Grethe K Moen. Photo: Emile Ashley

START OF A NEW ERA

The consequences of the industry's cost-cutting measures became clear in 2015. Our sector must adjust to a radically different reality. We are at the start of a new era.

When looking back on 2015, our first reference must be to the fatal accident on the *COSL Innovator* drilling rig while it was working on the Troll field just before the end of the year. This incident shows that our health, safety and environmental (HSE) performance is not good enough, despite the positive trend in statistics for this area.

Permanent changes are now clearly visible in three fundamental areas which are crucial for value creation in the oil and gas industry. First, the prospect that prices will remain weak and the great uncertainty over future developments mean the industry has become very concerned with downside protection. Second, the outcome of the climate summit in Paris during December 2015 has contributed to increased uncertainty about the market for our products, while clear expectations exist for more environment- and climate-friendly production. Finally, the reorientation in oil company strategies over the past couple of years from volume growth to a concentration on margins and profitability has led to a further shift in the same direction taken by all other industries exposed to competition, with attention centred on productivity and efficiency.

An unavoidable effect of a general reduction in costs is the loss of income opportunities for the oil sector and the supplies industry. Costs can only be cut by reducing input factors and improving efficiency. A visible consequence is downsizing and, in the final analysis, closing down. The people who are personally affected must adapt, but the big transfer value of moving expertise from the oil and gas sector to other areas will ultimately benefit everyone.

Petoro could proudly deliver a cash flow of NOK 94 billion to the government in 2015. This demonstrates that revenues from oil and gas activities remain a cornerstone of the Norwegian economy. We see that a weaker Norwegian krone and good production contributed to high revenues despite the fall in oil prices. We could already see results in 2015 from efficiency and cost improvements in our portfolio.

Drilling costs on a selection of our fixed installation have halved and field costs – that part of operating expenses which is easiest to influence – are down by almost 20 per cent on some important fields.

These improvements have been achieved

more quickly than expected. That shows a substantial improvement potential has existed and is still present. From now on, however, new instruments will be needed to realise the remaining potential. Reduced activity and pressure on margins will not be enough. So it is encouraging that we see opportunities for further efficiency gains, in part through the use of innovative technology and new, more efficient forms of collaboration. The existence of a big remaining potential is confirmed, for example, by an updated analysis of the time taken for sub-operations related to drilling. Following a doubling in the duration of standard sub-operations over the past 20 years, we have now succeeded in recovering some of the lost ground. But by no means all.

We know that much of the cost improvement derives from reduced margins in the supply chains. Retaining enough margin to live off is crucial for the competitiveness of the Norwegian continental shelf (NCS). In the future, we must be more vigorous in challenging the way the operators and the supplies industry work together at every level.

Petoro has long been calling for innovation and radical changes to all processes in the industry. We have seen few examples of this so far. It is hard to believe that no company directly related to our industry is among the 50 best enterprises ranked by innovative ability in the Boston Consulting Group's annual innovation study across companies and sectors.

Our industry is complex, where reaching agreement on joint action is difficult. Being so strongly driven by competition at every level and in an international context restricts us. This makes it difficult to agree upon incentives for collective improvement and to develop a radically new mindset. But that must be done. We must decide what we are going to compete over and where we are going to collaborate. We must look to other industries which have come much further in such areas as standardisation, logistics and efficient work processes. At this moment, a lot of the right things are being said about improvement and cost efficiency. It remains to be seen whether we can manage to follow up with action in a conservative industry.

We see that a number of companies are likely to have negative cash flow, and this is determining company priorities. Earlier decisions are being challenged again and amended in a number of cases. It is therefore important to point out that we must overcome our short-term challenges in a long-term perspective and not make choices today which diminish opportunities for future value creation.

Radical improvements will yield substantial gains. Aiming for a 50 per cent cut in the investment cost of new developments would make 17 of 23 discoveries in our portfolio profitable with an oil price of USD 40 per barrel. That figure falls to two with today's level of costs.

The NCS has big potential reserves. Interest in the 23rd licensing round is one indication of that. Realising them will depend to a great extent on our ability to reduce the level of costs. We are well under way in adapting to new realities, and further efficiency improvements are both necessary and possible. That will open additional business opportunities which boost the competitiveness of new projects and of suppliers. This calls for openness and trust. We must work together, because we will not succeed alone.

"If you want to go fast, go alone. If you want to far, go together."
African proverb

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