EDITORIALS

From the Chairman

PUT A BIT ON THE BOTTOM!

AFTER SEVERAL MONTHS of severe disconnect between oil and gas prices and drilling activities, a number of indicators point to a turnaround, both for the near and long terms. First, energy consumption is linked to national Gross Domestic Product. The US, Western Europe and the Middle East consume large amounts of energy and enjoy high standards of living, i.e., high per-capita GDP. So-called "developing" nations are at the other end of both scales. Yet many of these countries are the economic engines of tomorrow, with economic growth far outstripping that of the US and Europe. China, for instance, has all but cornered the market for scrap metal. In their stunning economic surge, they are likewise pressuring energy supply.

Marion M Woolie, Chairman

Oil and gas will meet most of this demand growth. Out through 2020, energy sources like biomass, nuclear, hydroelectric, wind and solar are expected to increase dramatically, compared to today. Still, those sources will meet only a fraction of demand.

Meanwhile, demand for natural gas is projected nearly double, while thirst for oil will grow by 25%, compared to 2000.

At the same time that demand for these commodities is accelerating, production from existing fields is declining sharply. One study anticipates that world oil production must increase by 55 MM bbl/day by 2015—18 MM bbl/day to meet rising demand, and a whopping 37 MM bbl/day to compensate for depletion. The picture is similar for natural gas—119 B cu ft/day to meet new demand, and 128 B cu ft/day to replace dying fields.

That's great for 5-10 years down the road, but how about today? There's good news in the near term, as well. The era of major expansion through acquisitions among operators is flattening out, if not completely over. Raymond James, in a recent analysis, noted that opportunities for acquisitions are growing rarer. The analysts found, in a recent study, that E&D spending for this year could rise to $17.1 billion, 26% above 2003. This level of spending would constitute a 15% increase over the operators' initial budgets.

As for rigs, ODS-Petrodata predicts that worldwide drilling demand for jackups, semisubmersibles and drillships will increase by 26 rig years in 2004. This would be the highest since 1997. The biggest gain will be in the jackup market, where rig demand is expected to grow to 329 rig years this year from 309 in 2003.

The upshot is that to meet surging energy demand, we must drill more wells. To do so means investments in people, HSE and technology. In turn, we need access to promising exploration arenas and non-adversarial regulation.

From the President

THREE PART HARMONY

IF YOU ATTENDED any conferences this year, then you've heard officials, high and low, speak of the imperative to achieve an injury free workplace. They preached zero tolerance of accidents, advocated a step-change in safety culture, and demanded corrective action. Now! They did all but one thing: admonish themselves for putting national pride and agency preferences ahead of concerted action aimed at safety on the rig.

For example: Rig crews are trained to respond to the general alarm by taking specific precautions to assure their safety. The International Maritime Organization's Code on Alarms and Indicators, which governs rigs registered in states that subscribe to the Safety of Life At Sea (SOLAS) Convention, states that a flashing red light (the highest level of general alarm) should indicate a fire.

Lee Hunt, President

Picture this: its midnight; tour change is made; half the crew is at work; others head for a late meal, some to bed, and a few to the recreation room. Suddenly, a red light flashes in the quarters, in the engine room, on the drill floor and in the galley. Fire! Fire! All hands to fire stations! Yes, that's true, if you're on a rig in Norway or the Netherlands. But, if your rig is working in the UK, you would be doing the wrong thing. Regulations state that "gas" is the highest level of danger, not fire. Grabbing a fire hose instead of a gas mask could be fatal.

When a rig moves from Norway, the Netherlands, Germany, Denmark or the UK into one of the other countries the alarm systems must be changed to comply with national regulations that are given precedence over the IMO/SOLAS codes. This is as simple as re-programming a computerized alarm system or as expensive as replacing alarm equipment. That's the hardware solution. But, what about the software? The people on the rig? They need to be "re-programmed", too. This means redundant and expensive re-training for the crew. How reasonable is it to assume that a crew member who last worked on a rig in one country will return to his rig the next hitch (after it has been moved to a different national shelf) and wake up in the middle of his rest remembering that red no longer means Fire! But, now it means Gas!

Are we doing the right thing for the safety of our workers if we allow conflicting a national standards to override an international code designed to "program" each member of the crew to perform tasks essential to their survival? It's time to "harmonize" high-level alarms aboard mobile offshore drilling rigs, wherever they are working. We need to act cooperatively, singing the safety song in unison. Harmonizing standards in the interests of the workers on the rig, and not merely accommodating the preferences of bureaucrats, is the true imperative. Harmonization is the step-change. It is the corrective action that needs to be taken. Now.