

TAQL



SUPPLY & DEMAND – THE EFFECT
OF A SKYWARD OIL PRICE
A Marine Contractor's Perspective

29 FEBRUARY 2008

seabed-to-surface

- My background

- Acergy
 - Approx. 8000 employees world-wide

 - Currently operates approx. 20 pipelay, subsea construction and survey units

 - Consolidated turnover in 2007 approx. USD 2.7 billion

Some of Acergy's units



Acergy Polaris



Acergy Viking



Pertinacia

Some of Acergy's units



Acergy Falcon



Acergy Osprey

IMCA

The International Marine Contractors Association

- Approx. 440 members all over the world
 - Vessel Operators (200)
 - Suppliers (110)
 - Training establishments (50)
 - Personnel Agencies (30)
 - Oil Companies (45)
 - Government Organisations (5)
- Contractor members (vessel operators) employ some 80,000 staff
- Contractor members' turnover is probably in the area of USD 20 billion per annum

www.imca-int.com

IMCA - Members

International Marine Contractors

- Acergy
- Allseas
- Heerema Marine Contractors
- Helix Energy Solutions
- J Ray McDermott
- Saipem
- Subsea 7
- Technip

Contractor Members – some of the very large players

- Cal Dive
- DOF
- Fugro
- Geo
- Global Industries
- Oceaneering
- Smit
- Solstaad
- Superior
- Transocean
- etc

Oil Company Members (non-voting) – some key ones

- BP
- BG
- Shell
- Total
- Etc.

We would still like to see Exxon and StatoilHydro listed.

IMCA - Objectives

- International trade association representing offshore marine and underwater contractors
- Established to:
 - Represent the collective interests of its members
 - Interface with oil and gas operators, governments and regulatory bodies
- Main areas:
 - Health, safety and environment
 - Legislation affecting our industry
 - Contracting regime
 - Training, competence and recruitment

Contracting Regime

- Promoting more balanced contractual terms in the industry

- Why balanced terms?
 - Time to negotiate
 - Costly risks
 - Industry solidity

- Contractors are not underwriters

SUPPLY

- Very expensive assets needed.
 - Not assets you can rent in the market as “commodities”
 - ❖ Highly specialised
 - Equipment
 - Operating procedure
 - Competence in designing, engineering and executing installation work
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- Evolution from “cost plus” to “EPIC”
 - Oil price from high to low
 - even more pressure on contractors’ margin
 - Significant reduction in staff across the industry
 - When demand picked up on the back of high oil prices
 - competent people became an issue

Low oil prices



Low demand



No investments

DEMAND

- High oil prices
 - more and more complex installations
 - increasing depth of water
 - increase in risk elements
 - effect on time and cost
- Continued unreasonable expectations by customers of risk level to be taken by contractors
- Protracted and unnecessarily lengthy contract negotiations

QUESTIONS:

- Do the Customers and the Contractors have:
 - Shared view on where the risks are, what they are about, how they could materialise and the cost if they materialise?
 - Detailed and shared view on who is best placed to manage the various risks?
 - Clear and common understanding of who's margin should support cost and time consequences of each risk if materialising?

- Is the amount of risks to be covered by each party commensurate with the long term margin benefit each of them will have from the project?

ANSWER:

- In my view, unfortunately, more often no than yes.
- There appears to be an expectation by the oil and gas owners that contractors are:
 - Insurers providing insurance for free
 - In the field and if something wrong happens, it is their risk.

A Marine Contractors Perspective on the Risk Balance

- Offshore construction work is very strictly regulated
 - Authorities
 - Participants
- Activities
 - well planned
 - risk assessed.
- As a general rule, the players insure their own people and property (or choose to be self insured) against injury or damage.
- The customer has the ability to implement contracting schemes for each project where a “Contractor Group” and a “Company Group” concept is used.

The Work

- New frontiers being explored
- Risk higher
- Costs of repair higher
 - Need for better quality BAR insurances (or client indemnities)
- General reluctance to release BAR terms
- Still efforts being made to tighten terms
- Increasing deductibles
- Is there a belief that contracts see BAR insurance as profit potential?

The parties should understand whether the following is provided:

1. BAR is primary
2. Sub-contractors/Suppliers of any tier are co-assured and benefit from waiver of subrogation.
3. The policy and discovery period is not less than the warranty period.
4. All risks of physical loss or damage, including buy back of defective part.
5. Coverage for defective design, workmanship and materials, temporary works and faulty welds.
6. Standby/forwarding charges and cancellation costs extendable to all assureds.

The parties should understand whether the following is provided:

7. Recovery for offshore work:
Contract day rates.
8. Reasonable deductible
9. All Project materials and equipment included from "origin" to installed.'
10. Wreck and debris removal covered to agreed limit.
11. General Third Party liability is including:
 - i. Consequential losses;
 - ii. Seepage and pollution;
 - iii. Loss or destruction or damage to any property;
 - iv. Claims for bodily injury;
 - v. No watercraft and marine coverage exclusion.

IMCA's message on BAR insurances:

- FAIR allocation of risk
 - Project Specific Insurance
 - Clarity of risk allocation
 - Avoid duplication of insurance, gaps and unnecessary claims dispute.
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- In the absence of the Company providing an All Risk Policy, the company will be exposed, as the Contractor may look to the Company to bear the costs of such uninsured perils.
-
- IMCA wants to be a catalyst or conduit for industry dialogue.

Summary



Annex 1:

Company Group and Contractor Group Property and Personnel

Each Party is best placed to grant reciprocal, unlimited indemnities for the costs of loss or damage to the Parties' respective Groups' property and personnel of whatsoever nature, irrespective of cause (including negligence). The respective Groups should consider including all categories of parties which are involved at any point in time in the Work being performed relating to the Project.

Annex 2:

Pollution

Each Party is best placed to indemnify the other Party from the effects of pollution and contamination of whatever kind emanating from the Parties respective Groups' property and facilities regardless of cause (including negligence).

Annex 3:

Third Parties

Each party is best placed to assume legal liability for third parties' losses caused by such Party. However, in circumstances where a Contractor is required to perform work on, or in an area of close proximity to any existing facilities, the Company should reasonably be expected to indemnify the Contractor Group in full for all of the costs arising out of any loss of or damage to such existing facilities. Such indemnity would extend to cover the costs of existing facilities property, third party personnel, consequential losses and pollution effects.

Annex 4:

Project works (including both Company - and Contractor-Supplied Items):

The Contractor is best placed to assume responsibility for loss of or damage to the Project Works if such loss or damage is caused by an act or omission on the part of the Contractor Group whilst the Project Works are in the care, custody and control of the Contractor Group. The Contractors liability could be subject to an agreed reasonable maximum limit per occurrence up to an aggregate cap beyond which the Company could indemnify the Contractor Group in full. In the event such loss or damage is not caused by an act or omission on the part of the Contractor Group the Company could indemnify the Contractor Group for any or all of the costs arising out of any such loss or damage (including both first and third party costs) in full. In addition, the Company could indemnify the Contractor Group for all of the costs relating to the loss of or damage to the Project Works as a result of latent or inherent defects in the Company supplied items.

- This risk is often insured by a CAR insurance.

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