

Stuffing The Contractors

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THE world's big five underwater contractors are being taken for a ride by the super-majors. While their profits soar, McDermott, Saipem, Stolt Offshore, Subsea 7 and Technip remain, collectively, deep in the red.

Despite years of saying that contractors would be treated equitably and be rewarded for their efforts, BP, ExxonMobil, Shell, ChevronTexaco, ConocoPhillips and Statoil have collectively stuffed them, allegedly.

Research shows that, in 2002, this cadre of energy giants collectively achieved a net income of almost 31billion. Last year, this nearly doubled, to 59billion. Their return on equity was 15.01%.

By contrast, the subsea five logged net losses of 852million in 2002, better than halving them, to 350million, by last year. Their return on equity was minus 10.92%.

John Smith, CEO of Subsea 7, is clearly unhappy that the contracting community be treated in such a cavalier manner.

Smith, who is also recent past president of the International Marine Contractors Association (IMCA), warns that there must be a fundamental shift to redress the balance and establish an equitable approach.

In other words, he means that it is high time oil companies applied fair-trade principles instead of ripping off their contractors.

One of the root causes of the subsea contracting community's huge losses are EPIC (engineering, procurement, installation and commissioning) contracts imposed on them during the late-1990s, with risk heavily skewed in favour of the oil companies.

This again flies in the face of oil-company rhetoric, especially in the North Sea during the 1990s, when the CRINE and CRINE Network cost-cutting drives were in vogue, followed by the Oil and Gas Industry Task Force that was born out of the late-1997 through early-1999 oil-price slump that nearly brought the UK offshore industry to its knees.

"If operators stuck to the CRINE principles they themselves set out, you have a fighting chance. But they don't," Smith told Energy.

In the CRINE era, contractors were sold the concept that risk/reward EPIC contracts were good for everyone and would deliver a decent return (to contractors) if successfully executed. What started in the North Sea spread worldwide.

But the system was fundamentally flawed, was abused by some oil companies and has since become largely discredited.

The irony of the situation facing McDermott, Saipem, Stolt Offshore, Subsea 7 and Technip is that they are crucial to the success of deepwater developments, especially in the Gulf of Mexico and West Africa.

Their toolbox comprises hugely sophisticated underwater technologies, ships and in-house expertise without which projects like Na Kika in the Gulf of Mexico or Girassol in West Africa would not be possible. This resource is expensive, both to create and to maintain.

"A quick calculation shows that the estimated replacement value of the marine construction fleets of the same five contractors is certainly in excess of 4billion, and when combined with ancillary construction equipment such as laying spreads, ROVs, trenchers and the like, there is a replacement value of about 5billion to be serviced," said Smith, who recently hammered home the same message at an underwater contractors' conference in Bergen.

"Assuming an average depreciation period of 15 years, the same five contractors need to be reinvesting at a collective rate of 300-400million per annum just to stand still. Clearly, with financial performances such as exhibited in 2002 and 2003, this will not happen.

"The situation is, quite simply, unsustainable."

Arguably, the current big five have survived only by dint of massive consolidations since 1990. There were still 12 companies active as recently as 1998.

Smith's message to the oil companies is: "The starting point to recovery is acceptance of the view that the subsea industry will be best served in the long term by a strong, profitable and diverse contracting community.

"If this ethos is accepted at a senior level within the operators and driven through their organisations, then we have the basis for a mature conversation."

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