

Supply Chain Code of Practice

2006 Compliance Survey



The Code outlines a set of best practice guidelines for the UKCS oil and gas industry to:

- Improve Performance
- Eliminate Unnecessary Costs
- Add Value and Boost Competitiveness

The Supply Chain Code of Practice is endorsed by PILOT, the Oil & Gas UK Supply Chain Forum, DBERR, EIC, FPAL, IMCA, OCA and WSCA.



Introduction - History of The Code

Since the initial launch of the Supply Chain Code of Practice in March 2002, collaborative efforts by operators and contractors to develop and maintain an efficient supply chain have resulted in significant benefits for the whole UKCS offshore oil and gas industry. In 2005 the Code was re-launched and re-badged, currently there are 117 signatories to the revised Code, comprising “Major Purchasers” (UKCS Operators and Principal Contractors) and “Suppliers” (companies providing goods and services). Signatories work towards full compliance to the Code, progress towards this is measured via an annual Compliance Survey.

2006 Survey Methodology

This year’s survey comprised a concise, online questionnaire designed to be quick and easy to complete. Many of the questions posed were identical those of the 2005 survey - allowing us to compare and contrast results directly. The survey was issued to all signatories of both the old and newly revised Codes.

2006 Sample Size and Profile

This year’s survey attracted 68 responses from both purchasers and suppliers (58 % of the 117 revised Code signatories). The increased total contracts spend covered by this year’s survey (£ 10.84 billion) is perhaps indicative of the current buoyancy of the market, as well as the healthy sample size of data collected.

	2006	2005
Number of Responses:	68 (58 % of signatories)	38
Purchasers:	26	18
Suppliers:	42	20
Total Contracts Spend:	£ 10.84 billion	£ 7.84 billion
Purchaser Group:	£ 9.44 billion	£ 6.46 billion
Supplier Group:	£ 1.40 billion	£ 1.38 billion

Support for The Code

On a scale of 1 (no support) to 5 (highly supportive), purchasers rated philosophical and practical support for the Code as 4.4 and 3.9 respectively. Suppliers rated their philosophical and practical support as 4.0 and 3.7. The figures demonstrate a continuation of the high level of support that the Code has enjoyed throughout the industry since its initial inception in 2002.

On average, purchasers have supported the code for 4.2 years, and suppliers for 3.1 years.

Contract Awards

Companies were polled concerning compliance with the code on aspects of contractual procedures. The data gathered was split between purchasers and suppliers as well as on contract value.

Medium Value Contracts:

On the whole for medium value contracts, purchasers and suppliers provided figures which broadly agreed - in sharp contrast to the 2005 survey where the difference in perceptions was surprisingly large. Encouragingly, and in comparison to the 2005 data, suppliers reported a sizable increase in the percentage of ITT's providing the opportunity to add value and provide feedback, the use of LOGIC standard contracts, and the percentage of contract awards including regular performance reviews. However, a sizable scope for improvement still remains; particularly with regards to including KPI's in contract awards.

For contract awards between £ 25,000 and £ 300,000 what percentage....				
	Purchasers:		Suppliers:	
	2005	2006	2005	2006
...of ITT's had an opportunity to add value?	60 %	48 %	27 %	46 %
...of ITT's had the opportunity to provide feedback?	71 %	61 %	21 %	38 %
...utilised LOGIC Standard Contracts?	44 %	43 %	30 %	48 %
...included KPI's?	37 %	26 %	31 %	27 %
...included regular performance reviews?	47 %	39 %	25 %	43 %
...of awards were made to FPAL registered suppliers?	75 %	77 %	N/A	N/A

Large Value Contracts:

Another encouraging sign is that for higher value contracts suppliers also recognised a general improvement in standards during 2006. Again the exception to the rule was with the inclusion of KPI's in contract awards which seems to lag behind somewhat. Clearly a greater level of attention is put into higher value awards, as comparison with the figures above indicates. The challenge remains to elevate the standard of smaller value contracts to the standards seen for higher value awards. For both medium and large value contracts, some differences in perception between purchasers and suppliers remain, particularly over the percentage of ITT's deemed to include feedback opportunities.

For contract awards over £ 300,000 what percentage....				
	Purchasers		Suppliers	
	2005	2006	2005	2006
...of ITT's had an opportunity to add value?	74 %	77 %	42 %	56 %
...of ITT's had the opportunity to provide feedback?	81 %	82 %	40 %	60 %
...utilised LOGIC Standard Contracts?	48 %	53 %	42 %	57 %
...included KPI's?	53 %	47 %	42 %	40 %
...included regular performance reviews?	61 %	69 %	42 %	63 %
...of awards were made to FPAL registered suppliers?	81 %	88 %	N/A	N/A

Awards to FPAL Registered Companies:

In 2006 the percentage of contracts awarded to FPAL registered sellers remained high. Medium and large value contracts awarded to FPAL registered suppliers increased slightly from last years figures to 77 and 88 % respectively. As a comparison, the overall (all contracts) figure reported in the 2003 survey was just 33 %, illustrating the level of progress made to-date. 55 % of suppliers reported having an FPAL capability assessment within the last 12 months.

Payments

In 2006 the percentage of payments purchasers reported making within 30 days remained steady at 72 %. Encouragingly, and in line with previous year's results, suppliers again reported an increase in payments made to them within 30 days - up to 45 % from 16 % in 2004. Suppliers also reported that payments made by them to their own suppliers and contractors increased to 63 % during 2006, up from 43 % in 2005; indicating that 30 day payment principles are beginning to be applied throughout the supply chain. However, there clearly remains a large difference in perception between purchasers and suppliers over what proportion of payments are made within 30 days.

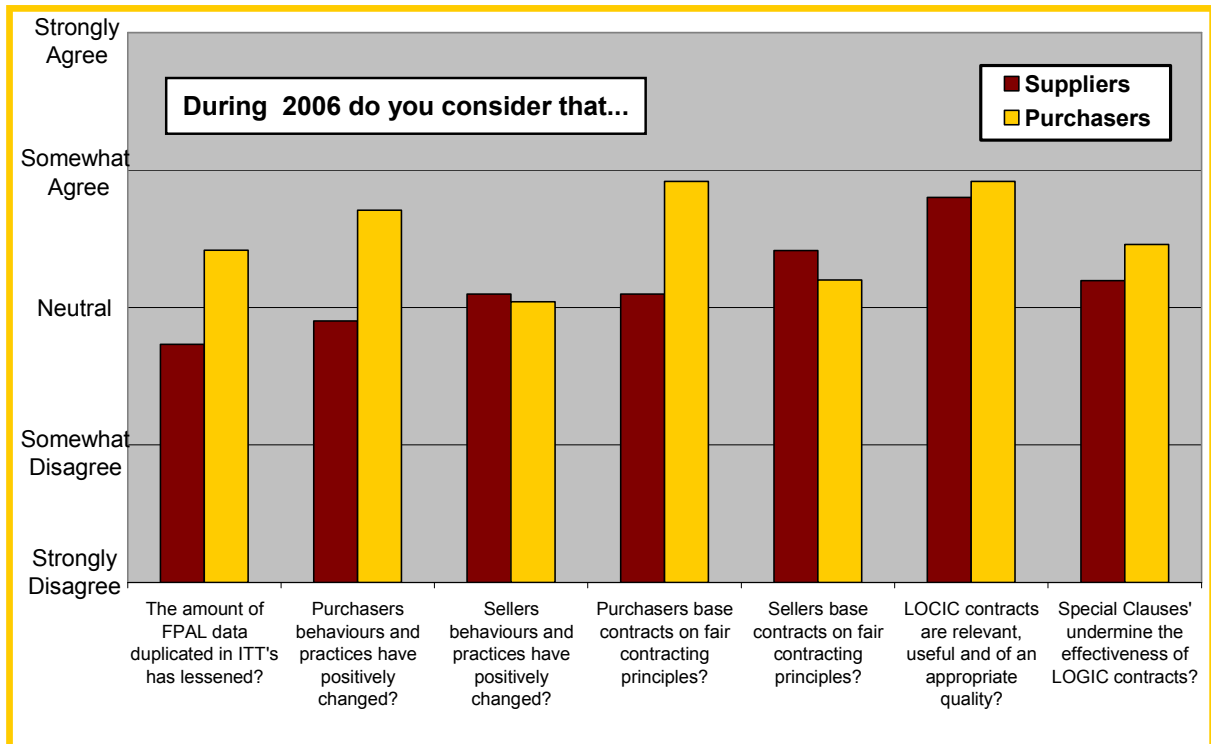
Regardless of value, what percentage of payments were made/received within 30 days?					
Purchasers:			Suppliers:		
2004	2005	2006	2004	2005	2006
69 %	72 %	72 %	16 %	34 %	45 %

Invoicing

On a scale of 1(poor) to 5(excellent), purchasers reported that generally the quality of invoices received in 2006 was between 'average' and 'good' at 3.6 (compared to 3.4 in 2005). Suppliers reported that their invoices to purchasers were on average 'good' with a value of 4.0 (compared to 3.7 in 2005). The figures show that both groups clearly recognised an improvement in invoicing quality during 2006.

Behaviours & Attitudes:

Both purchasers and suppliers alike consider that LOGIC standard contracts remain highly useful, but that the use of 'special clauses' throughout 2006 has undermined their effectiveness to a degree - a problem which may need to be tackled in the future. A positive sign is that both purchasers and suppliers consider each other to have based contracts on fair contracting principles during 2006. There remains a difference in opinion over whether behaviours and practices have changed during 2006, and as to whether the amount of FPAL data duplicated in ITT's has increased or decreased.



Conclusions

Overall the survey provides an encouraging picture of progress towards compliance with the Code. Generally it should be noted that adherence to the Code has continued to increase during 2006. Ultimately this will have contributed to the Code's goal of enhancing the UKCS supply chain's working practices: improving performance and eliminating unnecessary costs, as well as adding value and boosting the competitiveness of the entire UKCS supply chain. However, much work remains to be done during 2007 and beyond to ensure that the success of the Code continues. The Oil & Gas UK Supply Chain Forum will use the results of the survey to inform their 2008 work-plan. The group continues to support the implementation of, and full compliance with, the SCCoP across the industry.

Further Information

Information on the Supply Chain Code of Practice, including a downloadable commitment form can be found on the Oil & Gas UK website at: <http://www.oilandgasuk.co.uk/new/2006/sharefair-sccop.cfm>

For any other questions please contact Andrew Bassett at Oil & Gas UK, abassett@oilandgasuk.co.uk

We would like to thank the following companies who responded to this year's survey:

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Apache North Sea Ltd	Mechserv Ltd
Aramark Ltd	Mech-Tool Engineering Ltd
Argon (Isotank) Ltd	Nesscolnvsat Limited
ASCO UK Limited	New Digital Business Ltd
Atlas Engineering UK Ltd	Nexen Petroleum UK Ltd
Avanteq Ltd	North East Telecommunications Ltd
Bel Valves	Odfjell Drilling (UK) Ltd
BG International Limited	Performance Improvements Group Ltd
BIS Salamis	Petro-Canada
Blairchem Ltd	RBG
Bluewater Services (UK) Ltd	RWE Dea UK
BP	Saipem UK, Sonsub Division
C21 Data Services Limited	Schlumberger Oilfield UK Plc
Caledus UK Limited	Scotgrip (UK) Limited
Caledyne Limited	Serimax Pipeline Services
Chevron Upstream Europe	Shell U.K. Limited
ConocoPhillips UK	SPM Ltd
CSL	Subsea 7 UK
DNV	Talisman Energy (UK) Limited
Dron & Dickson Ltd	Technip UK Ltd
Enterprise Engineering Services Ltd	Total E&P UK
ExxonMobil UK Upstream	Trinity
FlameSkill	Universal Sodexho Scotland Limited
Geotech Systems Limited	Upstream Technical Consultants Ltd
Halliburton	Venture Production plc
Hunting Oilfield Services (UK) Ltd	Walker Technical Resources Ltd
KVA Limited	Weatherford UK Ltd
Labtech	Wenaas UK Ltd
MacLean Electrical	Wood Group Engineering (North Sea) Ltd
Marathon Oil UK Ltd	