

EDITORIALS

From the Chairman

WELCOME BACK TO THE RODEO!

WELL, LUCKY FOR US this is not our first time at the Price Crunch Rodeo. There's nothing new about abrupt cycles in this business, and anyone who has survived this long knows it. What we need to focus on now is the differences between this downturn and the last—the Big Bust that followed the Big Boom. At that time, oil supply overhung demand by something like 37%. The world was truly awash in oil in 1986. And remember the gas bubble that ran on the roller coaster's parallel track? Today the supply-demand picture is far different. This glut is razor thin, about 5% ahead of demand.



Bernie W Stewart, Chairman

There are other positive signs. Three of them were recently highlighted by analysts at **Dain Rauscher Wessels**. First, the newly elected president of Venezuela is making conciliatory noises to fellow OPEC members, indicating that his nation might well improve compliance with OPEC quotas.

Second, winter is upon us and promises a more heavy-handed Jack Frost than the balmy El Niño-wrought season of last year. This could boost natural gas prices, good news for all of us.

Perhaps the greatest positive indicator is that economic activity is finally beginning to inch up in Southeast Asia, the analysts note. Except for Japan, recent studies anticipate regional growth in Gross Domestic Product. Any improvement in Asian economies will put oil-demand growth on the right track. It was, in large part the region's sudden economic shock that cut oil prices off at the knees. Dain Rauscher's watchers say that Asian oil demand should pick up the pace by the second quarter of 1999, with prices rising in advance of the actual growth in demand.

(Here I want to plug our upcoming 1999 IADC Directors and General Membership Conference, 7-8 March in Amsterdam, just ahead of the SPE/IADC Drilling Conference [9-11 March in the same city]. At our Directors Conference, Dain Rauscher Wessels Managing Director **Jim Wicklund** will share his thoughts on the outlook for our industry. His presentation is entitled "Oil-field Activity: What's That Light at the End of the Tunnel?", which should give you a clue about his level of optimism. The conference will also feature many other outstanding presentations, and I hope you can attend. Call IADC in Houston or the Netherlands to learn more.)

We should all recognize that ours is a cyclical industry. If you get seasick from the ups and downs, it would be wise to move on, because the roller coaster is a fact of life in the E&P business.

What we can hang our hat on, though, is that as the commodities overhang continues to narrow, the inevitable downturns will grow ever shorter.

AN INTERESTING YEAR AHEAD

"May you live in interesting times" is an old Chinese curse. If we hadn't understood the nuance of that statement before, today's anemic oil prices have made the message crystal clear.

Still, I look forward to serving as IADC Chairman during 1999 and am grateful to the Board of Directors for honoring me with this post. I plan an active schedule of speaking engagements on IADC's behalf. I have been in this business a long time and have long enjoyed and profited from my association with IADC.

Even more, I look forward to the opportunity to visit with drilling contractors around the world. That's the thing with drilling contractors: When I'm with one, I'm always at home, no matter where I am. ■

From the President

OVER A BARREL

THE ONGOING WEAKNESS in oil prices has taken its toll. You might say low prices have us over a barrel. This time of uncertainty and stress is, however, an ideal time to review the lessons of past debacles. There are 3 basic principles that brought the survivors through tough times and ultimately brought prosperity to a lean drilling and production industry.

First is restructuring, both institutional and philosophical. Mergers and consolidations have been a dominant theme of this decade. Through institutional restructurings, companies reduced costs, optimized goals and operations and improved their bottom lines.

On a philosophical basis, rethinking customer-supplier relationships wrought alliances and partnerships that truly resulted in win-win operations. Service firms and suppliers even found innovative ways to build alliances that ultimately bring value to their customers.



Lee Hunt, President

The second key principle is the absolute necessity of ensuring excellence at core competencies. In the end, delivering quality performance boils down to the quality of people in our organizations and the quality of training we provide them. At the same time, this industry must maintain its commitment to accident prevention and to environmental protection. Laxness in these areas have the potential for more harm than the inevitable vagaries of the E&P cycle!

Finally, we cannot forget the vital role technology played and continues to play in pushing down finding costs and improving efficiency. Decreased finding costs translates to higher profits even at lackluster commodity prices.

If we focus on these 3 key principles, economics may get us down, but never over a barrel. ■