EXPRO

Taking the appropriate action to ensure a positive future

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A year into the current oil price-related cycle, that has seen Brent crude fall sharply from $115bbl in June 2014 to $45 in January 2015, and the outlook arguably still appears to be a 'moveable feast'. Ask different representatives from across the industry and you will find a range of remedies, fixes and paths forward primarily concerning cost efficiencies.

Although there has been a modest levelling off on oil price in recent months, the International Energy Agency's July 2015 Oil Market Report warns that oil prices may have further still to fall due to a number of factors including oversupply.

These conditions have led to a reduction in investment in E&A activity, with the North Sea sector subject to significant pressure – reminiscent of previous economic conditions seen in the 1970s, 80s and through to the early 2000s.

Therefore, as the sector yet again goes through a series of review processes focusing on short-term cost issues, we must be mindful of the risk of repeating history and ask the question; haven't we been here before?

Survival instincts

Sheer survival instincts can lead us to focus purely on the clear and present danger to the detriment and expense of the longer-term view.

We work in a fast-paced environment with a culture of immediacy, and although this can work to our advantage when it comes to delivering projects and technology on time and to budget, we must continue to build a long-term viewpoint into our strategy, even when facing challenging market conditions.

It is of course difficult to break behaviours when they have succeeded in a different economic climate - it seems easier to sit back and wait for times to change and continue operating with the same high oil price behaviours, despite a new set of conditions.

Most operators and service companies have a rich heritage in the North Sea whether UKCS, NCS or SNS, and have continued to operate in various boom and bust periods over 50+ years.

Expro's footprint in the region is far-reaching. It was in Great Yarmouth, UK, that the company started in 1973, and has now grown to over 1,100 employees across its Europe CIS (Commonwealth of Independent States) region with bases in Reading, Ringwood, Stirling, Great Yarmouth, Den Helder, Stavanger, Haugesund, Bergen Moscow, Aksai, Almaty, Aktau and a regional HQ in Aberdeen. Our commitment to the region continues with our significant investment in new facilities in Azerbaijan and Norway.

Our people

At the heart of the oil and gas industry is its people, and in tough economic times, recruitment and development budgets run the risk of being slashed. This can lead to a short-term skills shortage and when the oil price recovers, we see increased salary costs as we all compete for a smaller skillset.

Regardless of market conditions, recruitment and training in the industry is always a hot topic. For example, this year's SPE Offshore Europe theme, 'inspiring the next generation' was an important topic for discussion even before the oil price fell last summer. Now, the topic seems even more relevant – to secure our future, the industry needs a flow of skilled, committed people with fresh ideas.

In a recent study commissioned by Oil & Gas UK, skills, learning and workforce development body OPITO, and the Department for Business, Innovation & Skills, the oil and gas sector was found to employ one in 80 of the UK's entire workforce and while total employment in the North Sea was expected to fall over the next five years, there would still be opportunities for 12,000 new entrants. *('Fuelling the next generation: A study of the UK upstream oil and gas workforce', Ernst & Young, Dec 2014)*

Cost and efficiency

In many other industries, for example media, technology or automotive, the digital revolution has resulted in a leaner, quicker and cheaper way of doing things – whether manufacturing or operating.

However, in recent years, the oil and gas industry's costs have soared. In fact, the report (mentioned above) also noted the costs of the sector, with the UKCS as 'among the most expensive offshore basins globally'.

Recent respected industry studies, supported by the industry, suggest costs have been driven in the main by inefficiencies and over-complexity, and in part, by unit cost inflation. Yet, in this cycle, unit cost is the first place we look to for solutions.

The UKCS, for example, is generating negative cash-flow for the first time since the mid-1970s with operating costs spiralling. It is a similar story in Norway, where the NCS accounts for 25% of government revenues and faces similar challenges in terms of oil production and associated costs. *(Pearson, J., Thorvaldsen, K., Maximising Economic Recovery in the UK – The next 40 years, Oil & Gas UK, June 2015)*

Historically, we have seen operators focus on driving the supply chain cost down – the emphasis on unit price alone driving behaviours throughout the chain which in turn, add little value to the end user stifling potential creativity.

We also work our assets and people harder to maintain activity. Again, evidence from the not-so-distant past suggests that this can only provide us with incremental results. When business picks up, the motivation to maintain focus on cost efficiencies can often subside and a 'back to normal' approach prevails.

Whilst there is no doubt that cost reduction and efficiencies are important as short-term fixes, we must work to adopt sustainable systematic change. The oil and gas industry has shown over the past 50+ years that it is adaptable to environmental and operating changes from working in deepwater, with high pressures and temperatures, to harsh arctic and desert conditions. Therefore, why can't this flexible attitude be applied when it comes to business practices?

Collaborate and transform

The need for urgent collaboration in the oil and gas industry is great. This requires regulatory bodies, operators and service companies to behave in a different way. In some cases, this may mean transforming organisations to be able to deal with significant shifts in the way we go about our business.

Organisations can be adverse to change simply by design – but I believe we must work hard to look at the bigger picture if the members of this industry are to survive and more importantly, evolve the North Sea operational model.

This sentiment was underlined in February 2014 by Sir Ian Wood in the UKCS Maximising Recovery Review Final Report. Set out as a key issue, the report noted the lack of collaboration and overzealous legal and commercial behaviour between operators and associated organisations. The report made a clear connection between low co-operation and increased costs and delays, leading to low recovery developments and assets.

Truly transformational change would include co-operation in purchasing and supply chain, standardisation across regions and focusing on the investment required to impact change and bring about progressive business practices.

For me, this needs to stem from effective leadership and management teams that recognise a change in behaviour is needed. We need to reach out to our workforce and tap into their knowledge and expertise at the front line.

We must use our strengths and work towards reducing cycle time from the identification of possible areas of value, to realising revenue. We can do this by more collaborative and open planning, developing and investing in technology and multi-skilling our crews.

Operators and service companies must ask, what do our customers think? What about our business partners and the wider supply chain? Do we truly understand the world around us? What can we learn from other industries?

Perhaps as an industry, it can be said we have become overly risk averse, and must re-examine how we accept and effectively manage greater risks. This does not mean creating unsafe conditions in the field, but could mean developing better operational models to deal with this potential.

Evolution or revolution

The story of the North Sea is far from over – according to The Wood Review (referenced earlier) there is an undisputed 40 years of life left in the UKCS, and between the Goliat, Ekofisk and Sverdrup projects, 50 years minimum in Norway. The future is indeed bright and we need optimism for the sector to succeed.

Simply reigning in spend alone will not necessarily result in the transformation needed to foster long-term success. Essentially, there is growing belief that a change in mind-set and business model is required for real change.

This industry does not need to be brought to its knees like predecessors in the automotive, fishing or shipbuilding arenas – we can effect change and work together progressively to put in place the processes and change in behaviours required for success.

Most importantly, we must be bold enough to ask the questions, listen to the answers and take the appropriate action to ensure we are fit to best survive today and in to the future.

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Author bio:
Neil joined Expro in 1986 as a field technician, and has worked in a range of operational, support, management and leadership roles in the UK, US and further afield. Neil was appointed UK Area Manager in 2010, before becoming Vice President of Europe CIS, Expro's largest operating region, last year. He is actively involved in a number of industry/government groups, including BIS and Oil & Gas UK.