

'99 IADC Chairman Bernie Stewart: A seasoned offshore veteran who's seen and done it all in times good and bad

Mike Killalea
Editor & Publisher

BERNIE W STEWART, 1999 Chairman of IADC, is a seasoned offshore veteran celebrating his 30th year in the marine industry this year. He has just about seen and done it all in this business, from equipment design and construction to operations, marketing and finance, and times good and bad. Mr Stewart is President of **R&B Falcon** subsidiary **R&B Falcon Drilling (US)**, with responsibility for the company's immense US-based

industry have taught him the value of teamwork, both within his company to achieve marketing and operational objectives, and within the industry, to reach goals benefiting all, but unattainable by one alone.

IADC: INDUSTRY SPEARHEAD

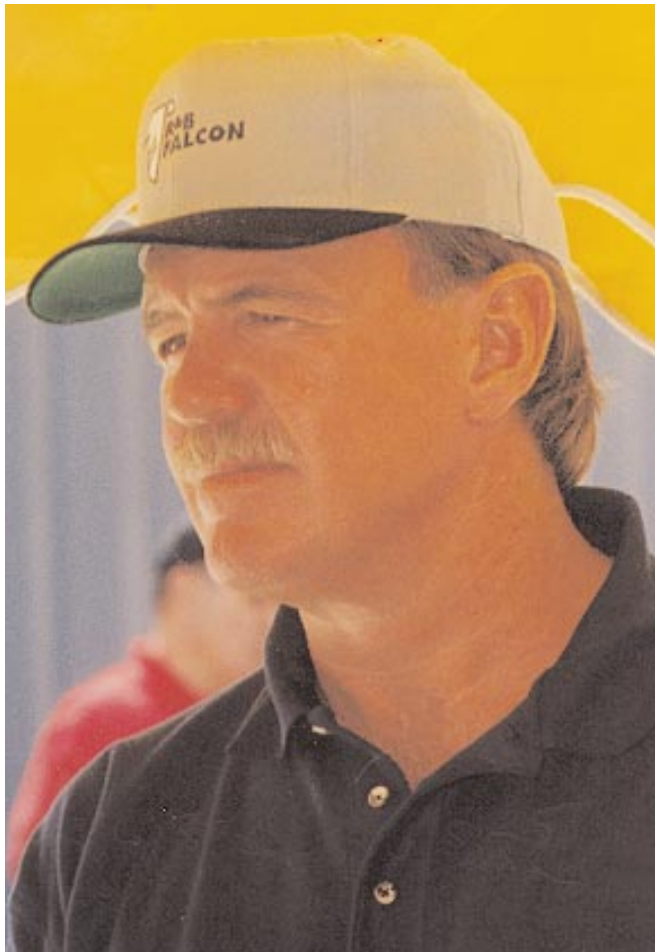
Through the years, Mr Stewart has thus valued IADC. IADC, he says, not only provides a forum for contractors, but is a spearhead for interaction with governmental agencies worldwide.

"Many of us have equipment scattered around the world," he explained. "The multinational nature of our business began with the development of the North Sea and has evolved into a truly global industry. IADC stands as an example of how business can unite to pursue common goals—not just in the US, but worldwide. If IADC hadn't existed, it would have to be created."

In particular, he said, IADC's role in developing training benchmarks in safety and well control has been a positive force for change in the E&P industry. Mr Stewart foresees that IADC could well develop a program of training and competency criteria for rigs. This could be implemented through IADC certification cards that would show an employees' level of training and competency. Already, IADC and E&P forum have developed a Training and Operations Passport, a durable 38-page booklet designed to document medical information, operations experience, orientation and training. Mr Stewart believes this could be taken to the next level, in which IADC is the industry source for guidance on training and competency.

A relaxed man, Mr Stewart believes a team proceeds best through encouragement and camaraderie, rather than bluster and widespread fear. When he is not working, he is an avid outdoorsman and skillful hunter. He and his wife Jackie have 4 children between them—Bernie's son Bo, now a sophomore at **Texas A&M University** and Jackie's 3 kids, Dursty, Brad and Keely.

Bernie and Jackie were married in December 1996, and their story is one to stir



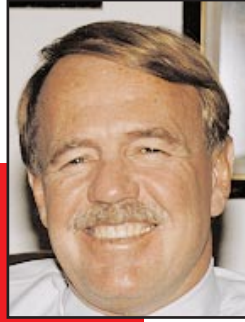
Bernie Stewart— Deep roots in the offshore industry: 1999 IADC Chairman Bernie Stewart has lived the offshore industry's past 30 years, boom and bust, contraction and expansion. He says the industry increasingly needs IADC as its spearhead for interacting with government and as standard bearer in developing guidelines for training, safety and well control.

fleet of jackups, inland drilling and workover barges, and marine service units.

His deep roots in the global marine in-

a romantic's soul. Both are natives of Fort Worth, Texas, and dated regularly in high school. After graduation, though, the couple drifted apart, their lives drawing them to different colleges and new circles of friends. After 29 years, Bernie met Jackie—again! Thanks to a benevolent fate, the 2 high-school sweethearts rekindled their old flame.

sity of Texas at Austin. There, he completed work on his masters in near record time. He entered school on 9 September and departed, armed with his new degree, on 11 September of the following year. The program normally takes 18 months to complete.



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—Bernie W Stewart, President, R&B Falcon Drilling (US), 1999 IADC Chairman

A BUILDER AT HEART

Bernie Stewart is a born builder. From the age of 6, his goal was to be an engineer. In the tumultuous decades since, the 1999 Chairman of IADC has mastered not only the nuts and bolts of marine construction and design in his 30 years in the offshore industry, but also the operational intricacies of leading international drilling companies.

As a boy, Mr Stewart was fascinated with the dream of building airplanes. The transformation from sky to ocean is more one of geography than scope or grandeur.

Mr Stewart hails from the Polytechnic section of Fort Worth. It was not an affluent neighborhood, but Bernie didn't mind. "It wasn't the best side of town, but I didn't know that until I left," he says with a grin.

After high school, Mr Stewart won an athletic scholarship to **Oklahoma State University**, where he played linebacker and center. After 2 years, he transferred nearer to home at the **University of Texas at Arlington**, still on an athletic scholarship.

"I even started college wanting to build airplanes," he said. "But I decided I wanted to be involved in building something more hands on." That translated into a desire to build bridges and, ultimately, a bachelor of science degree in structural engineering.

A DEGREE IN RECORD TIME

His academic performance won him a fellowship to graduate school at the **Univer-**

"I said, whatever it takes to get through, that's what I would do," Mr Stewart said. "I loaded up."

When the recruiters came to campus, he found himself confronted with a world he'd known little of—the fledgling but burgeoning marine construction industry. Mr Stewart was impressed by his conversations with people from companies like **McDermott** and the scope of the projects they were engaged in.

"I thought, 'If building things is fun, then building bigger things has got to be even more fun'," he remarked.

However, his decision to go with McDermott's New Orleans-based marine construction group was received with bemusement on the home front. "My family thought I was crazy," he said bluntly. "There was little publicity at the time about the marine industry, especially if you didn't live near the Gulf of Mexico."

Undeterred by his family's doubts, Mr Stewart loved his work as a project engineer for that venerable firm. Then, in the early '70s, Mr Stewart got the opportunity to move to offshore-drilling pioneer **Zapata Corp.**

The offshore drilling industry, if not in its infancy, was certainly early on in its adolescence. "We'd learned a few things, but we had a great deal more to learn as we went along," Mr Stewart recalled.

Initially, the young engineer was assigned to maintenance and to engineering quick fixes in the field. He wound up spending so much time out of the office that he was soon named Domestic Op-

erations Manager. Equipment- and construction-oriented as he was, though, Mr Stewart exhibited some apprehension about his abrupt splashdown into the world of drilling operations. His mentors assured him they would help, and this temporarily allayed his nervousness. It was soon apparent though, that these solicitous offers of assistance, while mostly well-intended, fell quickly by the wayside in the real world of hustle and deadlines.

It wasn't long before Mr Stewart realized that Zapata subscribed to the sink-or-swim philosophy of management instruction.

His boss was **Buster Whittington**, a crusty former World War II paratrooper and ex-rig hand who had worked his way up to Senior Vice President.

"He and guys like him were the backbone of the business," Mr Stewart says. "He knew how to get the best out of people. He was fair but firm."

"This type of management isn't seen as much today as it was in those days—or conducted as well," he adds somewhat wistfully.

He certainly got the maximum effort out of Bernie Stewart. If there was one thing Buster Whittington wasn't, it was a micro-manager.

"The first day he helped," he recalled. "After that, I was on my own." On his own,



Bernie meets Jackie—again! After losing touch with one another for 29 years, Bernie rekindled the flame with his high-school sweetheart Jackie. The couple, with 4 children to their credit, celebrated their 2nd wedding anniversary during December.

'What operators didn't understand [about building new drilling units] is that replacement costs for drilling contractors are almost 4 times what they had been. Therefore, dayrates had to rise proportionately, reaching levels never seen before, as much as \$185,000-\$200,000/day, along with 3-5 year commitments. It had to be this way to justify these enormous capital investments. The way the picture was painted, drilling contractors were raking in obscene profits. It wasn't that way at all'

—Bernie W Stewart

with the able help of one veteran drilling superintendent, to oversee a drillship, jackup and 4 submersibles.

Fortunately, Mr Stewart's new domain, the US offshore market, was firm. Conversely, international activity was soft. This, of course, is a common phenomenon in offshore drilling. The result is inevitably a migration of rigs from the fallow market to the action arena.

This episode was no exception, and Zapata's strategy was to return rigs to the US market. However, many required upgrading to operate in the US Gulf of Mexico, where equipment requirements were more stringent than in most other regions. With his equipment background, Bernie Stewart was seen as the man to oversee these upgrades. In a short time, he managed and directed the upgrade and renovation of some 4 jackups in a sweeping fleet revitalization, and then added each one into his domestic operation, still with only one superintendent.

"It was a tremendous learning experience," he said. "I had a chance to see all facets of the business. It taught me how to get things done without spending any time looking back. Learn from your mistakes, but don't dwell on them."

DRIVE ON THE OTHER SIDE!

Another learning experience for Bernie Stewart at Zapata was his first trip outside the US—to Lagos on the very day Nigeria switched from driving UK-style on the left side of the road to the US standard on the right.

"We were picked up in a truck with bald tires," Mr Stewart recalls of this hair-raising adventure. "We passed a truckful of soldiers who all moved over to the side of the truck facing our vehicle. Then, they all pointed their weapons at us."

Mr Stewart learned later that the military convoy was transporting money. In those wild and wooly times, the guards were sharp-eyed for robbers and revolutionaries—which Bernie definitely was not.

1970S: ADDING CAPACITY

In the late '70s, as the drilling industry was set to catapult upward rapidly, Mr Stewart moved to **Huthnance Offshore**. This company was also in the process of adding new capacity, this through new construction. After a time with Huthnance, Mr Stewart was named Vice President-International of **Dolphin Drilling**. His charge included equipment operat-

ing around the world—in the Middle East, Latin America and the Far East.

This company exited the business in 1981, and Bernie Stewart moved to **Western Oceanic**. Western's fleet, with a preponderance of semis, operated in many of the same areas as Dolphin—the Far East, Middle East, Africa, Latin America. Before long, Mr Stewart was promoted to Senior Vice President of all operations, including the company's support activity.

Then, in January 1986, that inauspicious year, Mr Stewart was named President of Western Oceanic.

"Oil prices in December of 1985 went to \$12 a barrel," he recalled. "2 months later we went non-performing on \$800 million in debt. I had never dealt a great deal with the financial side. Suddenly, I found myself up to my armpits in accountants and lawyers."

Survival was an interesting and challenging dance, albeit a hair-raising experience. Still, his financial naivete aside, he successfully navigated the shoals of near disaster. The company was brought through Chapter 11 and survived that absolute nadir of the drilling business. In addition, he directed the relocation of equipment and other changes.

Mr Stewart served as President of Western Oceanic until 1993, when the parent company, **Western Company of North America**, saw their opportunity to exit the drilling industry. Western's rigs and other assets were sold to **Noble Drilling**.

Mr Stewart launched his own consulting business for about a year and cast about for opportunities. He soon joined **Hornbeck Offshore**, which boasted the 2nd largest fleet of workboats in the Gulf of Mexico. History repeated itself, however. The company saw the opportunity to exit the business and sold its fleet.

Bernie Stewart joined **Falcon Drilling** shortly thereafter, coming aboard in 1996 as the company's President/COO. Once again, he joined a company in the process of a massive expansion. Under the leadership of Chairman/CEO **Steven Webster**, Falcon was being transformed from a parochial, South Louisiana barge driller into a mega-contractor operating jackups, inland drilling barges, inland workover barges and a burgeoning deep-water fleet.

This period was also the kick off of the first sustained acceleration in offshore drilling activity since the '86 crash.

"Finally, instead of seeing a train, we saw light at the end of the tunnel," Mr Stewart said.

In 1998, Falcon merged with **Reading & Bates Corp**, forming one of the largest and arguably the most diversified offshore drilling firm in the world. Counting its inland drilling and workover barges, the R&B Falcon fleet numbers 118 marine units, the world's largest.

The new R&B Falcon comprises 2 operating subsidiaries—R&B Falcon Drilling (US), Mr Stewart's charge, and **R&B Falcon International Deepwater**, which

manages the deepwater rigs. R&B Deepwater's President is **Andrew Bakonyi**.

"R&B Falcon," he said, "is stronger than the sum of the 2 companies. We've been able to participate in a wider variety of markets."

The numbers of drilling contractors, operators and service firms will continue to thin, Mr Stewart believes. The advantages are too substantial to pass up.

The bright resurgence is now on hold, however. "The situation today," Mr Stewart remarked, "is a return to the horror stories of the past. I do not believe that

this downturn will be nearly as long-lived as that in '86. Then, the industry thought energy prices needed to be very high. Upon looking back, I don't know how we thought the world economy could support those levels of prices."

Now, of course, expectations are much lower, having been hammered by years of weak oil prices. Instead of looking for a \$100 per-barrel rainbow, operators laid operating plans based on a more realistic—and historical—\$17-\$20. Current weakness below that traditional band is something of an aberration when one

considers associated evidence, Mr Stewart contends.

First among these is the excess capacity issue. In the mid-1980s, the world was literally awash in oil, despite record-setting prices early in the decade. For example, that surplus production totaled nearly 14 MM bbl/day. That has fallen to only about 2 MM bbl/day currently, leaving very little elasticity in supply, should demand accelerate.

"Economic growth will take up some of that excess over time," Mr Stewart said.

Along with that, the lackluster drilling

activity of the last 15 years had added very little new production capacity. Consequently, depletion looms very large, Mr Stewart noted.

"We cannot maintain current production levels without drilling," he said. "This is the upcoming factor that is probably not being fully considered."

Almost certainly, the world is due for substantial increases in oil prices. The question is sooner or later. "Sooner" could mean as early as the middle of 1999; "later", perhaps the middle of 2000.

"The wild card is what the growth in demand will be," Mr Stewart said. "The supply overhang is the thinnest since World War II with oil and similar with gas."

The world, therefore, is headed dead on for a major market collision that could leave some markets under supplied. There will be substantially more pressure to bring more energy to market. "This will have a major impact on how the whole world functions," he said.

Another central issue for the E&P business is the ballooning cost of equipment replacement, especially offshore. New-build jackups that once would have cost \$40 million cannot be manufactured today for less than \$120 million—a three-fold increase. As for floaters, contractors and operators are looking today at some \$300 million for new construction, nearly 4 times its \$75-80 million price tag just a few years ago. That was when no one had any notion of building new equipment. Activity was far too low.

When utilization tightened, however, especially in the deepwater arena, construction costs rapidly escalated.

"What operators didn't understand is that replacement costs for drilling contractors are almost 4 times what they had been," Mr Stewart said. "Therefore, dayrates had to rise proportionately, reaching levels never seen before, as much as \$185,000-\$200,000/day, along with 3-5 year commitments. It had to be this way to justify these enormous capital investments."

Skyrocketing dayrates do not mean, however, windfall profits for drilling contractors. Instead, internal rates of return remained essentially unchanged at some 15%-17%.

"The way the picture was painted, drilling contractors were raking in obscene profits," Mr Stewart said. "It wasn't that way at all. There was no substan-

tial change in profitability for the contractor.”

Contractors, in addition to funding a massive wave of new construction, also increased wages for crews. These raises were not only long overdue, thanks to the long depression, but a business necessity to retain increasingly scarce qualified personnel.

What has long been needed by contractors, in times lean and flush alike, is long-

'We cannot maintain current production levels without drilling'

term stability in contract term, Mr Stewart says.

Still, equipment designed in earlier eras have provided surprisingly long service tenures. Inland barges in use today, for example, were originally designed with a decade-long operational life in mind. But these units have operated for some 20-25 years. Mr Stewart, who commands more of these units than anyone else, estimates the average age of the barge fleet at about 20 years. A like story can be made for jackups and, except for extending depth capability, floaters.

“Contractors have become extremely adept at extending the life of equipment,” he said. “As long as you have a structure to put equipment on, you have a workable rig. It all comes back to the steel.”

There are exceptions, of course. These are mainly units designed for special applications. These include new-build harsh-environment jackups, such as those of **Rowan Companies** and **Santa Fe International**. Another unique case is the arctic barge rig built by **Parker Drilling** subsidiary **Mallard Drilling** for year-round operation in the Caspian Sea.

Beyond those, deepwater has generated the excitement. It has been the most exciting development since the boom of the late '70s.

“The market that has breathed fresh air into the whole industry has been the deepwater market,” Mr Stewart said.

“It's basically a whole new world. The next few years as we learn how to operate in deepwater will be exciting.” ■

IADC announces '99 conference lineup

IADC'S 1999 CONFERENCE schedule examines the range of issues important to the global drilling industry—HSE, contracts and risk management, technology, land and offshore drilling issues, well control, international taxation, regional concerns, finance and market concerns, training, management, government affairs and more.

This year, IADC is sponsoring 10 conferences and a golf tournament. In addition, it will co-sponsor 2 events with the **Society of Petroleum Engineers** and serve as Endorsing Organization for the **Offshore Technology Conference**.

The IADC Underbalanced Drilling Conference is a new addition to the Association's lineup. This new conference, being held in the Netherlands during October, is being organized under the auspices of the IADC Underbalanced Operations Committee.

IADC's 1999 conference lineup is:

- IADC Health, Safety & Environment Conference, 11-12 Jan, Westside Marriott, Houston;
- IADC Contracts & Risk Management Conference, 4 Feb, Sheraton North Houston Hotel;
- IADC Directors & General Membership Conference, 7-8 March, The Grand Westin, Amsterdam;
- SPE/IADC Drilling Conference, 9-11 March, Rai Congress Centre, Amsterdam
- IADC Spring Golf Tournament, 21 April, Tour 18 Golf Course, Houston;
- IADC Land Contractors Day, 22 April, Sheraton North Houston Hotel;
- IADC Well Control Conference for Europe, 2-3 June, Forte Crest Hotel, Milan;
- IADC International Tax Seminar, 3-4 June, Westin, Washington;
- IADC Well Control Conference of the Americas, 25-26 Aug, Wyndham Greenpoint Hotel, Houston;
- IADC Eastern European Regional Conference, 21-22 Sept, Crowne Plaza Bucharest Flora;
- IADC Annual Meeting, 29 Sept-1 Oct, The Houstonian, Houston;
- SPE/IADC Middle East Drilling Confer-

ence, 8-10 Nov, Hotel Inter-Continental, Abu Dhabi;

- IADC Underbalanced Drilling Conference, October, The Hague.

Programs are available currently for the IADC Health, Safety & Environment Conference, IADC Contracts & Risk Management Conference, IADC Directors & General Membership Conference and the SPE/IADC Drilling Conference.

DO AMSTERDAM IN MARCH

Amsterdam in March will be the nerve center of the global drilling industry. First, on 7-8 March, drilling executives attending the IADC Directors and General Membership Conference, will hear presentations on technology, finance and markets, HSE, training and more from top experts with industry and government. Call The Grand Westin for hotel reservations (31/20 555 3 555; fax, 31/20 555 3 222): The cut-off date is 20 Jan.

Then, on 9-11 March, the SPE/IADC Drilling Conference will convene. This, the premier technical event for the industry, will feature 3 plenary sessions and more than 70 technical papers.

FOR MORE INFORMATION

To receive a copy by fax or for other information about any of these conferences, contact IADC headquarters at 1/281-578-7171 (fax, 1/281-578-0589) or our European office, 31/318-645-999 (fax, 31/318-645-723). Conference programs are also available on IADC's website at <http://iadc.org>. ■