DRILLING
CONTRACTOR

DRILLING AHEAD

# Never fear! Notwithstanding high crude, volatility alive and well!

Mike Killalea, Editor & Publisher

**COMMODITY PRICES HAVE** risen Phoenix-like from the ashes of $10 oil, but don't expect it to last, analysts warn. The volatility that has always marked the E&P business still marks time in the shadows.

Competing analysts rarely agree with unanimity on any point, but on this they speak as one. On the optimistic side of the volatility issue, **Marshall Adkins** or **Raymond James** predicted, "Oil prices are likely to remain strong throughout 2000. Of course, there could be substantial volatility associated with the return of OPEC production, but the fundamentals suggest that this volatility will be short-lived."

Raymond James in February raised its oil-price for 2000 to $25/bbl.

Tackling volatility from the rig-count perspective, **James Wicklund**, **Dain Rauscher Wessel**, observed that the industry appears to move in 40-month cycles. Mr Wicklund made his remarks at the 2000 IADC Health, Safety and Environment Conference in Houston.

The problem, indicated **Joe Stanislaw**, President of **Cambridge Energy Research Associates**, is that oil prices soar or sink out of proportion to the level of supply shortfalls or surpluses.

"All we know," he said, "is that if we have one barrel too many, the price goes down; one barrel too little and the price goes up."

## OPEC: UNUSUAL UNITY

The future, Dr Stanislaw said, depends on OPEC's ability to manage the oil market—and, in particular, its spare production capacity. The cartel now enjoys, he said, a 6-MM bbl/day supply "bubble". There is, therefore, the CERA president said, no danger of a supply-demand "train wreck".

The cartel has demonstrated remarkable unity of late, given its often-fractious history.

"The biggest surprise at the end of the century is OPEC's ability to hang together," Dr Stanislaw said.

Dr Stanislaw doubts OPEC at its early March meeting will agree to increase production quotas. However, he expects quotas to rise by the second quarter—perhaps as early as late March.

Despite OPEC's newfound discipline, though, foreseeing the cartel's behavior is no easier than in the past. The **Arthur Andersen**/CERA oil-price forecast, underscored by this uncertainty, can only predict with confidence a broad range for 2000. The good news is that these numbers are on the pretty side of $20—anywhere from $22-$30 for West Texas Intermediate.

However, the record levels reached in February are unlikely to be sustained. "I do not believe there is a permanently high threshold for oil prices," Dr Stanislaw said.

## WORLD OIL TRENDS 2000

CERA and Arthur Andersen in early February released their joint "World Oil Trends 2000" study. On the supply side, the study found that world crude oil production fell nearly 1.9% to 64.88 MM bbl/day in '99, from a record output of 66.12 MM bbl/day in '98. This, of course, was mainly a product of production cuts by OPEC and large non-OPEC producers, such as Mexico and Norway.

Meanwhile, demand grew by 1.6% worldwide to a record 75.26 MM bbl/day. Asia alone rebounded 3.0% to 19.98 MM bbl/day, recovering much of the ground lost in '98.

Inventories have declined sharply. The study found that oil inventories of OECD countries at the beginning of the year stood at about 3.7 B bbl, down 156 MM bbl from levels of the previous year. This level of stocks represents 83 days of fuel consumption ("forward consumption")—4 days less than a year earlier and the fewest since 1980.

Company-held crude inventory levels in North America declined 6 days to 52 days of forward consumption, the lowest level of coverage on record.

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# CAPITAL WIRELINES

## Closure nears on Working Time Directive

**BRUSSELS**—The long-running (9-year!) effort to conclude a final Working Time Directive in the **European Union** is moving toward a closure that the offshore industry can live with. The best news is that the **UK Department of Trade and Industry** generally sees eye to eye with industry.

Still remaining are some small, but potentially significant nuances of wording that could dictate the level of employer-employee negotiation followed as EU Member States implement certain sections of the Directive. Specifically, this issue centers on extending from 6 months to 12 months the length of time that workers are covered by a given union contract. Industry worked hard to allow for the 12-month option. As opposed to 6 months, the 12-month time frame would greatly facilitate completely rostering offshore compliments.

There are 3 versions of Article 17a(3), the disputed passage. The common position of the **European Council**, established in June 1999, reads, "Subject to compliance with the general principles relating to the protection of the safety and health of workers, Member States may, for objective or technical reasons or reasons concerning the organisation of work, extend the reference period referred to in Article 16(2) to 12 months in respect of mobile workers and workers who mainly perform offshore work".

The second version is that of the **European Parliament**, developed in November 1999 (additional text in italics): "Subject to compliance with the general principles relating to the protection of the safety and health of workers, *and provided that there is consultation of and negotiation between representatives of the employer and employees concerned,* Member States may, for objective or technical reasons or reasons concerning the organisation of work, extend the reference period referred to in Article 16(2) to 12 months in respect of mobile workers and workers who mainly perform offshore work".

The third version is a thus-far unofficial proposal from the **European Commission** for a compromise within the conciliation process. This version, with italics again setting off text that differs from the first, reads "Subject to compliance with the general principles relating to the protection of the safety and health of workers, *and provided that there is consultation of and efforts are made to encourage negotiation between representatives of the employer and employees concerned,* Member States may, for objective or technical reasons or reasons concerning the organisation of work, extend the reference period referred to in Article 16(2) to 12 months in respect of mobile workers and workers who mainly perform offshore work".

The European offshore oil and gas industry prefers the Council's position. This is not only the simplest wording, but clearly the most easily implemented. The other 2 alternatives present a real problem for industry, since no single negotiating body or collective agreement covers the entire offshore industry, in Europe and especially in the UK.

Further complicating the issue of negotiations, a wide range of different employment practices and agreements exist across the EU and across different segments of the offshore industry.

Consequently, the most logical proposal is the first. This text not only protects offshore workers, but it preserves industry competitiveness and, consequently, the critically important jobs industry provides.

As DRILLING CONTRACTOR was going to press, IADC Senior Vice President-Government Affairs **Brian T Petty** and **Brian Raggett** of the International Association of Oil and Gas Producers met to discuss the issue.

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current spate of bullish commodity prices is the relative torpor with which producers are moving to invest. While budgets are certainly higher than those of dismal 1999, producers are far more languid than they have been on the all-too-rare past occasions when oil went stratospheric.

Said Dr Stanislaw, "There is something profound in the industry. There is no euphoria—no irrational exuberance."

He observed that the current era of high oil prices is the most prolonged without reflexive E&P investment. Producers, he predicted, will hold off on significantly increasing spending until several more months of high oil prices have elapsed.

### WHITHER OILFIELD SERVICE?

This, of course, is not news of good cheer for the oilfield service business. What message should they read into all this? Advises **Victor Burk**, Managing Director-Energy Industry, for Arthur Andersen, service firms must restructure and, especially, implement e-business strategies.

### DRILLING THE INTERNET

Of course, no one has yet drilled a well with the Internet. I remain firm in the belief that actual drilling rigs have a distinct role to play in the well-construction process. However, the Internet can help the sequence along enormously while cutting costs significantly, many, including Messrs Burk and Stanislaw, contend.

**Schlumberger**, recently launched the online service www.IndigoPool.com to market oil and gas properties and data. The company cites numerous advantages to E&P firms, including global exposure, improved asset evaluation, and quicker asset disposal, which means mega-buck savings to producers.

Schlumberger Chairman/President/CEO **Euan Baird** says the oil industry is probably behind the curve in the use of e-commerce, relative to some other industries, notably the automobile business. However, he observed that the issues are different for the E&P business. Our industry purchases relatively few products in quantity, a key ability the Internet efficiently facilitates. Plus, he added, the value added to many oilfield products lies in its application, rather than its initial cost.

Nonetheless, the Internet will doubtless prove an indispensable tool in the quest for greater efficiency.

Mr Burk urges greater use of e-strategies for E&P, as well as service companies at what he considers a critical juncture.

"The industry is undergoing a fundamental change," said Mr Burk.