites yesterday where they hoped construction would begin on new towns during this parliament as part of a wider attempt to boost housebuilding. The housing secretary said the first of the new conurbations would be at Tempsford in Bedfordshire, Leeds South Bank and Crews Hill in north London. Reed said he wanted to "take forward work" in all 12 locations as soon as possible.