EDITORIALS

From the Chairman

A DEAL IS A DEAL!

AS WE RIDE the roller coaster that we call the worldwide oil and gas business, it's a constant wonder just how abruptly changes can occur. Just like the old saying about Houston weather, anyone who doesn't like the times we're in, just wait awhile—it'll change soon. Also like the weather, there appears little those in the producing and service community can do about oil and gas prices.

Bernie W Stewart, Chairman

The unprecedented drop in oil prices the industry has endured in the last several months has created tremendous economic pressures for all in this business. Drilling contractors were once again forced to reassess their ability to maintain the infrastructure of people and equipment we had so painstakingly begun to rebuild.

This process, I must add, has not been helped by some operators' reaction to their own suddenly lackluster economic circumstances. Over the last few months, there have been several instances of operators pressuring drilling contractors to renegotiate at lower rates contracts that oil companies had acclaimed as models for the future just a few months earlier. To bring this pressure to bear, some oil companies have taken to scrutinizing contracts with a fine-toothed comb to uncover the most minor technicality as a rationale for cancellation.

The reason is obvious. Lower oil prices have changed the operator perspective. Signing a five-year contract at yesterday's market rates seemed smart when yesterday's oil price was $20. It seems a millstone at $14 oil.

The temptation to wriggle out of an honorable agreement is understandable. But I'm here to tell you that a deal is a deal. Waffling on firm commitments is not the much-ballyhooed spirit of partnership that has inspired contractors to invest in equipment, upgrade fleets and attract new people to our industry. This experience of changing contracts in the middle of a stream has made the contractor community wiser but sadder. It will be interesting to follow events when the roller coaster rocks back up in the next cycle.

And that upward cycle may now be upon us. Like the cavalry riding to the rescue, oil prices have strengthened in recent weeks. However, it's important to recognize that even as oil companies replenish their coffers, contracts for drilling and services will lag. It may not be until next year that exploration and development budgets strengthen. And that's assuming that the recovery in oil prices is sustained.

Regardless of the dirction of oil prices, though, there are a couple of key objectives we as an industry must continue to pursue. First, we must continue to improve our technology in order to continue to decrease our finding and production costs and make our industry ever more efficient.

Secondly, we must not impair our long-term ability to perform our services—whether times are good or bad. For operators, the challenge is to retain the knowledge and manpower necessary to respond to an upturn in activity. For contractors and service companies, we must preserve that same knowledge and experience for stronger markets. We must ensure that short-term demands do not impair the ability of our equipment to perform in the long term. We must also resist pressure from short-term thinkers in the investment community.

The quest to improve performance continues. Improving drilling plans for safer and more efficient operations is a continuing challenge, and one that has brought the industry's ingenuity to bear.

The upshot is that the gap between energy supply and demand is inexorably shrinking. The fuse on the bomb is lit, the only question is how long the fuse is. It remains for us to not only manage our resources cautiously, but to retain a solid foundation upon which to grow when the inevitable—and I believe significant—turnaround arrives. ■

From the President

DRILLING IN AN UNCERTAIN MARKET

IF YOU HADN'T REALIZED it already, it's become painfully obvious that the only certainty in the E&P Business is uncertainty. For most of us, our stomachs still haven't settled from the last ride on the roller coaster of energy prices. Now we find ourselves sailing again onto uncharted waters of uncertainty. IADC's 1999 Annual Meeting seeks to shape some substance in this fog.

Lee Hunt, President

This event, 29 September-1 October at Houston's Houstonian Hotel will focus on how the industry is responding to the uncertainty that energy prices have thrown us—first through the rapid build up in anticipation of a long-term up cycle, then the unexpected retrenchment as energy prices fell to a new low. These phenomena, combined with mergers and acquisitions among producing companies at a previously unmatched scope and pace, have brought about sharp swings in personnel and equipment availability, and rig utilization.

How will the industry persevere on long- and short-range projects in the face of uncertain commodity and market conditions? What are the real drivers in the changing E&P and oilfield service industry? What's the most productive niche for your company?

This conference will chart a course for our industry from multiple perspectives—technology, rig supply and demand dynamics, commodity economics, finance, management, government and regulatory affairs.

The 1999 IADC Annual Meeting, the premier technical and managerial event for the drilling industry, is also a terrific opportunity to visit with colleagues, competitors and customers alike.

Complete programs will soon be available. See you there! ■