

EDITORIALS

From the Chairman

OUTLOOK POSITIVE FOR CONTRACTORS

THE UPTURN IN commodity prices and increase in rig utilization during the past year presents drilling contractors with a significant opportunity to improve profitability and invest in the future. Initially, improved cash flows offer drilling contractors an opportunity to improve balance sheets and to make the capital investments needed to return cold-stacked rigs to the field.

In a business that is deeply cyclical, it is critical to generate solid margins in the up-cycle and create as much liquidity as feasible to weather lean times.



Thomas P. Richards, Chairman

But the potential of a sustained improvement in industry fundamentals is of even greater significance at this juncture. IADC is leading a study requested by the National Petroleum Council on quantities and types of drilling equipment that will be needed over the next two decades.

Most analysts agree that the number of wells drilled each year must increase significantly if oil and gas demand are to be met. Completing the wells needed will require a larger rig fleet. And many existing rigs of all types—both land and offshore—will have to be replaced in the next 15 years.

Expanding and upgrading the worldwide drilling fleet will be a daunting capital challenge.

Our industry's return of 5%-10% a year over the past decade is consistently below the S&P 500. Given the risk of investing in a cyclical industry, we should outperform the indexes if we expect to attract investors and meet our capital requirements.

The industry has done a good job of reducing costs and will need to continue that trend. IADC's multi-dimensional efforts on behalf of drilling contractors help enormously in the battle to keep costs down.

Our industry will have to continue to rely upon technology and safety improvements to produce significant cost savings. With a decline in finding costs of nearly 40% in the past two decades, technology will lead our efforts to enhance productivity.

Improved technology in bits and fluids, 3-D seismic, directional and multilateral wells and other enhanced completion techniques have increased efficiency and reduced drilling days and costs. As we strive to improve efficiency and lower costs, we must keep safety paramount among our objectives. Our industry is committed to the protection of our employees and to providing a safe work environment.

The statistics tell this story. Over the past five years, the industry's accident rate has declined by 55%.

Protecting our employees is in itself a worthy goal. In addition, observing safe operating practices achieves significant cost savings and productivity improvements.

There is no reason for our industry to commit to anything less than an accident-free operating environment.

But that commitment must come from top management, along with the commitment to hire and retain a new generation of employees that will share our safety concerns. ■

From the President

STAR BRIGHT

"That's where daddy works." The young mother pulled her 6-year-old son along by the hand to the next exhibit. "Does he sleep in a little bed like that?" the boy asked, pointing to a double bunk. "Mmmm. I think so", replied his mom. "Wow! That's neat!" the tot chimed.

"Do you think it's dangerous?" an elderly woman asked the gray haired gentlemen, tightening her grip on his arm. "Naahh, now don't worry, mother, he knows what he's doing out there," he said soothingly.

Where do conversations like this occur? Aboard the OCEAN STAR, the drilling industry's premier offshore drilling museum in Galveston, Texas. Educating the public about the oil and gas exploration and drilling industry is a monumental task. Numerous regional industry museums serve this purpose: Galveston, Texas; Midland, Texas; Beaumont, Texas; Morgan City, La; Tyler, Texas; and Stavanger, Norway (see p 62 for a sampling).

Snug up against the island city's "mosquito fleet" of shrimp boats, the derrick of the Ocean Star casts a long shadow across the wharf, almost (but not quite) eclipsing the majestic masts of the historic sailing ship, Elissa, a nautical museum paying homage to the days of sail.



Lee Hunt, President

Today, visitors to the Ocean Star can gaze across the Galveston Channel and see the titans of offshore drilling in port for shipyard work: a half dozen semisubmersibles, jack-ups and drill-ships line the far shore, awaiting upgrades to send them back to deeper seas. They are working rigs that breathe life into the tableaux models inside the Ocean Star's museum. Many Ocean Star visitors are families of offshore workers. It's their only chance to see and learn something about the world offshore, where their sons, husbands and fathers toil.

The Ocean Star, and the other fine museums around the oil patch, can exist only if the industry contributes generously in terms of time, equipment, volunteer labor and funds. So far the efforts are admirable and the results remarkable. If you and your company are not involved in supporting this excellent approach to public education, then it's high time to do so. ■