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The time for radical change is now

UKCS upstream supply chain collaboration survey

December 2016

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About this report

Methodology

This report is based on the results of a confidential, electronic survey conducted with industry participants in the UK Continental Shelf and the Netherlands in September and October 2016. The data and analysis of the results are presented in the report anonymously in an aggregated format.

Demography

107 and 47 people responded to the survey in the UKCS and the Netherlands respectively. There is an even split within functions (finance, engineering/ projects, operations, procurement/logistics and strategy) and job titles (board member, executive and senior management, mid-management and others – mainly project managers).

1. Foreword



Foreword

Welcome to the second edition of the Supply Chain Collaboration Review and Index.

Oil and gas companies in the UK Continental Shelf (UKCS) have continued to cut capital and operating expenditure in response to low oil prices in the past 12 months. But, with most tactical steps to cost reduction already taken and no end in sight to the oil price rout, it is now time for companies to decide whether to continue on the same reactive route or to take more radical steps and build more agile, sustainable businesses.

Collaboration is still very much a buzzword in the UKCS. It covers a wide range of activities and behaviours because there is no accepted definition of what it means. Our report uses a framework, which we developed to measure and analyse the change in attitudes over time in an oil and gas context.

The second UKCS Upstream Supply Chain Collaboration Survey (Survey), which forms the basis of this Review and Index, was conducted in September and October 2016. It looks at how behaviours towards supply chain collaboration have changed in the tough operating environment since September 2015.

The Survey has seen two major developments this year. First, it was jointly run with Oil & Gas UK. The Index is now the measurement tool for its Industry Behaviours Charter and provides confidential feedback to companies on its board. Second, Monitor Deloitte ran a parallel survey in the Netherlands. A number of charts in this report highlight the major behavioural differences between the two countries.

Our report has three main parts:

- **the Collaboration Review** covers the level and quality of collaboration across the UKCS and discusses attitudes towards collaboration
- **the Collaboration Index** measures the effectiveness of companies as partners in collaboration. While individual company scores are kept confidential, the aggregated Index scores published here give an indication of how effectively operators and suppliers collaborate
- **the Framework for Action** provides guiding principles that companies can follow to make collaboration more effective and drive real transformation in supply chain performance.

We would like to thank both Oil & Gas UK and our Dutch colleagues for their contribution to the report. We would also like to thank the survey participants for providing us with their views and welcome your feedback.

Bevan Whitehead

Oil & Gas Leader

2. Executive Summary



Executive Summary

The results of our Survey show some welcome industry developments: participants said they collaborated more now and viewed collaboration as crucial for their future. A higher proportion of respondents also considered their collaborative relationships to be more successful than last year. Much of the improvement in the results came from suppliers. Overall, there is more talk and awareness in the industry about collaboration: collaboration is becoming the 'sine qua non' of the oil and gas sector.

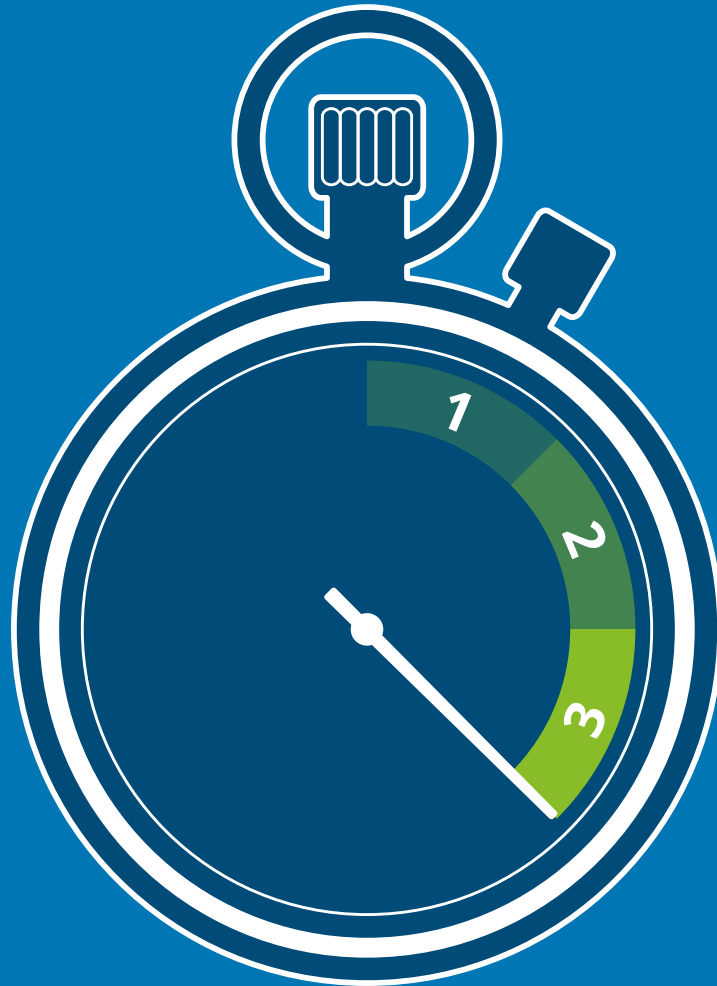
While there may be considerable levels of enthusiasm, there is less evidence of radical, industry-wide behavioural change towards collaboration in the UKCS. Cost reduction is still the main reason to collaborate, although many operators are now more open to discuss new ideas and solutions with a wider set of companies. Suppliers are more focused on selling than ever, so operators' and suppliers' incentives continue to be misaligned and much of the adversarial behaviours – the organisational siloes and rigid company structures – still persist. There is also little change in what makes collaboration efforts successful: a small number of proactive people with trusted relationships and the ability to ensure an equal share of the benefits of collaboration still dominate. The use of business strategy, leadership, resources and personal incentives to encourage supply chain collaboration has only slightly improved from last year.

Results from the Netherlands confirm anecdotal evidence of higher level of supply chain collaboration. This is primarily down to operator behaviour. Dutch operators focus their collaborative efforts on optimising delivery rather than reducing cost and risk, while successful collaboration is driven by company strategy and being proactive. Trust and sharing the benefits of collaboration are a given because of the established ways of working that exist in that market.

The industry Collaboration Index score has improved from 6.1 to 6.6. The largest improvements were in communication and willingness to collaborate – both of which can be associated with more awareness – and implementing change. Financial and contractual encouragement of collaboration are still the two lowest scoring areas.

The industry has had two years to adapt to lower oil prices and, after having exhausted the easier cost cutting options, it is now time for radical change if the industry wants to lock in the cost reductions made to date and build a sustainable platform for the future. Collaboration is a tool. It does not work for everyone and it needs to be used to solve specific issues. There is a strong correlation between low cost, high efficiency and high Index scores. There are plenty of examples of successful collaboration in the sector and the UKCS has world-class supply chain capabilities. Therefore, the industry is in the best position to start transformational changes. It will be a difficult journey but it all starts with leadership and a desire to change.

3. Collaboration Review



Collaboration Review

A step in the right direction...

The second UKCS Upstream Supply Chain Collaboration Survey results show some welcome improvements compared with the first edition a year ago: participants appear to collaborate more, their relationships with their suppliers or customers seem better and nearly everyone considers collaboration as crucial to doing business in the future. Much of the improvement in the results comes from suppliers.

Overall, there is more awareness and more talk about collaboration in the UKCS than last year. It is almost a moral obligation to appear to be supporting collaboration. But does it translate into action?

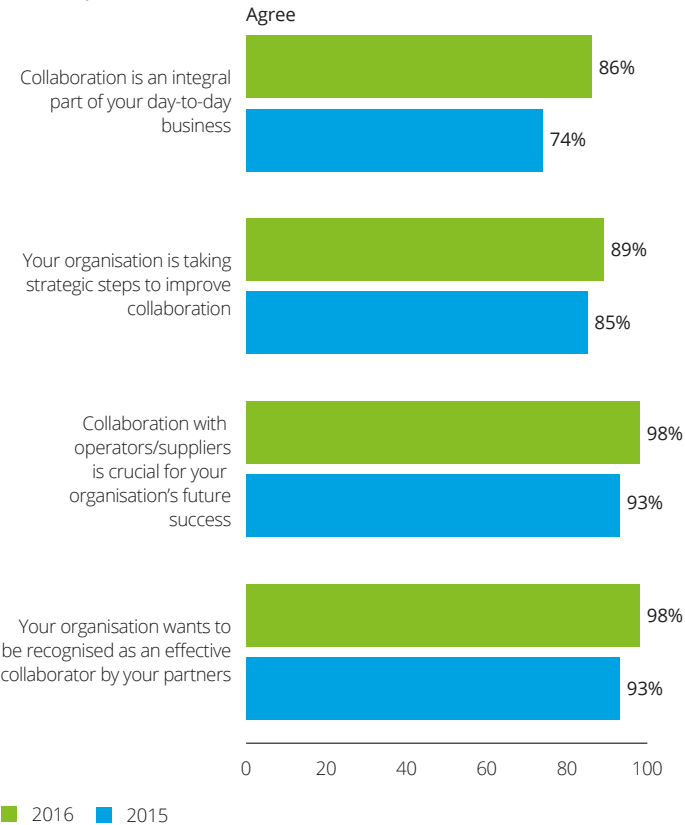
More collaboration in the UKCS now and in the future

The level of collaboration has increased noticeably since our first survey. In 2016, nearly nine out of ten people – 86 per cent – told us that collaboration is part of how they do business every day (see Figure 1). This is a significant improvement on the 2015 results, which were already high: nearly three-quarters of respondents said they collaborated.

According to the data, the majority of the improvement has come from suppliers, who have clearly invested in strengthening relationships with their key customers since last year.

With much discussion about collaboration at conferences and industry events, and a strong focus from both the Oil and Gas Authority, the regulator, and Oil & Gas UK, the industry trade body, many in the sector must feel compelled to appear to support the idea of closer collaboration. Therefore, it is not surprising that almost every survey respondent – 98 per cent – agreed that collaboration will be crucial for their company's future success and that they want to be recognised as good collaboration partners.

Figure 1. Attitudes to collaboration
% of respondents



2016 n=107 respondents, 2015 n=58 respondents.

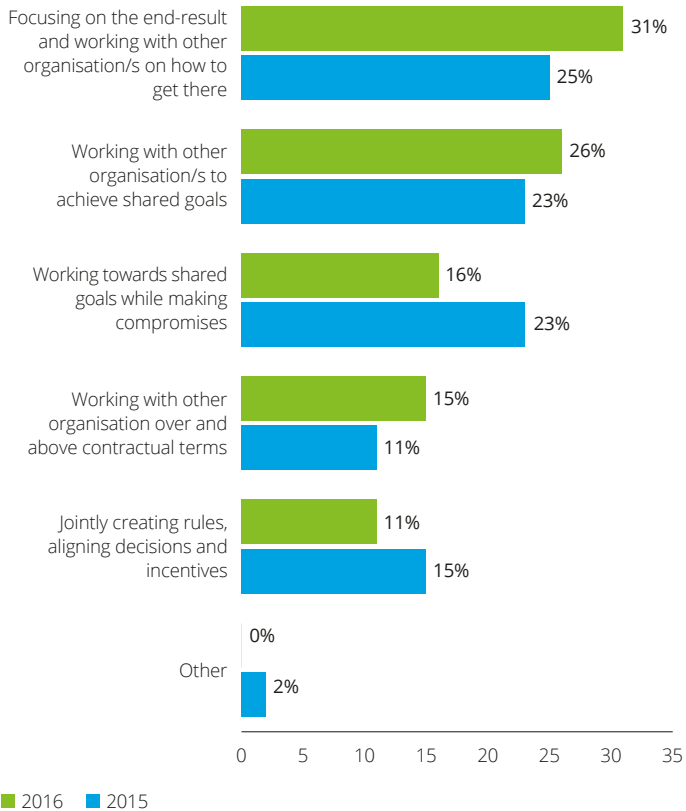
Source: Deloitte analysis

Although relationships are becoming more focused and successful...

Our research suggests that UKCS relationships are becoming more efficient and perhaps more impactful, too. Figure 2 shows that more companies are now focusing more on the end-results of a project, which means finding faster and more direct ways of delivering it with the help of suppliers, without creating complicated systems, processes and governance structures around it.

The industry is now close to the point where opportunities for supplier price cuts have been exhausted. With some suppliers now refusing to reduce prices further because they know that it would compromise service quality, shared goals have become more important in 2016 than compromise (see Figure 2, 26 per cent of shared goals vs 16 per cent of compromise).

Figure 2. Behaviours for effective collaboration
% of responses



2016 n=216 responses; 2015 n=100 responses.

Source: Deloitte analysis

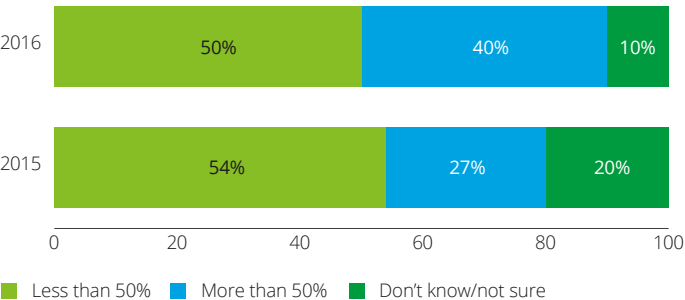
As relationships become more focused and direct, the quality of collaboration has also improved in our UK respondent base since last year. In 2016, 40 per cent of participants told us that their collaboration efforts were successful more than half the time, compared with 27 per cent in 2015 (see Figure 3).

Figure 4 breaks down the data in Figure 3 and reveals that the majority of improvement came from suppliers between 2015 and 2016. Could this indicate a positive turn in the relationship between many operators and suppliers? Nearly all operators have asked for, and received, significant price cuts from their suppliers since oil prices started falling. However, the rate of supplier price cuts seen in the past two years is unsustainable. Many operators are realising now that further price reductions could not only impair their suppliers' ability to provide quality service, but also threaten the existence of some small and mid-tier suppliers, leading to the industry losing key skills and capabilities.

With little hope of oil prices recovering in the near future, more operators are now starting to build strong, long-term relationships with a smaller number of key suppliers. Some provide more feedback, make themselves more available for discussions and open their doors for smaller suppliers. Others offer contracts above the market price and extend them for suppliers who worked well, hoping that the goodwill they showed their suppliers during difficult times will be repaid if prices start rising.

Another positive change is the increased awareness of collaboration in the industry: the percentage of respondents who did not know whether their companies collaborated successfully has halved compared with last year (see Figure 3 – drop to 10 percent in 2016 from 20 per cent in 2015). This means that the sector is talking about collaboration and more survey participants are increasingly aware of what their company is doing in this area.

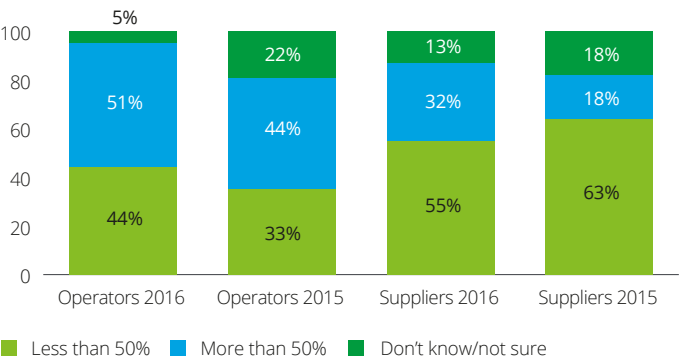
Figure 3. Proportion of successful collaboration efforts in the past 12 months
% of respondents



2016 n=101 respondents; 2015 n=55 respondents.

Source: Deloitte analysis

Figure 4. Proportion of successful collaboration efforts in the previous 12 months
% by company type



2016 n=101 respondents; 2015 n=55 respondents.

Source: Deloitte analysis

The view from the Netherlands

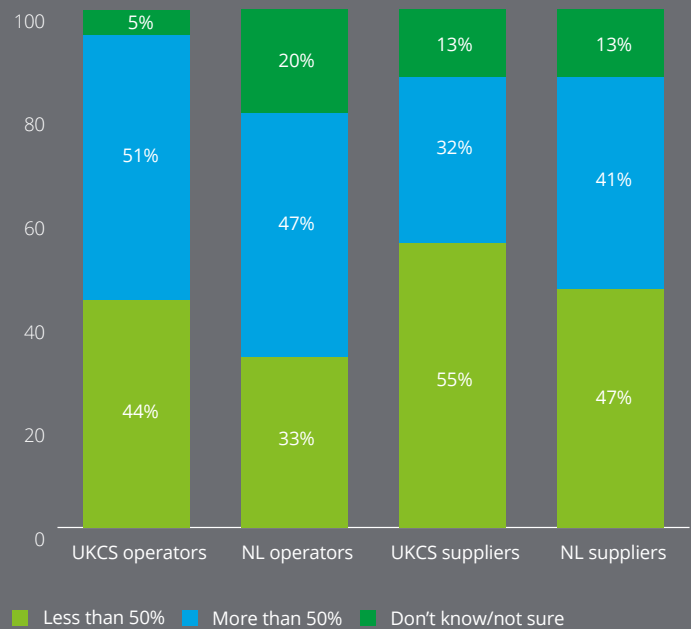
The results of the Upstream Supply Chain Collaboration Survey conducted by Monitor Deloitte in the Netherlands confirm anecdotal evidence of a greater degree of satisfaction in supply chain collaboration. Figure 5 shows that a considerably higher proportion of Dutch suppliers said that more than half of their efforts worked well compared with the UKCS.

What are the main reasons for these differences? Undoubtedly, some of them will be cultural. The Netherlands is a smaller country than the UK, with challenging geography and fewer resources. Collaboration and efficiency have been ingrained in the culture, as have pragmatism and directness. The Dutch oil and gas industry is significantly smaller, with fewer and often smaller companies than the UK. This means that Dutch companies are more exposed to commodity fluctuations and therefore need to be leaner, more flexible and share their assets and/or workforce.

Most operators have been working with the same suppliers, often family-run businesses, for many years. These relationships are based on long-term knowledge of the operator's business and focus on efficient delivery of projects. Operators know what they are getting and the longevity of relationships make suppliers feel valued.

What is the reason behind more awareness of collaboration in the UK? An operator with knowledge of both countries' industries stated that there is a lot of discussion about collaboration in the UK, whereas in the Netherlands they simply do it.

Figure 5. Proportion of successful collaboration efforts in the past 12 months: UKCS vs the Netherlands
% of respondents



UK n=101 respondents; NL n=47 respondents.

Source: Deloitte analysis

...are we there yet?

Clearly, there has been a positive change in the industry since last year: the level and quality of collaboration in the UKCS has improved, there is also more awareness of the topic and what companies are doing. Hearing both the operators and suppliers talk about internal initiatives to strengthen collaboration with their suppliers or customers gives the impression that they feel obliged to support collaboration.

But, despite the radically different operating environment a year ago, when oil prices were expected to be above \$60 per barrel by now, has the industry really made a transformational change?

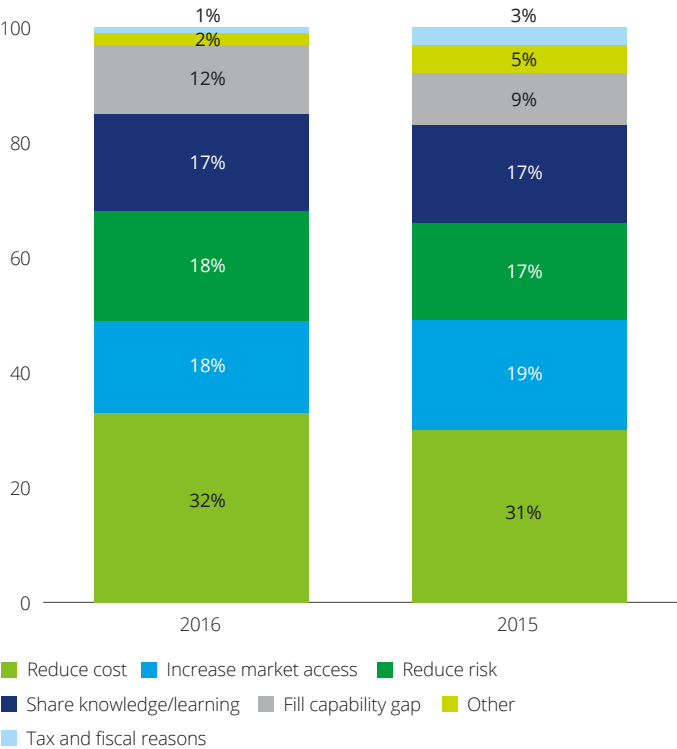
...but willingness to change is just not enough

Despite more talk and awareness of collaboration in the industry, company behaviours towards collaboration hardly seem to have changed in the past year. Most companies in the industry are still doing what they always do when oil prices fall: they delay or cancel projects, reduce head count and ask their suppliers to cut their prices and hope that the oil prices will soon recover. But with no price recovery in sight, there is an urgent need now for companies to take more radical steps to ensure the sustainability and longevity of their business.

Cost reduction is still king

Figure 6 shows that overall incentives for collaboration have hardly changed in the last year: cost is still the main driver for companies to collaborate, followed by increasing market access and risk reduction.

Figure 6. Principal reasons for collaboration in the UKCS
% of responses

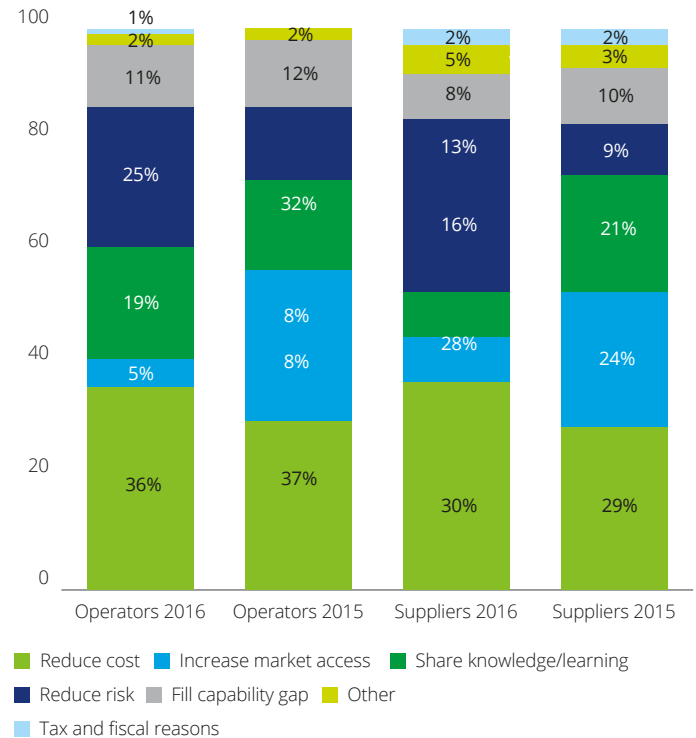


2016 n=101 responses; 2015 n=55 responses.
Source: Deloitte analysis

Figure 7 breaks down the data in Figure 6 and reveals some positive change in operator behaviour. While the strong focus on cost reduction remains, there is less emphasis on transferring risk to suppliers, and more interest in getting new ideas from them. A number of operators have told us that suppliers who come with a range of innovative solutions as part of the tendering process, stand a better chance of being successful in their bid by shifting the conversation from the unit cost price to the potential for new ideas.

From the suppliers' perspective, there is an even greater urgency to sell products and services. Figure 7 indicates that suppliers' desire to 'increase market access' grew from 24 to 28 per cent. This means that amid the operators pushing for price reductions, and project cancellations and delays, some suppliers are now in survival mode. While they are trying to limit the amount of risk they take on from operators, they are losing their ability to innovate and share ideas.

Figure 7. Principal reasons for collaboration in the UKCS
% of responses



2016 n=191 responses; 2015 n=108 responses.

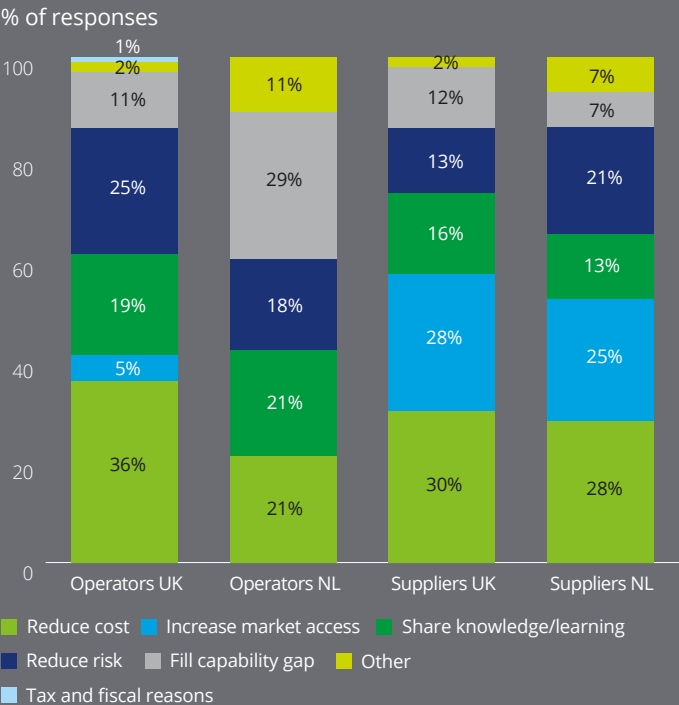
Source: Deloitte analysis

The view from the Netherlands

Figure 5 (on page 09) shows a higher degree of satisfaction with supply chain collaboration in the Netherlands. It becomes clear in Figure 8 that this is driven by the radically different attitude among the operators. Dutch operators primarily collaborate to optimise skills and capabilities, and they are also more willing to learn from suppliers than UK operators. Reducing cost and sharing risks with suppliers are not seen as the main drivers of collaboration in the Netherlands.

What are the main reasons behind these differences? Many Dutch operators work directly with contractors rather than a larger oilfield services company. Operators and suppliers also tend to work under long-term agreements. Most suppliers are small and already very efficient so the potential to reduce prices is therefore limited. Collaboration is mainly about optimising skills and new ideas that suppliers bring.

Figure 8. Principal reasons for collaboration: UKCS vs the Netherlands



UK n=191 responses; NL n=89 responses;

Source: Deloitte analysis

UKCS collaboration is still down to 'heroes'

The 2015 survey results showed that collaboration in the UKCS was cultural and was driven by behaviours, rather than business processes. The top three reasons behind successful collaboration – trusted relationships, projects beneficial to both parties and being proactive to find opportunities – drove nearly three-quarters of successful collaboration in the UKCS.

Leadership and business strategy played a much smaller part, while business processes (internal investment in managing collaboration and individual performance measures linked to collaboration) made up an even smaller proportion of successful collaboration efforts in the UKCS. This meant that collaboration was left to a small number of individuals with trusted relationships, who were proactive enough to find opportunities to collaborate and who were also in a position to share the benefits. We called them 'heroes'.

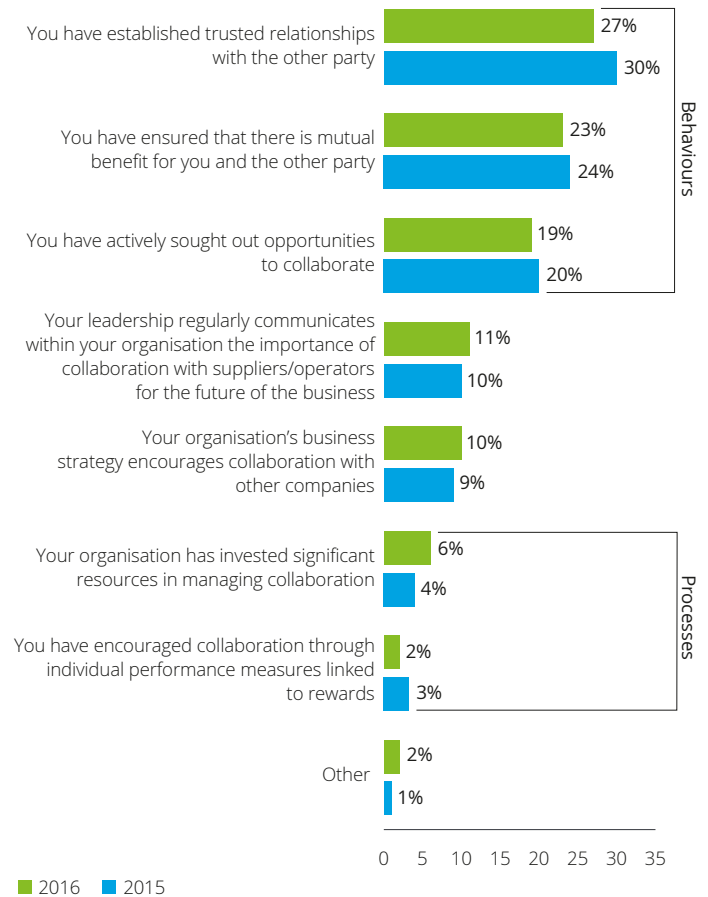
Figure 9 demonstrates that attitudes towards collaboration have hardly changed since last year's Collaboration Review. The radical change that many hoped for in the industry has simply not happened. As one of the operators said, "We are just not doing enough". Companies are still using the same tools and methods as before and the important issue of cost reduction through collaboration continues to be left in the hands of a small number of trusted individuals with the ability to act.

While the role of leadership and business strategy has increased somewhat, and perhaps slightly more companies invest in managing business relationships better, individuals on the whole appear to be even less incentivised to do the right thing – as opposed to talk about the right thing.

Considering that in both 2015 and 2016 a high proportion of respondents in the UKCS (85 and 89 per cent respectively, as shown in Figure 1) said that their organisations are taking strategic steps to improve collaboration, the impact of these actions can hardly be detected, as shown in Figure 9.

Figure 9. Principal reasons for successful collaboration in the UKCS

% of responses



2016 n=216 responses; 2015 n=100 responses.

Source: Deloitte analysis

The view from the Netherlands

The Dutch results again display a starkly different set of behaviours. Successful collaboration in the Netherlands is clearly driven by company strategies, followed by being proactive in finding the right opportunities. Industry participants who know both countries say that's just how the Dutch work; they don't talk about it, they just do it. Because of the ingrained ways of working, trust and mutual benefits are a given in the industry.

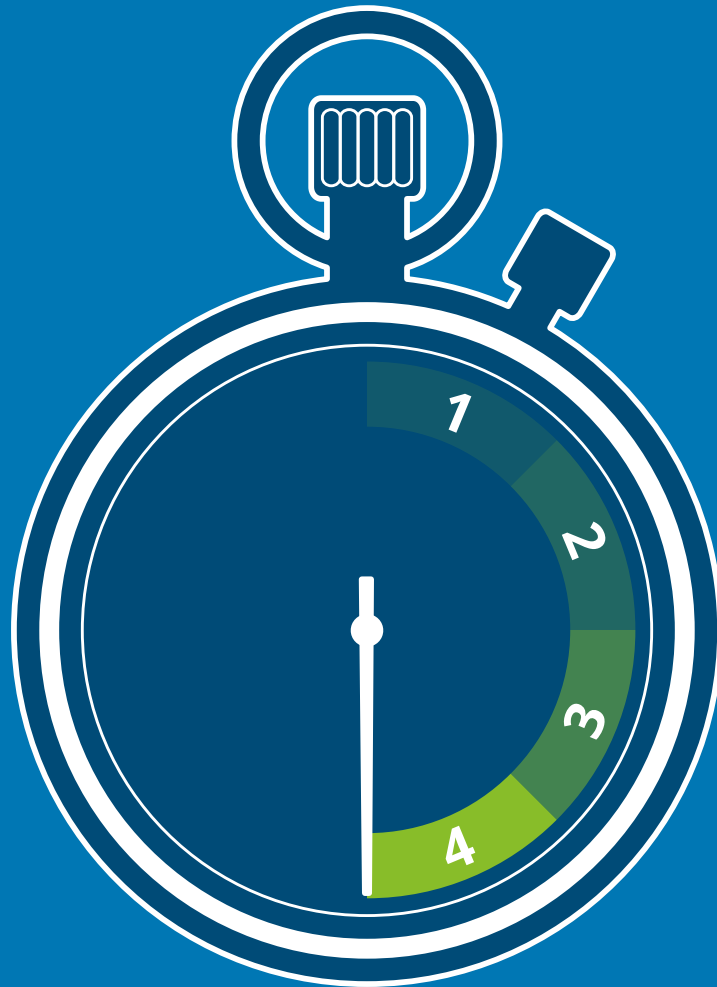
Figure 10. Principal reasons for successful collaboration: UKCS vs the Netherlands



UK n=243 responses; NL n=60 responses;

Source: Deloitte analysis

4. Collaboration Index



Collaboration Index

What is the Collaboration Index?

The second part of the Collaboration survey is called the Collaboration Index (Index), where survey participants confidentially rated their partners as collaborators.

The Index consists of 12 positive statements that participants were asked to agree or disagree with across three main domains: Openness, Incentives and Business processes. Participants could provide feedback on the 15 operators and ten suppliers of the Oil & Gas UK Board plus eight additional suppliers to provide greater industry coverage.

The ratings were aggregated to provide a numerical Index score for each company ranging from 1 to 10. The higher the Index score, the better collaborator a company is considered to be by its partners. These scores form the league table of peers: the operators' league table and the supply chain league table. These league tables and the individual company Index scores remain confidential. However, in Figure 11 we provide the aggregated scores for the industry for each question as it appeared in the survey.

At confidential meetings, companies were given their individual Index scores and their position on the league table of peers – without the scores of others being revealed.

Why does the Index matter?

The Index can be viewed as a measure of supply chain collaboration and efficiency because the successive surveys can be used to assess the impact of measures taken. A high level analysis of companies' publicly available production costs suggests strong correlation with an operator's Index score. The lower an operator's production costs are, the higher its Index score usually is. While production costs depend on a number of factors that are outside the control of an operator, strong relationships with the supply chain, manifested by a high Index score, should help the operator manage production costs better.

The Index highlights areas of underperformance and helps companies assess their own position against their peers. This in turn can help organisations identify areas where closer collaboration with the supply chain/operators can help improve their performance.

Collaboration Index 2016 results

The industry-wide Index 2016 score has improved from 6.1 out of 10 to 6.6 as shown in Figure 11. While this shows that progress is being made from last year, there are still clear opportunities for improvement, especially in the two consistently lower-scoring areas of encouraging collaboration by financial, as well as contractual means.

Factors relating to openness have seen the largest improvement since 2015. More industry awareness is the most likely reason behind the higher scores in factors associated with communication and willingness to collaborate (F1 and F2 in Figure 11).

In terms of incentives, financial encouragement of collaboration is still the lowest scoring area, although there has been some improvement since last year (see F5 in Figure 11). A year ago, most companies were going through the traditional cost-reduction programmes with many in the middle of difficult negotiations at the time of the survey. This could have had a negative impact on the 2015 scores. Operators who consistently score high on this factor are those who continue to share the benefits of collaboration equally and ensure that their suppliers are able to provide a high quality service.

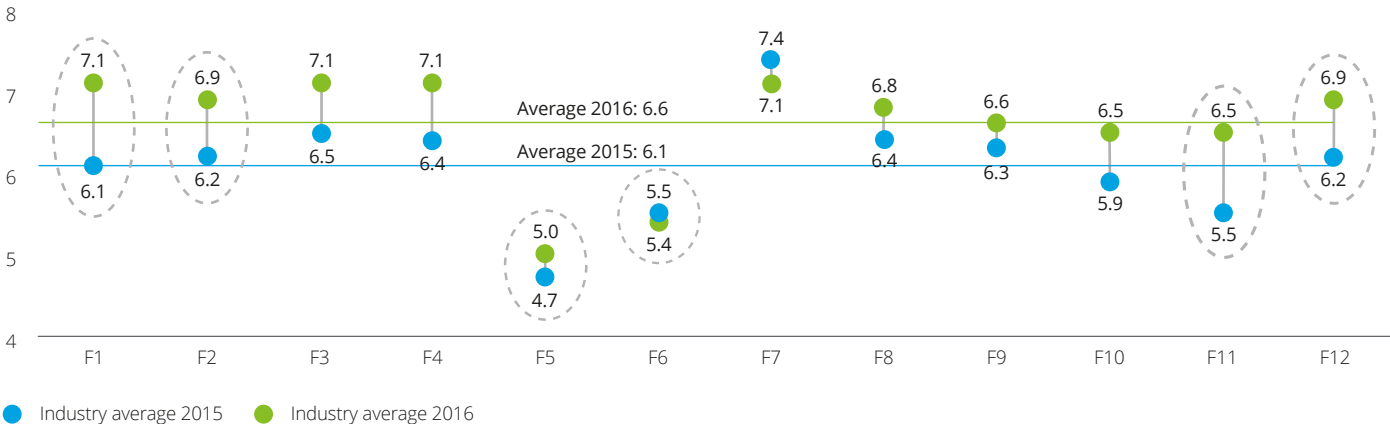
Encouraging collaboration by contractual means was one of the two factors (F6 in Figure 11) that have declined since last year. The slight decline may indicate that the terms and conditions of new contracts in the UKCS have become tougher. Industry discussions suggest that there have been attempts to standardise contracts, but in most cases contracts are still too descriptive and specific. In contrast, in the Netherlands contracts are significantly shorter and focus on the intent rather than the execution of a project.

Business processes factors, in particular the 'implementing change effectively' factor (F11 in Figure 11), have increased significantly over the past year. A breakdown of this figure reveals that it was driven by an improvement in operator scores, suggesting that operators listen more and implement supplier recommendations to a greater degree than before.

While this is a welcome development, many of the organisational structures – what we called 'permafrost' last year – remain in place in several organisations. These rigid structures often stop simple solutions being implemented, even if they reduce cost or increase efficiency, because local management must align with corporate processes, rules, governance, standards, guidelines and objectives. This 'permafrost' is one of the greatest barriers to transformation in the UKCS.


The overall factor of 'ease of working' (F12 in Figure 11) has also increased. This may point to more open dialogue and more direct working practices between operators and suppliers.

Figure 11. Collaboration Index: 2016 vs 2015 industry averages



2016 n=464 responses; 2015 n=105 responses
Note: ----- relate to factors discussed in the text.

Source: Deloitte analysis


**Openness**

F1 Is a partner that communicates well with you.

F2 Are willing to collaborate with you.

F3 You can trust them when working together.

F4 Overall, a good level of openness exists between you and them.


**Incentives**

F5 They incentivise you financially to collaborate.

F6 The terms of your commercial agreement with them effectively promote collaboration.

F7 Collaborating with them enhances your reputation.

F8 Overall, they help you improve your business.

**Business processes**

F9 They encourage input from you early in the project.

F10 They proactively seek out new ideas and solutions.

F11 They have a track record of implementing change effectively.

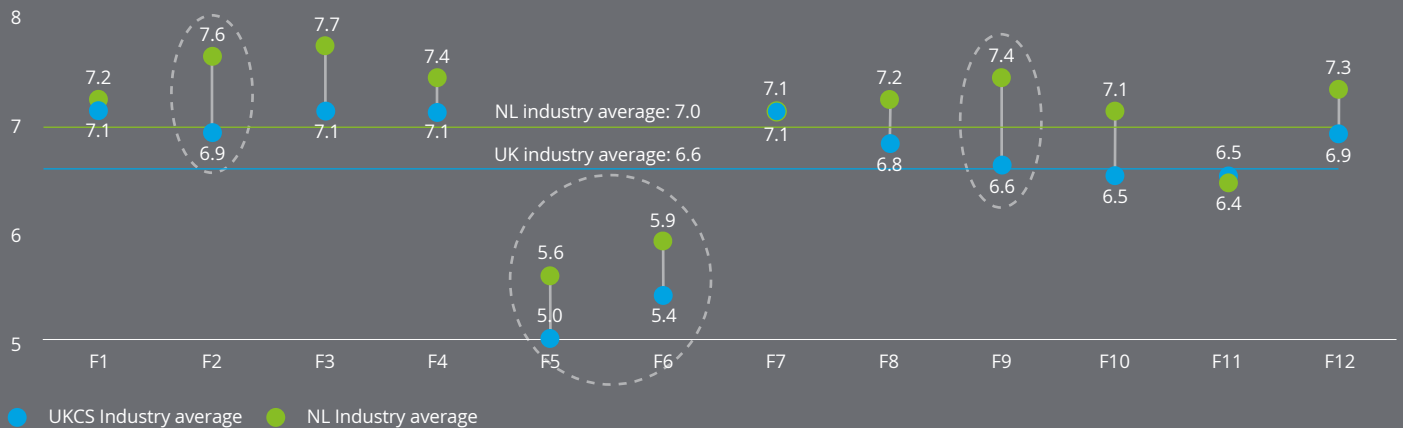
F12 Overall, it is easy for your organisation to work together with them.

The view from the Netherlands

The Dutch Index scores are higher than the UKCS results, providing further evidence of higher levels of satisfaction regarding supply chain collaboration in their oil and gas sector. While the shape of the UKCS and Dutch scores is relatively similar – especially with F5 and F6 (see Figure 12) being the two lowest scoring areas in both countries – there are some interesting differences.

The largest differences in scores between the two countries' oil and gas sectors are early encouragement for input in a project and willingness to collaborate (see F2 and F9 respectively in Figure 12).

Figure 12. Collaboration Index 2016: UKCS vs the Netherlands industry averages



UK n=464 responses; NL n=227 responses

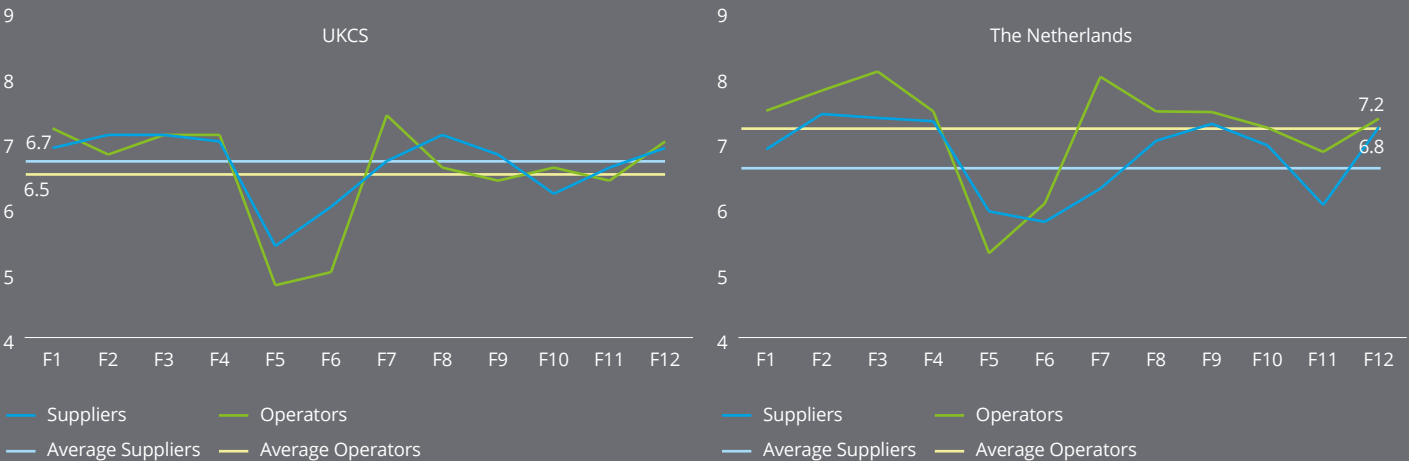
Note: ----- relate to factors discussed in the text.

Source: Deloitte analysis

Comparing operator and supplier Index scores reveals that suppliers scored higher in the UKCS, while in the Netherlands the opposite is true. This clearly underlines greater supplier satisfaction in the Netherlands. Dutch operators appear to be much better on factors associated with trust (F3 in Figure 13), encouragement of collaboration by contractual means and by brand (F6 and F7 in Figure 13), as well as implementing recommendations from suppliers (F11 in Figure 13).

While the implementing recommendations factor was the only area in Figure 12 where the Netherlands scored below the UKCS on an industry level, it is clear that this is because supplier scores have reduced the overall results.

Figure 13. Collaboration Index 2016: UKCS vs the Netherlands operator and supplier averages



UK suppliers n=183 responses; UK operators n=281 responses; NL suppliers n=65 responses; NL operators n=162 responses;

Source: Deloitte analysis

Comparing the operator performance between March and September 2016

In addition to the annual survey, we also conducted an interim Collaboration Index survey in March 2016, where we collected feedback from strategic suppliers of operators on the Oil & Gas UK board. The average Index score for the operators in the March survey cycle was 6.7, slightly higher than 6.5, in September 2016.

Differences between the UKCS and the Netherlands

There are a number of differences between the UKCS and the Netherlands oil and gas sectors. Many of these have been already covered, including the size of the industry and the general culture.

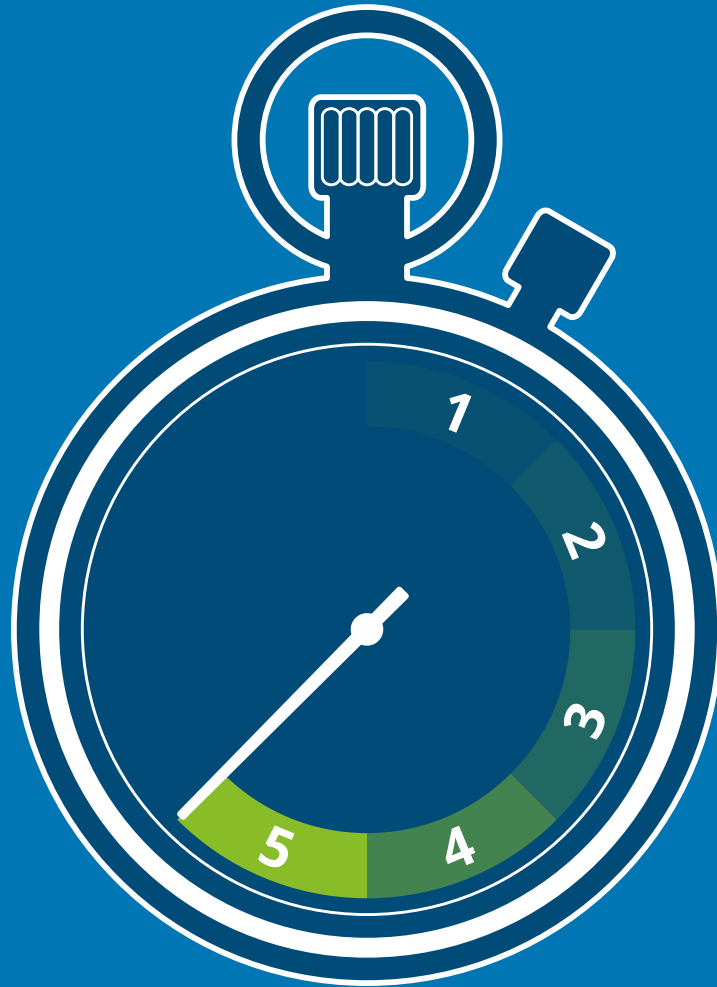
While there is no perfect way of doing business, and collaboration is merely a tool to achieve objectives that work for some but not others, in the Netherlands businesses are more efficient, costs are lower and collaboration scores are higher. We do believe that there is a direct correlation between these three factors.

We also believe that the main difference between the two countries is operator behaviour because most of the responses from Dutch suppliers, and feedback on them from operators are very similar to those in the UKCS.

It is clear that there are some lessons that UK operators could learn from their Dutch colleagues.

“The industry has had two years to adapt to lower oil prices and, after having exhausted the easier cost cutting options, it is now time for radical change if the industry wants to lock in the cost reductions made to date and build a sustainable platform for the future.”

5. Framework for Action

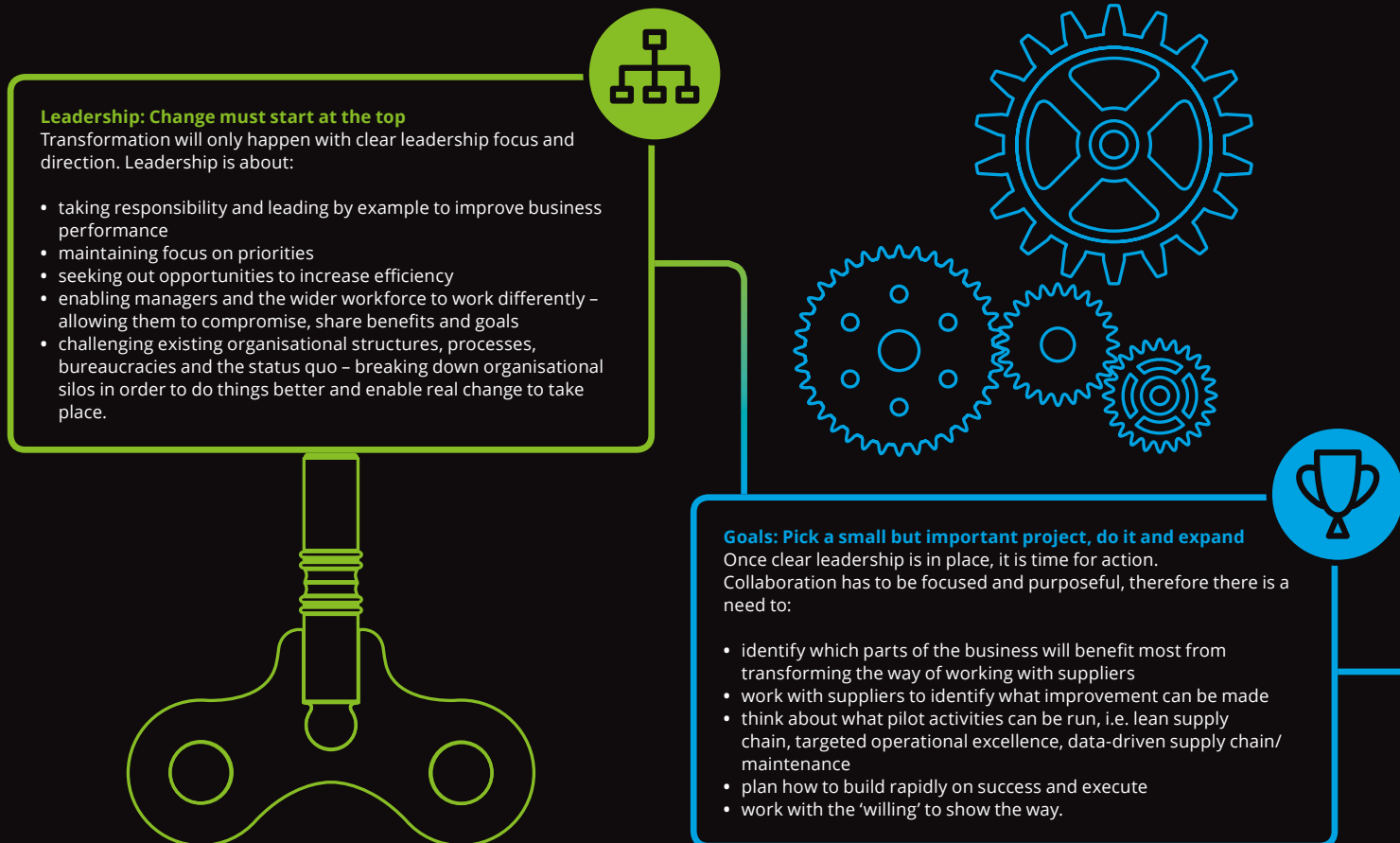


Framework for Action

How to improve collaboration – simply doing more of the same is NOT the answer

The Review and Index clearly show that enthusiasm for collaboration is high in the UKCS. Talking about it, appearing to want to do it or doing more of it are almost a moral obligation. However, supply chain collaboration needs to serve a purpose – it should not be the purpose itself.

In our experience, transforming supply chain performance by effective collaboration has four major components: leadership, goals, alignment and results.





Alignment: Build systems and processes around the goal

After having ensured leadership backing and picked the project, it needs to be done by:

- keeping things simple and closely aligned to defined goals
- identifying the core changes to key systems and processes (e.g., integrated supply chain and operations, data and analytics) that need to establish new ways of working
- planning and executing the right programmes
- ensuring programmes are delivered in manageable pieces and logical 'sprints' to ensure they are flexible and bring value at all stages of execution
- making sure that organisational and process changes are well understood and can be addressed before the start
- picking the right project team – ensure that everyone knows how the project fits into their day-to-day activities, incentivise them through objectives and rewards to demonstrate the right behaviours.



Results: Measure, feedback, improve, repeat

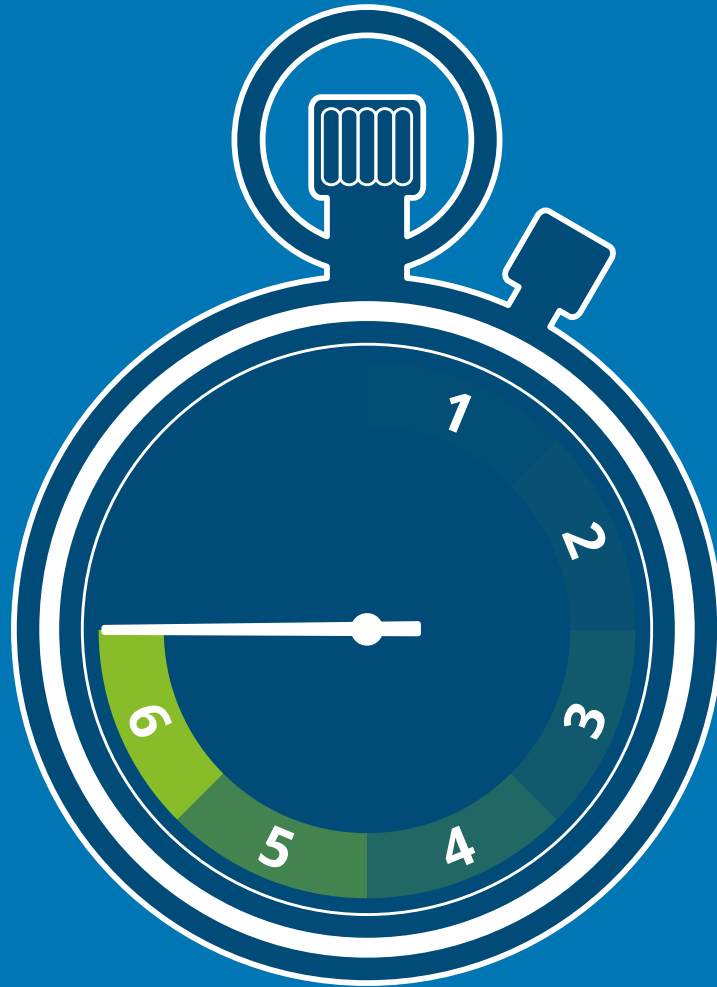
Measuring results is crucial to understand the value of effort invested and to identify areas for improvement. Companies must remember to:

- make sure they know what to measure to assess the impact of the changes they make
- ensure both operators and suppliers have a vested interest in the project
- develop and drive a culture of continuous improvement across the supply chain.

“Apache has developed a collaborative contractual relationship with Subsea 7 that brings alignment on delivery but is firmly based on respect, integrity and trust. Developing this business relationship can only be effective where business leaders are willing to take personal responsibility for the leadership, culture and behaviours within their organisations.”

(Mark Richardson, Apache)

6. Collaboration in Practice



Collaboration in Practice

There are some great examples of successful collaboration already delivering value in the UKCS. One of the most significant of these is Apache's Callater project.

Nick Clark, Energy & Resources Director in Consulting at Deloitte, discussed with Mark Richardson (Apache Projects Group Manager responsible for Callater) and Scott Cameron (Subsea 7's UK Business Unit director responsible for their work on Callater) what made this project an outstanding example of close collaboration between an operator and a supplier.

The Callater project is based on one of the three successfully Apache-drilled exploration wells recently undertaken in the Beryl area. The first phase of Callater has significant recoverable reserves and comprises two producers tied back via new 3.85km subsea bundle to the existing Skene field subsea infrastructure and onward to the Beryl Alpha platform for processing and export. The project scope also includes the installation of a new subsea control system, umbilical and modifications of the Beryl Alpha topside facilities. Further wells are to be drilled once phase 1 is complete.

Apache is working closely with Subsea 7 to develop this new field development and effective collaboration is at the heart of their intent to deliver the project safely, efficiently and in a timely manner.

What do Apache and Subsea 7 identify as the drivers and value for successful supply chain collaboration?

Apache have the same tools, techniques and technology as every other operator. They have mature assets and the same supply chain, yet typically achieve significantly better performance in project delivery. Mark Richardson, believes the real differentiators are Apache's employees, culture and behaviours, which provide the foundation for high quality project delivery.

Apache applies certain principles when it looks for a supply chain partner. They are crystal clear: partners must be competent to deliver the required goods or services safely. With the North Sea supply chain being one of the most competent and capable in any oil and gas region this is not normally an issue.

Then the focus is on cultural fit: can they work with Apache by being adaptable, flexible, fast moving and open to collaboration? Cost, of course, is always important, but not the primary criterion on selection of any partner. Apache believes the important elements that the contractor needs to display are pace, innovation and excellence combined with a unity of effort, focus and momentum. Mark also wants to see suppliers empowering their individuals to use their own discretion and initiative within their implementation processes.

Apache looks to suppliers to be able to demonstrate the fundamental tenets of:

- leadership
- sense of urgency
- competence and capability
- devolved decision-making
- accountability, authority and autonomy
- best answers win
- respect, integrity and trust.

"There is no doubt our long-proven and unique approach of working closely with clients and key suppliers maximises added value and minimises risk, benefiting projects and the parties involved. It is a key differentiator. The steady increase in the number of clients choosing to partner with us in this way demonstrates the benefits available for all involved."

Scott Cameron, Subsea 7

Mark also identifies risk management as one of the biggest barriers to successful collaborative relationships. Too often all risks are passed down the supply chain to the contracting community. In Mark's view, ultimately all risk is borne by the operator, be it a safety issue, late delivery of first oil or a cost overrun. Apache believes the risk between operator and contractor should be shared. Risk should be assigned to the party that can best mitigate the risk. This allows both the operator and contractor to focus on the risks within each of their spheres of control.

To make this work you need to know and trust your partners. So Apache looks to spend time with their suppliers, understanding their business and having open and honest discussions with their leadership. Mark believes that in doing this Apache is able to identify the right suppliers with which to build long-term, successful relationships.

In Subsea 7, Mark sees an ideal partner for Apache, recognising that Subsea 7 is an exceptionally competent organisation that understands Apache's approach and project methodology, and shares its values in terms of supply chain collaboration and execution. Through their leadership, Mark recognises that Subsea 7 has adapted its service delivery to match Apache's requirements very effectively.

Scott Cameron recognises in Apache an operator that shares Subsea 7's vision for successful delivery partnership. This is particularly reflected in Apache's focus on fit-for-purpose outcomes and a lean delivery organisation that trusts, works openly with, and is willing to rely on the solutions and services provided by companies in the supply chain that align with their ethos.

Scott is clear that Subsea 7 and Apache's shared view of what works means they are able to deliver effectively. For example, Apache does not prescribe in detail the solution they want, which helps closely manage strict compliance to onerous specifications.

They specify what functionality they require and engage in discussions to optimise or deviate from it if it positively impacts safety, cost, schedule and/or quality, etc. This approach removes unnecessary complexity and levels of assurance that negatively impact progress.

Subsea 7's five core values (safety, integrity, innovation, performance and collaboration) are at the heart of everything they do and the way they behave, defining a strong culture that has stood firm and true while the market landscape has changed dramatically. Subsea 7 is clearly a people and relationship oriented business with a strong set of core values that defines their approach to working with clients and the supply chain. Scott is not surprised that Subsea 7 works well with Apache as there is such a strong cultural fit and clear set of shared values.

The outputs of the Collaboration Survey reflect this view with both organisations demonstrating consistently excellent results.

How does all of this impact the project?

Mark believes that when reviewed against peer performance the Callater bundle will outstrip other projects in terms of speed of delivery and cost, while maintaining an excellent safety record and the required quality.

Both parties believe that there has been a lot of talk about collaboration, but the reality is about trusting competent people to deliver. This requires real leadership on both sides of the contractual divide to take some personal risk and ultimately be responsible for their organisations' delivery. Mark believes that this project and the relationship between Apache and Subsea 7 is a great example of the right supply chain behaviours.

The project itself is driven by an open book 'Target Cost Contract' with three simple key performance indicators. This brings alignment with a joint focus on cost and schedule delivery. It also demonstrates the significant degree of respect, trust and integrity between Apache and Subsea 7 and highlights their ability to live by the values they describe.

It is clear that both organisations believe their success is absolutely due to personal relationships and trust on every level. People are central to the success of everything Apache and Subsea 7 do together. Alignment in approach fosters, among other things, openness, honesty, motivation and flexibility. They believe they are at their best when working in a fully integrated way, at pace with minimal external interfaces, to allow crucial interdependent design, procurement, construction and installation decisions to be made, and mitigating risk inherent with typical bespoke and client prescriptive delivery.

"A significant investment for Apache, Callater forms part of the Beryl Alpha field, a major step in the company's growth strategy for the North Sea. For Apache the subsea contractor needed to have more than a strong track record, they needed likeminded people who can work at pace on technical and economic challenges. Apache placed their trust in us. It seems obvious that positive behaviours and attitudes can be contagious and enabling, but the small, tightly knit Callater team really is a great example of what can be achieved. Our values, behaviours and approaches coupled with our capability and experience enable us to work closely with Apache and our supply chain to deliver added value together."

Scott Cameron, Subsea 7

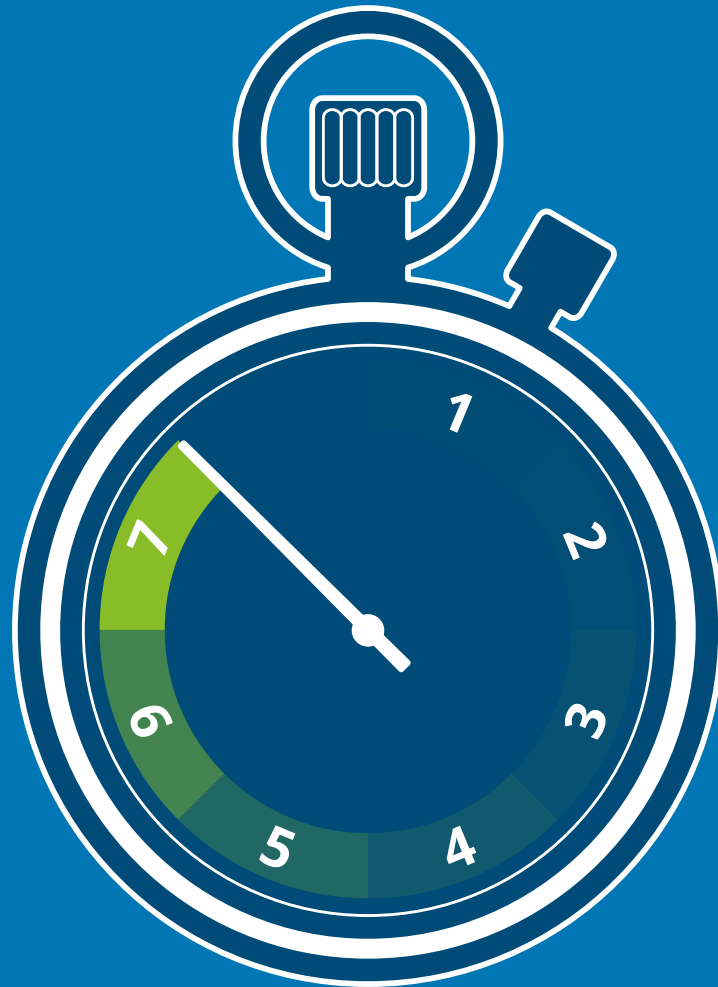
This ethos is reflected in the ways of working on Callater, for example:

- the 'one team' approach taken early on in the project significantly accelerated execution by maximising schedule alignment and optimising costs, schedules and the design basis
- a traditional relationship and contracting model encourages all parties to transfer and price risk at each level, but on Callater, Apache and Subsea 7 are identifying and appreciating risk and uncertainty together and working together to mitigate or manage it. The benefit is greater transparency and a lower and more robust project risk allowance
- Apache's desire for early engagement in the project means they are working far earlier and more closely with key suppliers for long lead and critical materials and services. This eliminates the costs and the time required to tender work packages competitively, which is detrimental to design maturity, schedule, cost and risk
- project priorities were identified and shared early. This ensures continuity of knowledge and control over decisions to reduce interfaces and parties involved throughout the 'design to install' cycle.

Both Mark and Scott believe that how they achieve success is as important as what they achieve, and that opportunities like Callater bring together likeminded people, behaviours, attitudes and approaches.

We would like to thank Mark Richardson and Scott Cameron for their help in developing this section of the report.

7. Industry Behaviours Charter



Industry Behaviours Charter



OIL&GAS^{UK}

In support of the Efficiency Task Force for maximising economic recovery

This industry charter, signed by members of Oil & Gas UK and supported by the Oil and Gas Authority, is a collective commitment to work effectively, efficiently and co-operatively. It will be applied by every company, and to all activities, in order to achieve transformational change for the UK's offshore oil and gas industry.

Our vision

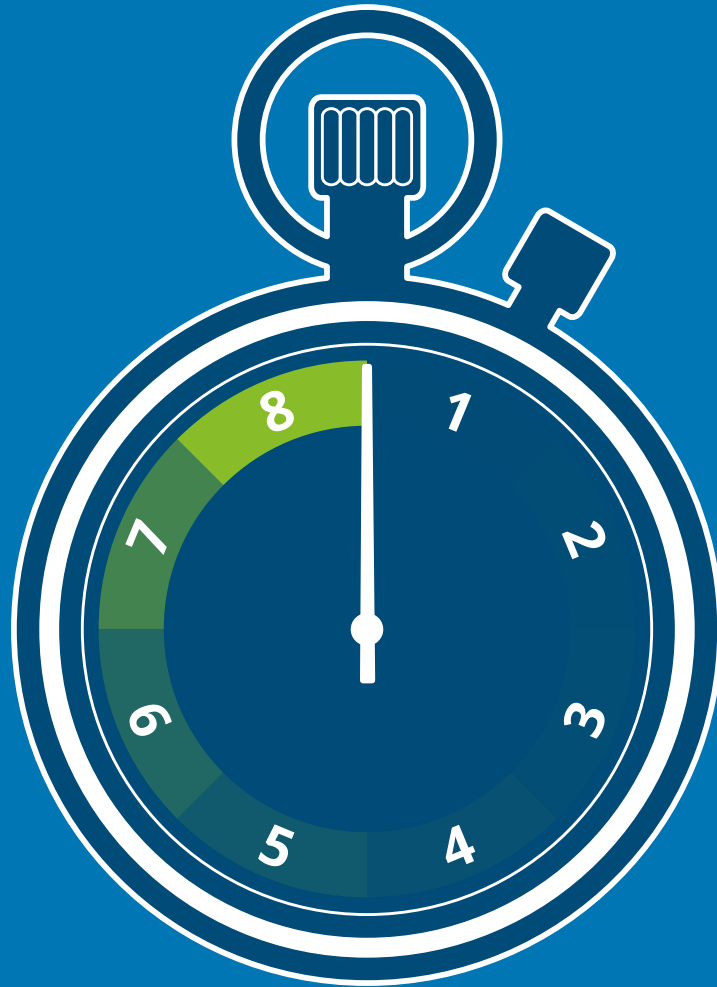
To promote the behaviours that will deliver a safe, competitive and sustainable industry capable of maximising economic recovery in the UK Continental Shelf and therefore best serving its stakeholders.

In pursuit of this, my business will:

1. **Be an early adopter** of efficiency initiatives and new technology, sharing learnings with others
2. **Provide access to decision makers** through a specific, fast access point, in order to escalate issues
3. **Strengthen industry co-operation** through continual improvement in and support for, industry codes of practice, forums and standards
4. **Contribute to performance improvement** by ensuring transparent and time-bound legal, commercial and contractual engagements
5. **Commit to continuous improvement** through regular review of the delivery of this Charter, across all levels of my business.

For further information and to sign up please go to <http://oilandgasuk.co.uk/industry-behaviours-charter.cfm>

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