



# SUPPLY CHAIN CODE OF PRACTICE COMPLIANCE 2010 SURVEY REPORT

Streamlining processes and increasing value for the oil and gas industry



## Introduction

The PILOT Supply Chain Code of Practice (SCCoP) was launched in March 2002. It is a sustained government initiative fully endorsed by Oil & Gas UK. It aims to improve efficiency in the UK oil and gas industry supply chain by encouraging behavioural change in commercial relationships between Purchasers and Suppliers.

The SCCoP is a set of best practice guidelines for the UK oil and gas industry to:

- Improve performance
- Eliminate duplication and unnecessary costs
- Add value and boost competitiveness



The SCCoP's principles apply to three key stages of the commercial process; PLAN, CONTRACT and PERFORM & PAY. Signatories to the code aspire to work towards better compliance with these principles. They are awarded Bronze, Silver or Gold awards in recognition of their degree of compliance. Such awards are highly regarded and sought-after throughout the UK oil and gas industry.

Oil & Gas UK monitors progress regarding the implementation of the code on an annual basis by means of a compliance survey. The survey asks signatories questions that are in line with the three key stages of the commercial process. This report highlights the survey's main conclusions on industry compliance with the SCCoP best practice guidelines in 2010.

## 2010 Compliance Survey

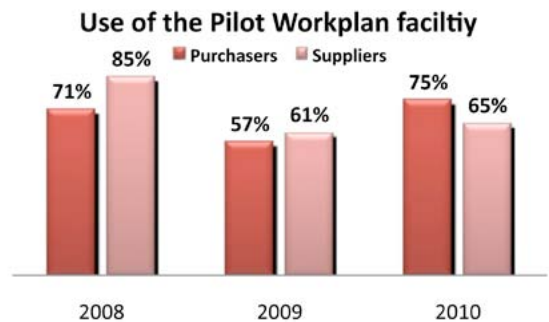
The 2010 survey attracted responses from only 19% of the 163 signatories; this is a decrease of 12% from the previous year. Even though membership has continued to rise steadily, the response rate has been in decline since 2008. Annual completion of the survey is the minimum criteria for all awards; hence it should be in company's best interest to respond.

## STAGE 1 - PLAN

Transparent planning of contracting activity by major purchasers to improve supply chain capability (FPAL COMPANY PROFILE, FPAL FORWARD WORKPLAN AND PILOT SHARE FAIR)

### PILOT WORKPLANS

Purchasers are urged to use the PILOT Forward Workplan facility developed by FPAL to give transparency with regards to their company's future project plans. Suppliers are advised to use this facility to look at the work being planned by Purchasers in an effort to plan their future business. There has been an increase in both Purchasers and Suppliers activity as far as the Workplans are concerned. Half of those companies that weren't using the Workplans are not aware that such a tool was available. Others claim that time and resource constraints and corporate guidelines are prohibiting the use of the Workplan's.



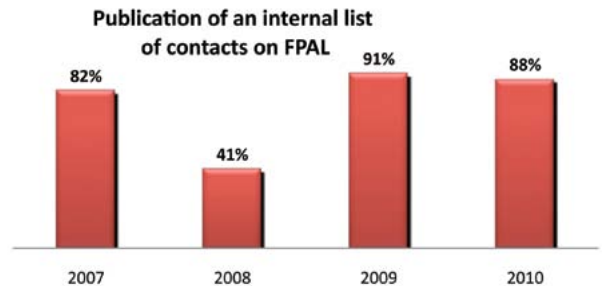
## Key findings in brief

- ✓ Overall compliance with the code has experienced some improvement
- ✓ Utilisation of PILOT's Forward Workplans has increased
- ✓ The inclusion of Key Performance Indicators (KPIs) in all significant contracts has improved
- ✗ Employment of LOGIC contracts has decreased
- ✓ Use of model ITTs has increased
- ✓ The amount of suppliers referring purchasers to FPAL to avoid duplication has increased
- ✓ Increased representation at the annual PILOT Share Fair from both Purchasers and Suppliers



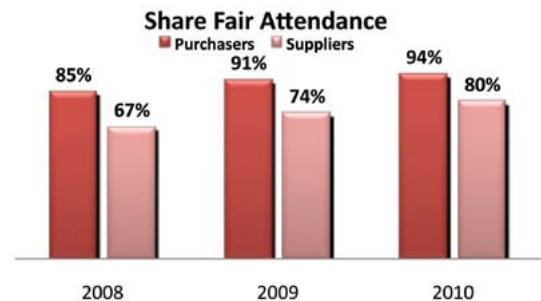
## FPAL INTERNAL CONTACTS LIST

In an effort to facilitate discussion around future plans with the contracting community, ideally Purchasers should maintain an up-to-date FPAL Purchaser profile including a contacts list and guidance on "how to do business with us". In 2010 88% of Purchasers reported that they publicise an internal list of contacts on FPAL. This is a slight decrease from the previous year; however it is clear that Purchasers are remaining keen to communicate this information to Suppliers.



## PILOT SHARE FAIR

The annual PILOT Share Fair provides all active UKCS companies with the unique opportunity to network with hundreds of industry colleagues. Taking part in this event should be a priority for all signatories. In 2010 there was an increase in the number of both Purchasers and Suppliers attending. Participation every two years at PILOT Share Fair as a presenting company forms part of the criteria for the Gold award.



## STAGE 2 - CONTRACT

Streamline pre-qualification, tendering and negotiation processes to reduce bidding costs, eliminate waste, add value and increase competitiveness (STANDARD ITTs, FPAL LISTINGS & CAPABILITY PROFILES AND STANDARD CONTRACTS)

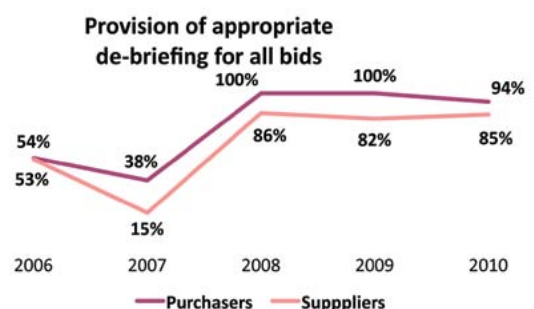
## STANDARD CONTRACTS & ITT'S

In 2010 the Purchasers maintained that 94% of their contracts were standardised of which 58% were LOGIC standard contracts. The Suppliers reported that only 61% of contracts received were in standard form and only 28% were LOGIC. The Purchasers standard contract use increased by 10% from 2009, however, the Suppliers saw a 27% decrease in the amount of LOGIC contracts received. With regards to ITTs, there was a marginal improvement in the amount of Purchasers always using model ITTs and in the amount of Suppliers sometimes receiving them.



## DEBRIEFING

Through 2010 the Suppliers received slightly more feedback on unsuccessful tenders in comparison to 2009 with an increase of 3% points. Conversely, the amount of Purchasers claiming to debrief unsuccessful tenders decreased by 6% points. The 2008 and 2009 data indicated that a 100% debriefing record is attainable; this should therefore be the target for both parties during 2011/2012.



## DUPLICATION

Considerable fluctuation has been experienced since 2008 in the amount of Suppliers referring Purchasers to FPAL to avoid duplication when they are asked to complete a bespoke questionnaire. Improvements were made in 2010 with an increase in the amount of Suppliers **always** referring Purchasers to FPAL as well as a decrease in the amount of Suppliers **never** referring. It was also found that 50% of Purchasers in 2010 **always** utilised either the Advanced Registration System and/or Verify on FPAL to avoid duplication.

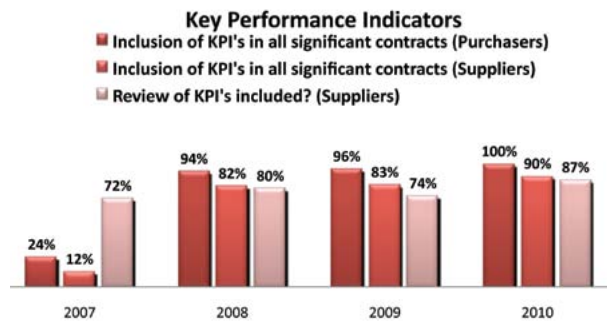


## STAGE 3 - PERFORM & PAY

Increasing performance feedback dialogue and shortening payment cycles to improve performance (FPAL KPI'S & PERFORMANCE FEEDBACK, 30 DAY PAYMENT AND IMHH (LOGIC))

## Key Performance Indicators

To comply with the code, Purchasers should make an effort to include key performance indicators (KPIs) in all significant contracts with an appropriate review programme attached and Suppliers should track and discuss all such KPIs. All Purchasers reported that they included KPI's in their contracts; in contrast, only 90% of contracts received by Suppliers contained appropriate KPIs. There was a 13% increase in the amount of contracts received by Suppliers that contained a KPI review programme.



## FPAL FEEDBACK

FPAL provides the facility to both Purchasers and Suppliers to provide feedback at appropriate stages throughout the contract to improve mutual performance, minimise waste, learn from mistakes and best practice. It is evident that Purchasers are more inclined to provide feedback than Suppliers. However, looking more closely at the 2010 results, approximately two thirds of both parties only provided feedback **sometimes** and 15% of Suppliers **never** provided feedback. Signatories tiered compliance rating has been affected by performance in review activity; hence more effort is required in this area.

Year	Purchasers	Suppliers
2010	31%	25%
2009	30%	36%
2008	75%	21%
2007	38%	15%



## INVOICES & PAYMENTS

Purchasers and Suppliers were asked how long it takes to issue/receive an invoice. The results showed 56% of Purchasers issued invoices in 26-30 days; however Suppliers believe that most of their invoices are received during 31-60 days. Equating the invoice time for both Purchasers and Suppliers to 30 days would guarantee better business performance and working relationships.










## Key Conclusions

The UKCS Supply Chain is currently experiencing record levels of activity. However, this does not mean we should lose the momentum gathered over the past nine years in improving commercial behaviours in the industry. We must grasp this opportunity to further the implementation of the Code of Practice. The Code is the industry's primary tool for analysing the development of forward looking practices and positive behaviours. The key conclusions drawn from the 2010 survey are:

- ✓ There has been an increase in the amount of Purchasers and Suppliers using PILOT Forward Workplans. In an effort to raise this further, increased effort into publicising this tool in the workplace is required by all signatories.
- ✓ Purchasers remain keen to communicate how Suppliers can do business with them, helping to promote business transparency.
- ✓ There has been an increase in attendance of both Purchasers and Suppliers at the annual PILOT Share Fair.
- ✗ The use of LOGIC standard contracts has decreased, the reasons for this should be investigated.
- ✓ Dramatic improvements have been made regarding KPIs – 100% of Purchasers included KPIs in all significant contracts.

The survey findings show evidence of good practice in turbulent times, with a number of areas showing a notable shift for the better. Having said this, the use of LOGIC contracts has deteriorated; it appears that companies are steering away from the use of industry wide Standard Contracts and moving towards greater use of their own Standard Contracts. This aspect of the code has been identified as a priority focus area by Oil & Gas UK. The fact that overall compliance has generally improved is a testament to the energy of those industry practitioners who promote and champion the code's principles in their respective organisations and ensure that they are embodied in their working procedures.

Criteria	 <b>Bronze</b>	 <b>Silver</b>	 <b>Gold</b>
Minimum number of FPAL Purchaser Performance Reports received (and average score for questions about the Code)	5 (score 5/ 'adequate')	5 (score 7/ 'good')	10 (score 8/ 'good')
Annual completion and return of the Supply Chain Code of Practice Compliance Survey			
Demonstrable commitment every two years at Share Fair and use of the FPAL Forward Workplan tool			

## The Code is endorsed by:

Oil & Gas UK, DECC, PILOT, EEEgr, EIC, ENERGY NORTH, FPAL, IMCA, NOF ENERGY and OCA



Oil and Gas UK is the leading representative organisation for the UK offshore oil and gas industry. Its members are companies licensed by the Government to explore for and produce oil and gas in UK waters and those who form any part of the industry's supply chain.



PILOT is the oil and gas taskforce which is a unique partnership between the UK oil and gas industry – Operators, contractors, Suppliers, Trade Unions, SME's and Government working in cooperation to deliver quicker, smarter and sustainable energy solutions to secure the long term future of the UKCS and to ensure full economic recovery of our hydrocarbon resources.

The Supply Chain Code of Practice is a PILOT initiative and works to improve the efficiency of the UKCS supply chain by improving performance, eliminating unnecessary costs, adding value and boosting competitiveness.

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