CONF-9408229--8

NO9505149

NEI-NO--501

B2

OFFSHORE NORTHERN SEAS

11TH INTERNATIONAL CONFERENCE AND EXHIBITION

Stavanger, NORWAY

23 - 26 August, 1994

'NEW APPROACHES TO COST REDUCTION ON THE UK CONTINENTAL SHELF'

M. I. Curtis

General Manager
Development & Facilities Engineering
BP Exploration Europe

MASTER

RB -

GOOD AFTERNOON MR CHAIRMAN, LADIES AND GENTLEMEN.

I'D LIKE TO CONGRATULATE THE ORGANISING COMMITTEE FOR THEIR FORESIGHT IN THE CHOICE OF THE THEME FOR THIS YEARS CONFERENCE - 'A CHANGING WORLD - A CHANGING INDUSTRY'.

THAT WE LIVE IN A RAPIDLY CHANGING WORLD IS UNDENIABLE BUT, AS ALWAYS, CHANGE BRINGS WITH IT NEW OPPORTUNITIES. FUTURE SUCCESS WILL GO TO THOSE WHO FIND THE WAYS AND MEANS TO ACCESS AND EXPLOIT THESE OPPORTUNITIES. THIS IS A QUEST THAT WE IN BP HAVE BEEN ENGAGED IN FOR THE PAST FOUR YEARS AND I'M DELIGHTED THAT WE HAVE BEEN INVITED HERE TO SHARE OUR EXPERIENCES AND LEARNING WITH YOU. INDEED WE SEE THAT LEARNING AND SHARING IS A KEY LEVER IN CREATING A SUCCESSFUL FUTURE FOR OURSELVES AND THE INDUSTRY AS A WHOLE.

LET ME SAY AT THE OUTSET THAT WHILST MY ADDRESS WILL FOCUS LARGELY ON THE UKCS, OUR VIEW IS THAT THE INITIATIVES WE HAVE INSTIGATED AND THOSE YET TO BE DEVELOPED

HAVE A UNIVERSAL APPLICATION. THE PRINCIPLES THEY EMBODY ARE EQUALLY RELEVANT TO THE NORWEGIAN SECTOR AND OTHER OIL PROVINCES AROUND THE GLOBE AND, INDEED, TO INDUSTRY IN GENERAL.

THE NORTH SEA IS NOW A MATURE PROVINCE WITH MOST OF THE LARGE FIELDS ALREADY DISCOVERED AND DEVELOPED. HOWEVER THAT DOES NOT MEAN THAT THERE ARE NO FURTHER SIGNIFICANT BUSINESS OPPORTUNITIES IN THE AREA. ON THE CONTRARY, SOME 230 UNDEVELOPED UKCS DISCOVERIES ARE CURRENTLY LISTED IN THE UK GOVERNMENT'S DTI BROWN BOOK AND OF COURSE WE NOW HAVE EVIDENCE TO SUGGEST THAT THE WEST OF SHETLAND HAS THE POTENTIAL TO CONTAIN SIGNIFICANT DEPOSITS.

AND EVEN THOUGH THE MAJORITY OF THE UNDEVELOPED DISCOVERIES ARE UNDENIABLY MUCH SMALLER ON AVERAGE THAN THOSE DEVELOPED TO DATE - LESS THAN 50 MMBOE RECOVERABLE RESERVES EACH - WE IN BP FIRMLY BELIEVE THAT THIS BANK OF DISCOVERIES TOGETHER WITH THOSE YET TO BE FOUND CAN PROVIDES A BASIS FOR A BRIGHT FUTURE NOT JUST FOR OPERATORS SUCH AS OURSELVES, BUT ALSO FOR OUR CONTRACTORS

AND SUPPLIERS. AT THE SAME TIME THIS WILL ALLOW THE INDUSTRY TO CONTINUE MAKING A VALUABLE CONTRIBUTION TO THE ECONOMIC HEALTH OF THE HOST NATION.

MOREOVER, WE ALSO BELIEVE THAT THE KEYS THAT WILL UNLOCK THE ECONOMIC POTENTIAL OF THESE SMALLER FIELDS WILL BE EQUALLY VALID IN SIGNIFICANTLY ENHANCING THE ECONOMIC VALUE OF THE LARGEST FIELDS YET TO BE DEVELOPED.

WE MUST ALL, HOWEVER, FACE THE FACT THAT DELIVERING THIS FUTURE REQUIRES THAT WE HAVE AN INDUSTRY THAT IS INTERNATIONALLY COMPETITIVE IN ALL OF ITS ASPECTS - SKILLS, TECHNOLOGY, WORKING PRACTICES AND TRACK RECORD - AND CAPABLE OF PROVIDING DEVELOPMENTS AT SIGNIFICANTLY LOWER COSTS THAN ARE PREVALENT TODAY.

THE INDIGENOUS NORTH SEA INDUSTRY CANNOT TODAY CLAIM THAT IT IS IN THAT STATE. WE BELIEVE THAT IT CAN ACHIEVE WORLD CLASS STATUS. INDEED, IN THE UK SOME IMPORTANT PRACTICAL STEPS IN THIS DIRECTION HAVE ALREADY BEEN TAKEN AND WHILST THESE ARE WELCOME, IT REMAINS TRUE THAT THE PACE AND SCALE OF CHANGE NEEDS

TO BE ACCELERATED IF SURVIVAL AND FUTURE SUCCESS IS TO BE GUARANTEED.

AND THAT BRINGS ME STRAIGHT TO THE MESSAGES THAT I WANT TO IMPART TO YOU TODAY:

- SUCCESSFULLY ACHIEVING THIS GOAL IS DEPENDENT ON THE INDUSTRY CHANGING ITS PAST BEHAVIOURS AND RELATIONSHIPS.

- TEAMWORK AND CO-OPERATION ARE PARAMOUNT AS IS AN ENVIRONMENT IN WHICH ALL PARTIES HAVE A GENUINE STAKE IN REDUCING COSTS

- THE MORE COMPANIES THAT ACCEPT AND APPLY THESE PRINCIPLES THE GREATER THE BENEFITS IN REDUCED COSTS WILL BE AND THE QUICKER THE GOAL WILL BE REACHED.

THE IMPORTANCE OF THESE MESSAGES HAS ALREADY BEEN RECOGNISED IN THE UK WITH THE SETTING UP OF THE INDUSTRY WIDE 'CRINE' (COST REDUCTION IN THE NEW ERA) INITIATIVE WHICH HAS BROUGHT TOGETHER REPRESENTATIVES FROM THE OIL COMPANIES,

CONTRACTORS, SUPPLIERS, GOVERNMENT. AND I ACKNOWLEDGE THAT THE NORWEGIAN OFFSHORE INDUSTRY HAS ALSO RECOGNISED THE NEED TO REDUCE COSTS AND IS NOW TAKING POSITIVE STEPS TO ADDRESS THIS ISSUE.

THE FIRST STAGE OF 'CRINE' COMPLETED LAST YEAR, CLEARLY IDENTIFIED THAT A MASSIVE POTENTIAL FOR ACHIEVING COST REDUCTION EXISTS - 30% IS CONSIDERED A REALISTIC TARGET. A WORK PROGRAMME AIMED AT SPECIFIC DELIVERABLES TO ENABLE THIS POTENTIAL TO BE REALISED IS NOW UNDERWAY AND SIGNIFICANT TANGIBLE RESULTS ARE EXPECTED BY THE END OF THIS YEAR.

BEFORE I GO ON, LET ME SAY THAT, WHILST THE FOCUS IS ON CREATING A CONTINUING AND PROFITABLE NORTH SEA INDUSTRY, A BIGGER PRIZE IS ULTIMATELY THERE FOR THE TAKING. FOR THOSE COMPANIES WHICH ACHIEVE THE TRANSFORMATION IN EFFICIENCY WHICH IS POSSIBLE, THERE IS THE PROSPECT OF A LARGE EXPORT MARKET IN GOODS AND SERVICES TO EXISTING AND PROSPECTIVE OIL PROVINCES AROUND THE WORLD.

SO LET ME START BY PUTTING THINGS IN CONTEXT BY REFERENCE TO THIS SIMPLE EQUATION GOVERNS ANY BUSINESS:

SLIDE - BUSINESS EQUATION - PROFIT = (VOLUME X PRICE) - COST

FOR OUR INDUSTRY YOU WILL NOT NEED ANY REMINDING THAT RECENTLY OIL PRICES HAVE FALLEN TO VERY LOW LEVELS IN BOTH ABSOLUTE AND REAL TERMS AND, EVEN THOUGH THERE HAS BEEN A TREND UPWARDS OVER RECENT WEEKS, PRICES ARE FORECAST TO REMAIN LOW FOR THE FORESEEABLE FUTURE . AND OF COURSE, HOWEVER MUCH WE WOULD LIKE TO, THERE IS LITTLE IF ANYTHING THAT WE CAN DO TO CONTROL THE PRICE OF OIL.

EQUALLY, AND AS I'VE REFERRED TO EARLIER, THE SIZE OF FIELDS REMAINING TO BE DISCOVERED ARE RELATIVELY SMALL SO AGAIN WE HAVE LIMITED LEVERAGE IN TERMS OF VOLUME

SO THAT LEAVES COSTS AS THE ONLY REAL LEVER WE CAN PULL TO HAVE A SIGNIFICANT IMPACT ON THE BUSINESS RESULT.

NORTH SEA COSTS, HAVE ALWAYS BEEN RELATIVELY HIGH ON THE INTERNATIONAL SCALE. THE SCALE OF THE DIFFERENTIALS WAS BROUGHT HOME TO US IN BP THROUGH A COMPARATIVE STUDY CARRIED OUT NOT LONG AGO WHICH SHOWED THAT COSTS IN THE NORTH SEA WERE SEVERAL TIMES GREATER THAN FOR THE GULF OF MEXICO. AND OUR EXPERIENCE IS THAT IF ANYTHING COSTS IN THE NORWEGIAN SECTOR ARE EVEN HIGHER.

OF COURSE, MANY SUGGESTIONS FOR REDUCING COSTS HAVE BEEN PUT FORWARD OVER THE NEAR 30 YEAR HISTORY OF NORTH SEA PRODUCTION. BUT NOTWITHSTANDING THAT SUCCESSFUL INDIVIDUAL INITIATIVES CAN BE POINTED TO, COSTS , IN OVERALL TERMS, HAVE CONTINUED TO RISE.

IF THESE CIRCUMSTANCES CONTINUE TO PREVAIL, THEN GLOBAL COMPETITION FOR THE FINITE CAPITAL INVESTMENT RESOURCES AVAILABLE WILL MAKE IT INCREASINGLY LIKELY THAT FUNDS WILL BE DIRECTED TO DEVELOPMENT OPPORTUNITIES ELSEWHERE IN THE WORLD WHERE COSTS ARE SIGNIFICANTLY LOWER

SO COST REDUCTION IS CLEARLY AN IMPERATIVE IF CONTINUED FUTURE INVESTMENT IN THE NORTH SEA IS NOT TO BE SERIOUSLY JEOPARDISED.

NOW WHY IS IT THAT NORTH SEA COSTS ARE SO MUCH HIGHER THAN ELSEWHERE IN THE WORLD? AND MORE IMPORTANTLY WHAT CAN BE DONE TO DRIVE COSTS DOWN NOT JUST MARGINALLY BUT TO LEVELS WHICH ARE COMPETITIVE IN THE INTERNATIONAL MARKET PLACE.

WELL WE IN BP ARE VERY CLEAR THAT TECHNOLOGY ON ITS OWN WILL <u>NOT</u> PROVIDE THE ANSWER. WHAT WE HAVE RECOGNISED IS THAT THE WAY WE <u>BEHAVE</u> TOWARDS OUR CONTRACTORS AND SUPPLIERS AND THE RELATIONSHIPS WHICH WE HAVE WITH THEM ARE MAJOR COST DRIVERS.

SO WHILST TECHNOLOGICAL DEVELOPMENT WILL CONTINUE TO MAKE A CONTRIBUTION - AND I'LL RETURN TO THIS LATER - WE FIRMLY BELIEVE THAT THE KEY TO ACHIEVING THE STEP CHANGES IN EFFICIENCY AND COST REDUCTION WHICH ARE REQUIRED WILL ONLY COME THROUGH FUNDAMENTAL BEHAVIOURAL CHANGES THROUGHOUT THE INDUSTRY.

AND THIS IS A VIEW THAT HAS BEEN ENDORSED BY THE 'CRINE' GROUP AS I WILL SHOW YOU LATER.

PERHAPS I CAN GIVE YOU AN INSIGHT INTO WHY WE HAVE DEVELOPED THIS VIEW BY REFERENCE TO THIS CARTOON WE DREW OF OURSELVES A COUPLE OR SO YEARS AGO.

SLIDE:	CARTOON OF OPERATORS SHUTTING OUT THE INDUSTRY

IT CAPTURES THE ESSENCE OF WHAT HAD EMERGED WHEN WE LOOKED CLOSELY AND HONESTLY AT OURSELVES. JUST AS IMPORTANTLY IT ALSO DEPICTS WHAT OUR CONTRACTORS AND SUPPLIERS TOLD US WHEN WE INVITED A CROSS SECTION OF THEM TO TELL US FRANKLY WHAT IT WAS LIKE TO DO BUSINESS WITH US.

AS YOU CAN SEE, THERE WE WERE SITTING IN OUR HEAVILY FORTIFIED IVORY TOWER, FIRMLY RESISTING THE ATTEMPTS OF ALL WHO WERE ATTEMPTING TO GAIN ENTRY WITHOUT EVEN A THOUGHT THAT WHAT THEY MIGHT BE BRINGING COULD BE TO OUR ADVANTAGE.

INDEED, WE WERE CERTAIN IN OUR BELIEF THAT NOBODY COULD TEACH OR OFFER US ANYTHING. AFTER ALL WE HAD PLENTY OF EVIDENCE THAT WE WERE AN ORGANISATION HIGHLY CAPABLE OF TECHNICAL EXCELLENCE.

AND GIVEN OUR POWER AND INFLUENCE WE FELT THAT WE COULD ACHIEVE COST REDUCTIONS MERELY BY 'THREAT'.

THIS ARROGANT AND INSENSITIVE BEHAVIOUR CHARACTERISED VIRTUALLY ALL OF OUR RELATIONSHIPS IN ALL OUR SPHERES OF ACTIVITY INCLUDING PROJECT IMPLEMENTATION. IT WAS BORN OUT OF AN INGRAINED ATTITUDE THAT ONLY WE KNEW WHAT WAS NEEDED AND HOW IT SHOULD BE DONE, AND THAT CONTRACTORS AND SUPPLIERS COULD NOT TO BE TRUSTED.

AS A RESULT OUR MODUS OPERANDI WAS TO WRITE DETAILED SPECIFICATIONS FOR EVERY ASPECT OF A PROJECT AND THEN TO MONITOR EVERY STEP OF THE PROCESS USING OUR OWN (LARGE) TEAMS OF EXPERTS TO DOUBLE CHECK EVERYTHING THE CONTRACTORS AND SUPPLIERS DID.

WITH A FEW POSSIBLE EXCEPTIONS, WE BELIEVED THAT THIS WAS GENERALLY REPRESENTATIVE OF THE INDUSTRY AS A WHOLE SO YOU'LL HAVE NOTICED THAT WE TOOK THE LIBERTY OF ASSOCIATING SOME OTHER OPERATORS WITH SIMILAR ATTITUDES. THERE ARE A FEW MORE AT THE BACK OF THE TOWER.

I COULD ADD THAT SIMILAR ATTITUDES APPLY BETWEEN THE OIL COMPANIES THEMSELVES AND INDEED IN THE MAJORITY OF RELATIONSHIPS WITHIN THE INDUSTRY AND THAT THIS TOO ADDS TO COSTS.

OF COURSE, THIS SYSTEM I'VE JUST DESCRIBED HAD BEEN FOUNDED ON PAST EXPERIENCE AND HAD APPEARED TO, AND INDEED DID, WORK FOR A LONG TIME. BUT WHAT WE INCREASINGLY BEGAN TO RECOGNISE WAS THAT AN INDUSTRY HAD BEEN CREATED WHICH WAS (AND IS) HIGHLY FRAGMENTED IN NATURE AND IN WHICH NARROW INTERESTS PREVALENT WHICH RESULTS, INEVITABLY, IN MAJOR INEFFICIENCIES ACROSS THE INTERFACES.

WE WERE BLIND TO THE FACT THAT THERE WAS A HUGE BODY OF TALENT AND EXPERTISE AVAILABLE IF ONLY WE ALL HAD THE COURAGE

TO ACKNOWLEDGE IT AND THEN DEVELOP DIFFERENT BEHAVIOURS AND CONSTRUCT NEW RELATIONSHIPS TO ACCESS IT AND USE IT EFFECTIVELY TO MUTUAL ADVANTAGE.

I WILL RETURN TO RELATIONSHIPS IN A MOMENT OR TWO BUT AT THIS JUNCTURE I WANT TO SAY A FEW WORDS ABOUT TECHNOLOGY FROM AN OPERATOR'S STANDPOINT.

THE FIRST POINT I WANT TO EMPHASISE IS THAT WE ARE NOT LOOKING TO OR HOPING FOR SOME RADICAL AND MAJOR ONE OFF TYPES OF TECHNOLOGICAL BREAKTHROUGH TO PROVIDE THE ANSWER. OF COURSE, TECHNOLOGICAL DEVELOPMENTS WILL CONTINUE TO PLAY A PART BOTH IN REDUCING COSTS AND IMPROVING OUR ABILITY TO ACCESS OPPORTUNITIES IN DEEPER WATERS AND MORE HOSTILE ENVIRONMENTS. IT MAY BE THAT THERE ARE LIMITS IN THAT REGARD TODAY BUT WE CAN BE CONFIDENT THAT THESE LIMITS ARE ONLY TEMPORARY. TECHNOLOGICAL DEVELOPMENT CANNOT BE HELD BACK

RATHER WE SEE THAT WHAT IS REQUIRED IS TO USE AND APPLY THE TECHNOLOGY THAT IS, AND WILL BECOME, AVAILABLE TO US IN QUITE

DIFFERENT AND MORE EFFECTIVE WAYS. WE NEED TO CAST OFF OUR INBUILT DESIRE TO SEEK THE ULTIMATE IN TECHNICAL EXCELLENCE WHICH MANIFESTS ITSELF IN EVERYTHING BEING CUSTOMISED AND SEEK INSTEAD TO FIND SOLUTIONS WHICH ARE TRULY FIT FOR PURPOSE AND GEARED PRIMARILY TO ACHIEVING THE RIGHT BUSINESS OUTCOME.

LET ME SAY HOWEVER THAT THERE WILL STILL BE A ROLE FOR CUSTOMISATION, FOR EXAMPLE, THE RANGE OF CONCEPTS WHICH SUPPORT PRODUCTION FACILITIES IN THE NORTH SEA IS INCREDIBLY DIVERSE AND THERE IS NOTHING SPECIFICALLY WRONG WITH SORT OF "CUSTOMISATION". INDEED I WOULD EXPECT THAT TO CONTINUE AS AN IMPORTANT INGREDIENT IN THE VALUE CREATION PROCESS.

EQUALLY, THERE ARE MANY GOOD EXAMPLES OF TECHNOLOGY BEING PUT TO WORK IN WAYS THAT SPEAK DIRECTLY TO ACHIEVING A GOOD BUSINESS OUTCOME. ONE EXAMPLE I CAN QUOTE IS ON THE WYTCH FARM FIELD WHERE EXTENDED REACH DRILLING OF OVER 5 KM IS ALLOWING THE OFFSHORE RESERVES TO BE TAPPED WITHOUT THE EXPENSIVE MAN MADE OFFSHORE ISLAND ORIGINALLY ENVISAGED.

THE RESIDENTS OF POOLE ARE EQUALLY DELIGHTED.

ON THE OTHER HAND, OUR STRONG PREDILECTION TO CUSTOMISE THE PRODUCTION FACILITIES AND NEARLY EVERY INDIVIDUAL ITEM OF WHICH THEY ARE COMPRISED IS ANOTHER MATTER.

FEW OF US WITHIN THE INDUSTRY HAVE FAILED TO *RECOGNISE THAT BUYING "OFF THE SHELF'* EQUIPMENT HAS A SIGNIFICANT POTENTIAL TO REDUCE COSTS - 25% IS A REALISTIC ESTIMATE. HOWEVER, IT IS HARD TO DENY THAT SO FAR WE HAVE BEEN INCAPABLE OF MAKING THAT A REALITY

AND FOR US OPERATORS, OUR CONTINUING INSISTENCE ON HAVING ALL THE 'BELLS AND WHISTLES' COSTS US DEARLY IN MORE WAYS THAN JUST THE DIRECT PRICE WE PAY TO THE SUPPLIERS OF THE EQUIPMENT AND MATERIALS WE BUY.

FIRSTLY THERE IS THE TIME AND COSTS INVOLVED IN PRODUCING THE DETAILED SPECIFICATIONS WHICH WE THE OIL COMPANIES ARE SO WEDDED TO. AND EXPENSIVE AS THOUGH THAT IS, IT IS JUST THE TIP OF THE

ICEBERG. THERE ARE THEN THE ACTIVITIES COMING UNDER THE EUPHEMISTIC TERM 'CLARIFICATION' AND THE ONGOING COMPLEX INTERFACING BETWEEN THE DESIGNER AND THE SUPPLIER. AND, OF COURSE, WE HAVE TO MAKE SURE THAT THE SUPPLIER IS ACTUALLY PROVIDING US WITH WHAT WE HAVE REQUESTED WHICH REQUIRES LOTS OF VISITS BY INSPECTORS, EXPEDITERS ETC. TO THE SUPPLIERS PREMISES WHILST THE GOODS ARE BEING MANUFACTURED.

ALL THIS WHEN WE ARE PURCHASING ITEMS FOR WHICH THE VENDORS HAVE, FOR THE MOST PART, PERFECTLY ADEQUATE SPECIFICATIONS AND ARE SUPPLYING THEIR GOODS MANUFACTURED TO THEM, TO CUSTOMERS IN MANY OTHER INDUSTRIES WHO FIND THEM PERFECTLY SATISFACTORY. AND MOST OF THEM HAVE RECOGNISED QUALITY ACCREDITATION AS WELL.

THEN THERE IS THE AMOUNT OF DOCUMENTATION WE REQUEST. THIS IS AN AREA WHERE IT WOULD BE TRUE TO SAY THAT WE INCUR AVOIDABLE COST - COST INCURRED THROUGH AN APPARENT INABILITY TO DISCRIMINATE BETWEEN CRITICAL AND NON CRITICAL ITEMS AND A MISTAKEN BELIEF THAT

THE ORIGIN AND HISTORY OF EVERY LAST PIECE OF STRUCTURAL STEEL, PIPING AND SUPPLIED EQUIPMENT MUST BE RECORDED AND TRACEABLE.

AND THE COST OF THIS NON DISCRIMINATION CAN BE SIGNIFICANT WHEN YOU CONSIDER THAT IT IS NOT UNCOMMON FOR DOCUMENTATION TO ACCOUNT FOR CIRCA 10% AND UPWARDS OF THE PURCHASE PRICE AND THAT THERE ARE FURTHER COSTS FOR STORING THE INFORMATION IN A RETRIEVABLE FORM EVEN THOUGH THE MAJORITY OF IT WILL NEVER BE REFERRED TO AGAIN.

AGAIN MANY APPARENTLY GOOD AND VALID TECHNICAL ARGUMENTS HAVE BEEN, AND INDEED CONTINUE TO BE PUT FORWARD FROM WITHIN OUR OWN COMPANY, TO JUSTIFY THE APPROACH I HAVE DESCRIBED. BUT A CLOSE EXAMINATION OF THE FACTS REVEALS THAT THESE ARE UNLIKELY TO HAVE ANY REAL VALIDITY. THE REALITY IS THAT IT IS THE ATTITUDES AND NARROW INTERESTS THAT I DESCRIBED EARLIER WHICH HAVE THUS FAR PREVENTED US FROM REAPING THE BENEFITS WHICH ARE THERE FOR THE TAKING.

THE POINT OF THIS IS TO SHOW THAT THE MAJOR REASON FOR COMPLEXITY AND CONSEQUENT HIGH COSTS IS NOT SO MUCH TO DO WITH THE TECHNOLOGY ITSELF BUT RATHER TO THE WAY WE CHOOSE TO BEHAVE AND RELATE TO EACH OTHER IN PROCURING IT.

SO I'M BACK AGAIN TO RELATIONSHIPS AND ALTHOUGH I'VE USED EQUIPMENT PROCUREMENT PROCESS RELATIONSHIPS , I COULD EQUALLY HAVE CHOSEN TO USE VIRTUALLY ANY OTHER AREA OF THE INDUSTRY'S ACTIVITIES TO ILLUSTRATE THE SAME POINT.

AND THIS IS A VIEW SHARED ACROSS THE UKCS INDUSTRY.

SLIDE : CRINE 'THE ROOT PROBLEM'

THIS SLIDE TAKEN FROM LAST YEARS CRINE REPORT GRAPHICALLY ILLUSTRATES AND SUMMARISES HOW THE REPRESENTATIVES OF A WIDE CROSS SECTION OF COMPANIES IN THE INDUSTRY VIEW THE CURRENT NORTH SEA BUSINESS CULTURE

CONVERSELY, THE NEXT SLIDE DEPICTS THEIR DESCRIPTION OF THE MAIN CHARACTERISTICS

OF THE SORT OF CULTURE THEY CONSIDER HAS TO BE DEVELOPED TO ACHIEVE OUR AIMS OF MUCH LOWER COSTS.

SLIDE: CRINE 'THE VISION"

INTERESTINGLY, THIS DEPICTION DERIVED FROM THEIR VIEW THAT CREATING A NEW CULTURE WAS CLEARLY CENTRED AROUND ATTITUDES AND OTHER SO-CALLED SOFT ISSUES SUCH AS TRUST, TEAMWORK OPEN COMMUNICATION AND MUTUAL SUCCESS.

IN A WORD WE NEED TO APPLY THE PRINCIPLES OF PARTNERSHIP.

PARTNERSHIP WITHIN ORGANISATIONS, ACROSS FUNCTIONS AND SKILLS, BETWEEN OWNERS, BETWEEN COMPANIES AND THEIR CONTRACTORS AND SUPPLIERS AND FINALLY BUT NO LESS IMPORTANT BETWEEN THE INDUSTRY AS A WHOLE AND GOVERNMENT AND OTHER REGULATORY AND STATUTORY AUTHORITIES.

PARTNERSHIPS WHICH WILL STRIP OUT UNNECESSARY ACTIVITIES, AVOID DUPLICATION OF EFFORT, EFFECTIVELY UTILISE THE BEST SKILLS WHEREVER THEY EXIST AND IN WHICH

EVERYONE HAS A GENUINE STAKE IN ACHIEVING SUCCESS.

NOW THE IMPORTANCE OF THESE PRINCIPLES HAS LONG BEEN RECOGNISED AND SUCCESSFULLY APPLIED IN OTHER INDUSTRIES.

IN THE CAR INDUSTRY FOR EXAMPLE YOU ONLY HAVE TO LOOK AT THE SUCCESS OF NISSAN IN THE NORTH EAST OF ENGLAND - NOW THE LARGEST EXPORTER OF MOTOR VEHICLES FROM THE UK FROM AN AREA WHICH WAS CERTAINLY NOT NOTED FOR THE BEST INDUSTRIAL RELATIONSHIPS. AND NISSAN ARE CLEARLY ON THE PUBLIC RECORD AS RECOGNISING AND ACKNOWLEDGING THE IMPORTANCE OF THEIR RELATIONSHIPS WITH THEIR SUPPLIERS IN ACHIEVING THEIR BUSINESS GOALS. THEIR APPROACH IS TO PROVIDE SUPPORT TO THEIR SUPPLIERS WHEN PROBLEMS OCCUR AND THIS RESULTS IN BOTH PARTIES WORKING TOGETHER TO FIND CREATIVE SOLUTIONS RATHER THAN EACH SEEKING TO APPORTION BLAME.

THE TURNAROUND OF ROVER THROUGH ITS PARTNERSHIP WITH HONDA IS ANOTHER GOOD EXAMPLE OF WHAT CAN BE A ACHIEVED WHEN CO-OPERATION AND ALIGNMENT OF OBJECTIVES BECOMES THE WATCHWORDS.

THE BENEFITS OF PARTNERING PRINCIPLES ARE ALSO NOW BEING RECOGNISED AND APPLIED IN OUR OWN INDUSTRY.

LOOK AT THE HEADLINES FROM SHELL AND ENTERPRISE WHEN THEIR NELSON FIELD CAME ON STREAM A SHORT WHILE AGO. 'TEAM SPIRIT A KEY TO SUCCESS'; CO-OPERATION SHAPES THE FUTURE' AND 'HIGH DEGREE OF TEAMWORK IN JOINT EFFORT'.

WITHIN BP WE HAVE THE EXAMPLE OF THE HYDE GAS FIELD WHERE SUCCESS IN ALIGNING THE GOALS AND OBJECTIVES OF THE CONTRACTORS AND OWNERS LED TO THE PROJECT BEING DELIVERED ON TIME BUT MORE THAN 20% BELOW BUDGET. A RESULT WHICH PLEASED NOT JUST THE OWNERS BUT ALSO THE CONTRACTORS IN THE ALLIANCE WHO RECEIVED 55% OF THE SAVINGS IN ADDITION TO THEIR NORMAL PROFIT. A TRUE WIN - WIN RESULT.

THE UNITY PROJECT WAS DELIVERED ON TIME AND 28% UNDER BUDGET AND THE HARDING FIELD DEVELOPMENT IS WELL ON ITS WAY TO AN EXTRAORDINARILY SUCCESSFUL OUTCOME.

THEN THERE IS THE ANDREW FIELD WHOSE DEVELOPMENT WAS SANCTIONED NOT LONG AGO WITH ESTIMATED COSTS AT LEAST 20 % LOWER THAN WOULD HAVE BEEN THE CASE IF TRADITIONAL APPROACHES HAD BEEN FOLLOWED. A RESULT WHICH CAN BE ATTRIBUTED TO THE CO-OPERATIVE EFFORTS OF BP AND THE SEVEN MAIN CONTRACTORS FORMING THE ANDREW ALLIANCE.

AND FOR THE FUTURE THE BRUCE WAD AND ETAP DEVELOPMENTS ARE SHAPING UP SIMILARLY, YET DIFFERENTLY, AS THE PARTIES SEE THINGS THAT THEY CAN IMPROVE ON.

THE AREAS IN WHICH SAVINGS ARE BEING MADE ARE MANY. THE COSTS FOR MAJOR EQUIPMENT AND MATERIALS PACKAGES HAVE BEEN SIGNIFICANTLY REDUCED THROUGH, AMONG OTHER THINGS, THE USE OF FUNCTIONAL RATHER THAN DETAILED SPECIFICATIONS AND CRITICALITY RATINGS TO DETERMINE INSPECTION AND DOCUMENTATION REQUIREMENTS. A BP TEAM OF AROUND 12 COMPARED TO CIRCA 150 WHICH WOULD HAVE BEEN THE NORM EVEN TWO OR THREE YEARS AGO.

WE ARE ALSO FINDING THAT FAR FROM STIFLING INNOVATION THIS APPROACH IS PRODUCING THE REVERSE EFFECT. ALL PARTIES ARE CONTINUOUSLY COMING FORWARD WITH NEW IDEAS TO INCREASE EFFICIENCY AND REDUCE COSTS AND SHORTEN THE PROJECT SCHEDULE. THIS SORT OF - BEHAVIOUR IS UNDOUBTEDLY ENCOURAGED BECAUSE WE HAVE CHOSEN TO WORK TOGETHER IN PARTNERSHIP AND TO SHARE THE RISKS AND REWARDS IN A BALANCED AND EQUITABLE WAY.

AND NONE OF THIS IS AT THE EXPENSE OF SAFETY OR ENVIRONMENTAL PERFORMANCE BOTH OF WHICH REMAIN AT THE TOP OF OUR AGENDA AND ARE AN INTEGRAL PART OF SOUND BUSINESS PRACTICE. INDEED WE AIM TO IMPROVE OUR ALREADY CREDITABLE REPUTATION IN THESE AREAS AND BELIEVE THAT THESE NEW WAYS OF WORKING WILL ASSIST RATHER THAN HINDER THIS QUEST.

ELSEWHERE, GOVERNMENT IS ALSO PLAYING ITS PART. FOR EXAMPLE THE DTI'S INTRODUCTION OF A STREAMLINED PROCESS FOR ANNEX B'S IS MAKING LIFE SIMPLER AND LESS COSTLY. FOR ANDREW, THE OLD STYLE ANNEX B, RUNS TO TWO VOLUMES EACH

APPROXIMATELY AN INCH THICK WHILST THE NEW STYLE CYRUS ANNEX B COMPRISES 14 WRITTEN PAGES AND ABOUT THE SAME NUMBER OF DRAWINGS AND DIAGRAMS.

THERE ARE MANY MORE EXAMPLES LIKE THESE AND THE IMPETUS FOR CHANGE IS GATHERING MOMENTUM ALL THE TIME.

UNTIL RECENTLY, HOWEVER, THE CHANGES THAT HAVE BEEN MADE, HAVE BEEN THROUGH THE EFFORTS OF A RELATIVELY SMALL NUMBER OF COMPANIES. AND WHILST BENEFITS IN THE SHAPE OF REDUCED COSTS HAVE AND CONTINUE TO BE ACHIEVED, IT IS CLEAR THERE IS MUCH GREATER POTENTIAL WHICH CAN BE TAPPED THROUGH A CO-ORDINATED AND COHESIVE PROGRAMME BY THE INDUSTRY AS A WHOLE.

IN THE UK, THE CRINE INITIATIVE IS THE VEHICLE THROUGH WHICH SUCH A PROGRAMME HAS BEEN PUT IN PLACE. IT IS A PRACTICAL PROGRAMME CLEARLY FOCUSED ON REINFORCING AND BUILDING ON WHAT HAS ALREADY BEEN ACHIEVED WITH SPECIFIC EMPHASIS ON AN INDUSTRY WIDE DRIVE FOR TRUE STANDARDISATION AND SIMPLIFICATION. THE GROUP FIRMLY BELIEVES THAT THIS

PROGRAMME WILL ALLOW A COST REDUCTION TARGET OF 30% TO BE ACHIEVED.

I HAVE NO DOUBT THAT EVERYONE HERE WOULD BE HAPPY TO SEE COST REDUCTIONS OF THIS MAGNITUDE ACHIEVED AND CAN EASILY PICTURE THE TRANSFORMATION IN THE NORTH SEA'S FUTURE THAT WOULD RESULT. INDEED CRINE'S OWN VISION STATEMENT CAPTURES IT I THINK.

SLIDE: CRINE VISION STATEMENT

I ALSO KNOW FROM MY OWN EXPERIENCE, THAT INSTIGATING AND SUSTAINING THE CHANGES THAT ARE REQUIRED IS NEVER AN EASY TASK. THE FIRST STEPS CAN BE PARTICULARLY DIFFICULT AND IT REQUIRES REAL LEADERSHIP, PERSONAL COURAGE AND CLARITY OF PURPOSE TO TAKE THEM AND TO RESIST THOSE WHO EXIST IN EVERY ORGANISATION WHO ARE ALWAYS ABLE TO COME UP WITH AN APPARENTLY SOUND CASE FOR RETAINING THE STATUS QUO. THIS IS PERHAPS BEST SUMMED UP IN THIS QUOTATION FROM JUDE WANNISKI'S 'THE WAY THE WORLD WORKS:

'IN AN INTELLECTUAL REVOLUTION, THERE MUST BE IDEAS AND ADVOCATES WILLING TO CHALLENGE AN ENTIRE PROFESSION, THE ESTABLISHMENT ITSELF, WILLING TO SPEND THEIR REPUTATIONS AND CAREERS IN SPREADING THE IDEA THROUGH DEEDS AS WELL AS WORDS'

NOW IF THAT SOUNDS A BIT THREATENING OR DANGEROUS I HOPE THAT YOU WILL TAKE COMFORT FROM THE FACT THAT THE 'REVOLUTION' IS ALREADY UNDERWAY IN THE UKCS AND THAT IT IS ALREADY PRODUCING A GROWING BODY OF EXAMPLES OF THE TANGIBLE BENEFITS - SOME OF WHICH I HAVE REFERRED TO TODAY.

AND IF YOU STILL HAVE DOUBTS THEN I WOULD ASK THAT YOU CONSIDER THIS ANONYMOUS DEFINITION OF INSANITY:

"INSANITY IS DOING THE SAME THINGS OVER AND OVER AGAIN AND EXPECTING A DIFFERENT RESULT"

FINALLY, I OFTEN USE THIS PICTURE DEVISED BY THE 'CRINE' GROUP TO ILLUSTRATE THE CHOICES THAT WE FACE:

SLIDE - 'CRINE TRAIN'

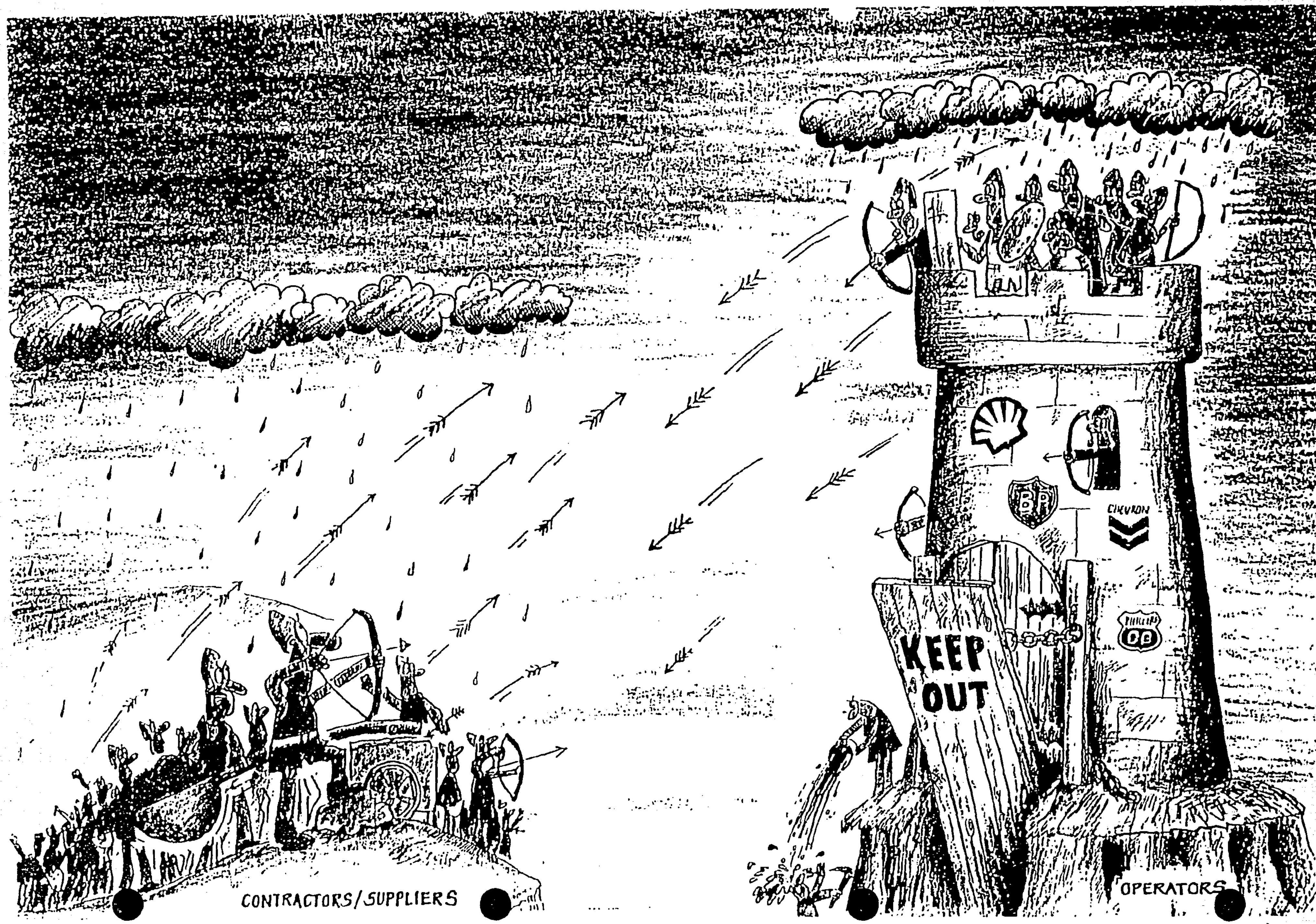
THE SAME CHOICES APPLY EQUALLY IN RESPECT OF THE FUTURE OF THE NORWEGIAN OFFSHORE INDUSTRY AND I'LL FINISH BY SAYING THAT WE IN BP WILL CONTINUE TO GIVE WHATEVER SUPPORT WE CAN IN HELPING BUILD THE EQUIVALENT VEHICLE WHATEVER FORM IT TAKES.

THANK YOU.

CRINE

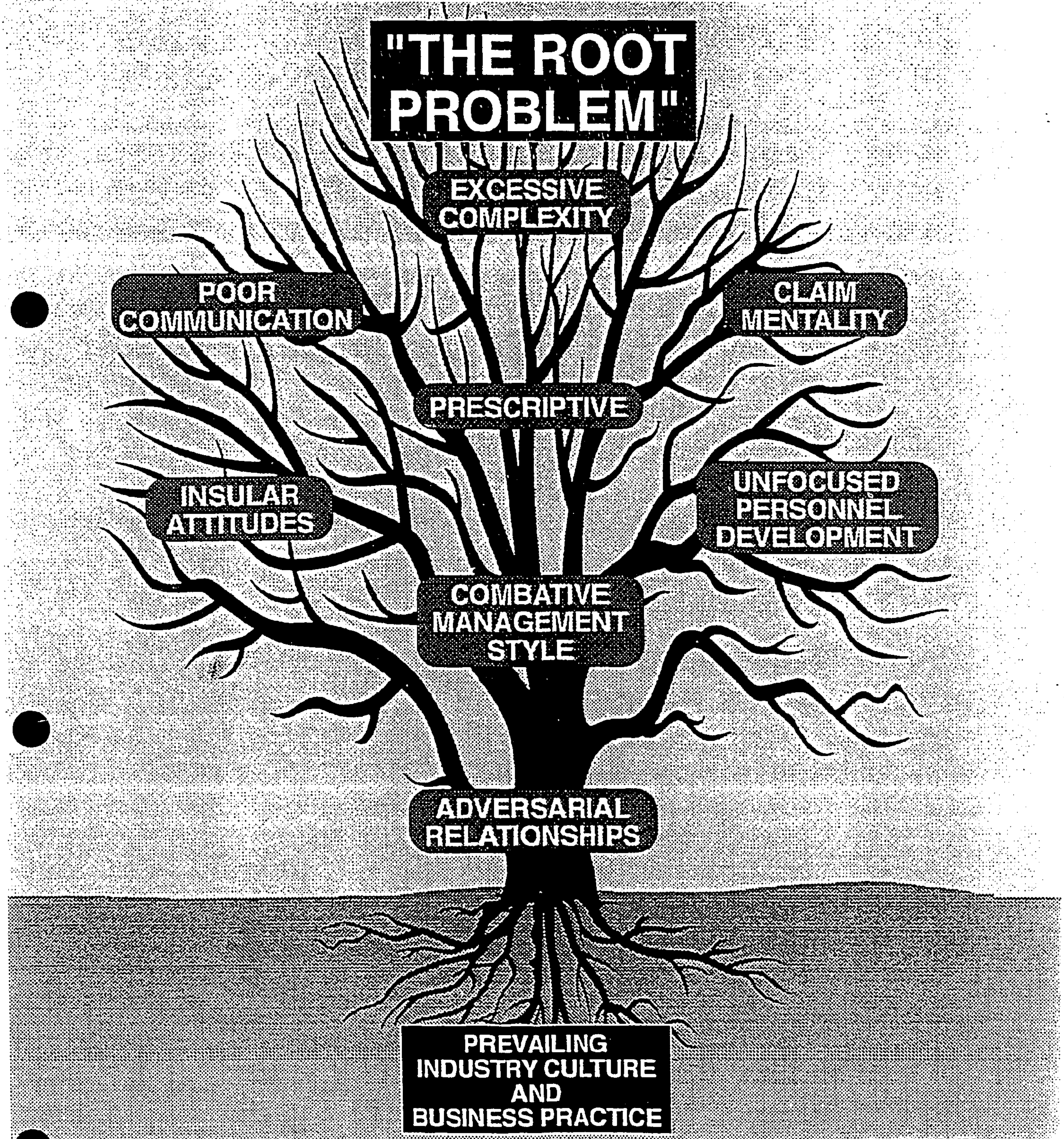
Business Context

Profit = (Price * Volume) - Cost


KEEP OUT
CHEVRON
CONTRACTORS/SUPPLIERS
OPERATORS

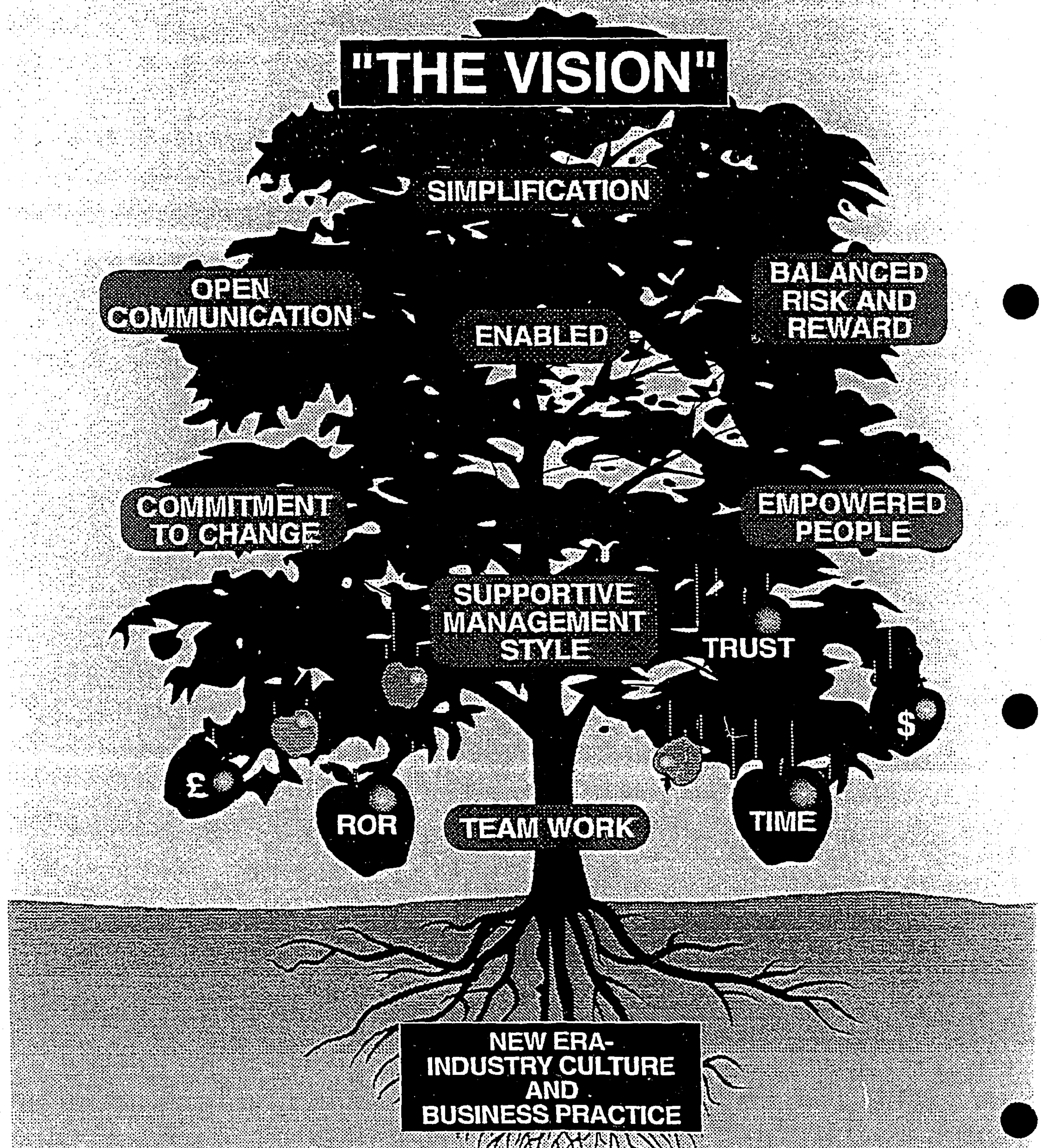
CRINE

"THE ROOT PROBLEM"



May 1994 ALB-1375

CRINE

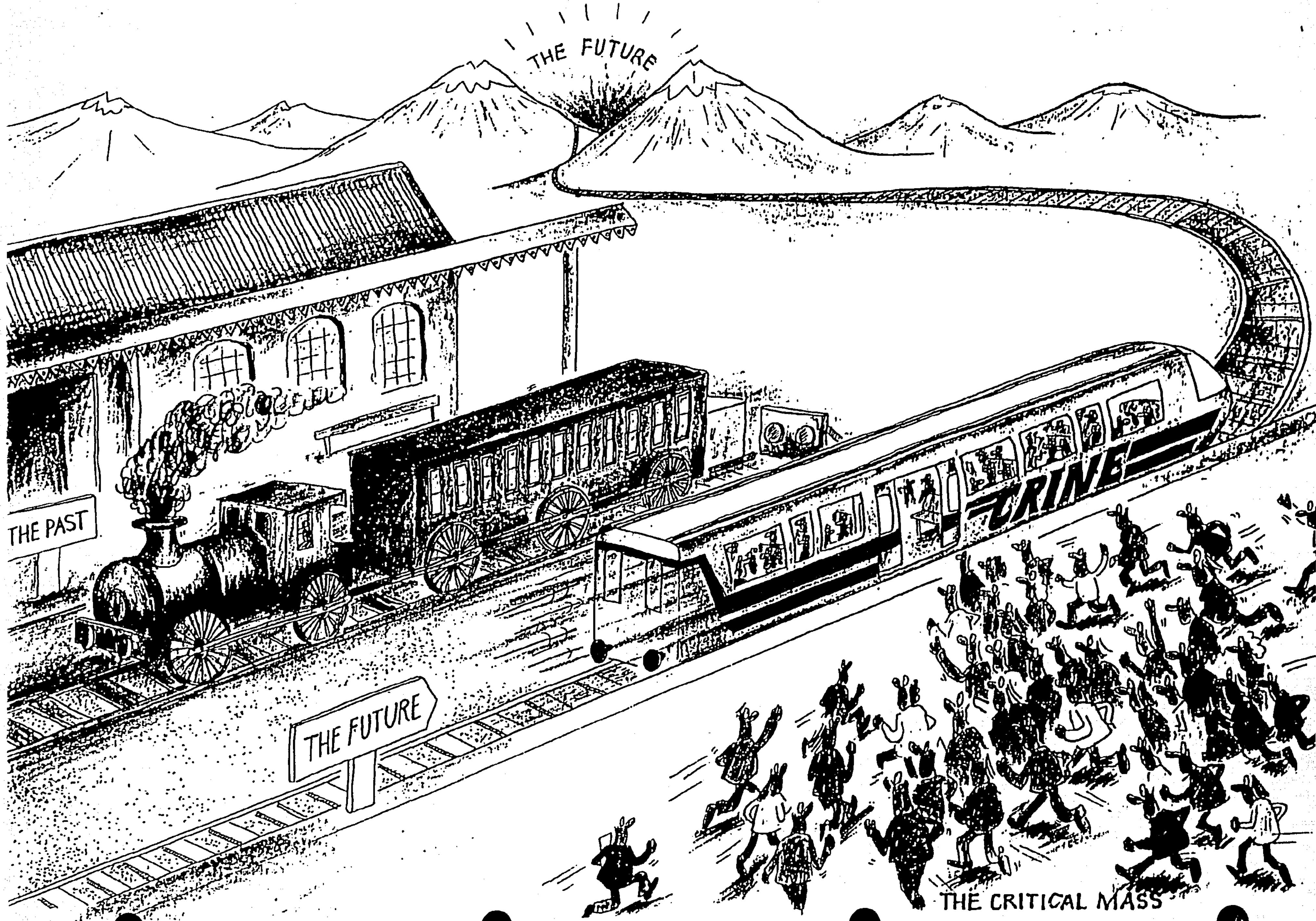


May 1994 ALB-1374

The Vision Statement

CRINE

" We are committed to establishing an oil and gas business culture, demonstrating performance improvement through a continuous learning process that benefits all participants."


THE FUTURE
THE PAST
CRINE
THE FUTURE
THE CRITICAL MASS