



The 2008/2009 survey attracted responses from 52% of signatories. This was a slightly lower response than last year, this maybe due to the fact that there were fewer companies signed up to the code in 2007/2008. Of the 75 organisations that responded to the survey, 22 considered themselves to be purchasers, 39 considered themselves to be suppliers and 14 companies were both suppliers and purchasers. The survey results were analysed in terms of 36 purchasers and 53 suppliers.

PURCHASERS

		2007/2008	2008/2009
PLAN	Use of 'Workplan' look ahead facility	80%	71%
CONTRACT	Use of model ITTS	10/20%	50%
	Use of standard contracts	40%	47%
PERFORM AND PAY	Use of KPIs	24%	94%
	30 day payment	65%	29%

SUPPLIERS

		2007/2008	2008/2009
PLAN	Use of 'Workplan' look ahead facility	79%	85%
CONTRACT	Use of standard contracts	23%	56%
PERFORM AND PAY	Participation in FPAL feedback	15%	21%



PILOT was established in 2000 and involves input from Government and the oil and gas industry including operators, contractors, suppliers, trade unions and SMEs. It is the successor to the Oil and Gas Industry Task Force (OGITF), which set a vision for 2010 to help strengthen the position of the UKCS in a competitive global market place, as a key centre for oil and gas exploration, development and production. PILOT monitors progress and drives activity to boost efforts in meeting the vision's goals.

The Supply Chain Code of Practice supports PILOT's goals, as it works to improve the efficiency of the UKCS supply chain by improving performance, eliminating unnecessary costs, adding value and enhancing competitiveness.

Contact for further information:

Norman McLennan
Oil & Gas UK
Email: nmclennan@oilandgasuk.co.uk

Rebecca Barry
DECC
Email: rebecca.barry@decc.gsi.gov.uk

Website: www.pilottaskforce.co.uk



2008/2009 SUPPLY CHAIN CODE OF PRACTICE COMPLIANCE SURVEY REPORT

The PILOT Supply Chain Code of Practice (SCCoP) was launched in March 2002 and is a sustained government initiative fully endorsed by the Oil & Gas UK Board and Councils. The objective of the SCCoP is to improve performance, eliminate duplication and unnecessary costs, add value and boost competitiveness across the supply chain in the upstream oil and gas sector.

The code's principles apply to three key stages of the commercial process, namely PLAN, CONTRACT and PERFORM AND PAY. The signatories to the code aspire to work towards better compliance with those principles. To date, the code has been endorsed by a significant number of major organisations and companies involved in the oil and gas industry and the number of signatories continues to grow year on year.

Oil & Gas UK monitors progress regarding implementation of the code on an annual basis by means of a compliance survey. The 2009 survey was developed to ask questions that are in line with the three parameters and the new 'tiered compliance' aspect of the code.

Overall, compliance with the code seems to be improving. There are encouraging signs of positive action by tier 1 purchasers (operator and contractor) who wish to be seen as more attractive customers. This is a step in the right direction in terms of creating a more sustainable and efficient contracting environment for our supply chain.

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 '30 day payment cycle' aspiration of the code is not being adhered to. It appears that companies are stretching out their payment cycles. This aspect of the code has been identified as a priority focus area by Oil & Gas UK.

The fact that overall compliance has 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 into their working procedures.

The code is endorsed by:
Oil & Gas UK, DECC, PILOT, NSIG, FPAL, EEEGR, EIC, NOF, IMCA, OCA and WSCA



1. PLAN

Transparent planning of contracting activity by major purchasers to improve supply chain capability

PURCHASERS

Communicate forward plans to the industry including areas and type of activity, expected contract value and timing.

To help make purchasers' planned contracting activities more transparent, FPAL is working on an enhanced online 'Workplan' look ahead facility. This survey asked purchasers if they would use such a tool. It was found that 71% of purchaser would use this facility.

Support the annual industry Share Fair where major purchasers communicate future plans and internal contacts to the supply chain.

85% of purchasers comply with the code as they attend the Share Fair.

Publicise a list of internal contacts to facilitate discussion around future plans with the contracting community. Maintain up-to-date FPAL purchaser profile including 'how to do business with us', guidance, a contacts list and information on forward plans.

41% of purchasers publicise a list of internal contacts on FPAL.

SUPPLIERS

Review purchaser plans and FPAL purchaser profiles to understand future requirements.

Suppliers were asked "would your company use a '24/7 work plan' facility to look at work being considered by purchasers to plan your own business?" 85% of suppliers said that they would use the facility, this is up on the 79% that said they would use it in 2007/2008.

Attend industry Share Fairs to understand future requirements.

From the survey it was found that 67% of suppliers stated they attended Share Fair.

CONCLUSION AND 2009/2010 OIL & GAS UK WORKFRONTS

Overall compliance to the **PLANNING** section of the 'code' is good with a large number of purchasers and suppliers attending the industry Share Fair regularly.

Current workfronts relating to the '**PLAN**' parameter include:

- **Development of the new 24/7 forward Workplan facility** - encouraging tier 1 purchasers to regularly upload indicative information on forthcoming projects for the supply chain to view.
- **Development of an enhanced Share Fair concept for 2009 (SF11)** - stronger overall line up of presenters with increased number of '1 to 1' sessions and incorporation of 'self help zone' with supportive measures for SMEs across the supply chain
- **Improved and updated listing of key contacts within purchasing organisations** - through various FPAL initiatives to enhance the quality of information on the industry's supply chain database.
- **Further promotion of the code at Offshore Europe and SF11** - through industry booths and seminar / presentations.

2. CONTRACT

Streamline pre-qualification, tendering and negotiation processes to reduce bidding costs, eliminate waste, add value and increase competitiveness

PURCHASERS

Where pre-qualification data is required, only invite bids from suppliers registered with FPAL that have an up-to-date capability assessment.

75% of all purchasers use FPAL registered companies 80% of the time or more. This is on par with the 2007/2008 survey results.

Eliminate supplier data duplication by utilising FPAL throughout the tender process.

FPAL produced the advanced registration FPAL profile to help with the tender process. The survey found that 82% of all purchasers are using FPAL Advanced Registration system with one third of all purchasers using FPAL Advanced Registration profiles at all times to produce their tender lists.

Use industry standard model ITTs where appropriate. These embody fair contracting principles, encourage participation in the Industry Mutual Hold Harmless, invite bidders to demonstrate where they can add value, define value based award criteria, outline timeframes and avoid data duplication.

The survey found that 50% of all purchasers are using the standard model ITTs. This is a positive shift as it is up from the 10-20% in 2007. This use of model ITTs accounted for 28% of the business tendered for by all purchasers. A slightly different story is told by the suppliers. 42% of all suppliers received model ITTs.

Provide appropriate de-briefing for all bids.

100% of purchasers stated they feedback to bidders that have been unsuccessful, which is up on 2007's 60-70%. 86% of suppliers received feedback on their bids.

Use industry standard contract forms where available (LOGIC type of company-specific global contracts), minimising amendments or additional terms and conditions.

The survey found that the use of standard contracts by purchasers has increased with standard contracts accounting for 75% of business contracted in 2008/2009.

SUPPLIERS

Keep FPAL records valid and up-to-date, with capability assessments where required by purchasers.

81% of all suppliers regularly update their FPAL Advanced Registration profile.

Refer purchasers to FPAL if duplicate information is requested.

The survey asked, did suppliers refer purchasers to FPAL if they were asked to complete a bespoke qualification questionnaire? 25% of all suppliers referred purchasers to FPAL at all times. Only 6% of suppliers never referred purchasers to FPAL, always completing the bespoke questionnaires given to them.

Use standard industry contracts (LOGIC type or company specific global contracts) minimising amendments or additional terms and conditions.

The survey asked suppliers if they received standard contracts. 56% of suppliers stated that they did receive them. This is up by 33% in 2007 when only 23% of suppliers were receiving standard contracts.

CONCLUSION AND 2009/2010 OIL & GAS UK WORKFRONTS

The 2008/2009 survey shows that there is a positive shift in compliance to the '**CONTRACT**' section of the code. There has been a huge increase in the use of the model ITTs with 50% of purchasers using them now compared to 10-20% of purchasers in 2007-2008. Use of standard contracts has also increased with standard contracts being used for the majority of business being carried out.

Current workfronts relating to the '**CONTRACT**' parameter include:

- **Running a series of training seminars on model contractual supply chain solutions** - to inform the industry on the available suite of LOGIC model contract forms, model ITTs and also on the workings of the IMHH contractor indemnity regime and the value of the FPAL internet supply chain database.
- **Development of a new model ITT for 'General Services'** - this completes the set in response to industry demand for this additional version.
- **Increasing the use of the LOGIC standard contracts and model ITTs** - through continued promotion and the new tiered compliance scheme.
- **Encouraging the use of the new FPAL Advanced Registration Profiling**
- **Encouraging fair and more sustainable contracting principles** - through informing the industry of available value contracting and cost base alignment models.
- **Encouraging the industry to foster better working relationships during turbulent economic times** - by issuing statements of good contracting practice between purchasers and suppliers to the industry.

3. PERFORM and PAY

Increase performance feedback dialogue and shorten payment cycles to improve performance

PURCHASERS

Include performance indicators in all significant contracts with an appropriate review programme for the life of the contract.

94% of purchasers included Key Performance Indicators (KPIs) in their contracts. This is a dramatic increase in the amount of companies including KPIs in their contracts with only 24% of purchasers including them in 2007/2008. The KPIs that were most frequently included were service quality, planning and delivery, and health and safety.

As well as including KPIs, the code states that a programme review should be included with the contract. 100% of purchasers included a review programme in their contracts.

Give FPAL performance feedback at appropriate stages during the contract to improve mutual performance, minimise waste, learn from mistakes and best practice, and report on the extent of code compliance achieved by both parties.

The survey found that 75% of purchasers always participate in FPAL feedback. This is significantly up on previous feedback.

Pay all valid invoices within 30 days

Only 29% of purchasers are paying their suppliers within 30 calendar days, this is 36% less than in 2007-2008. Purchasers were asked if they paid non-disputed parts of invoices, the results showed that 88% of purchasers do, which is up on the 73% in 2007-2008. There has also been a reduction in the number of suppliers being paid in 30 days. Only 6% of companies are being paid in 30 days, this is down from the 42% in 2006-2007.

SUPPLIERS

Track and discuss key contract performance indicators

82% of suppliers received contracts with KPIs. 80% of suppliers stated that a review programme was included in their contracts with the majority of suppliers tracking and discussing KPIs as the review programme states.

Request and participate in FPAL performance feedback, including assessment of purchasers' performance.

Only 21% of suppliers always provide feedback, which is less than purchasers but is an improvement on the 15% that gave FPAL performance feedback in 2006-2007.

Submit complete and valid invoices with supporting documentation in a timely manner.

The main reasons that purchasers are not paying suppliers within 30 days are

1. invoice is disputed partly or wholly
2. the invoice is incorrect
3. there is a lack of documented material with the invoice

These reasons for lack of payment suggest that suppliers are not submitting complete and valid invoices with supporting documentation.

CONCLUSION AND PROPOSED 2009/2010 OIL & GAS UK WORKFRONTS

Compliance with the '**PERFORM AND PAY**' section of the code is mixed. Good progress has been made by purchasers with regards to feeding back to suppliers on FPAL. There is a dramatic reduction in purchasers paying suppliers in 30 days which is a worry, but this behaviour is likely linked to the current economic climate.

Current workfronts relating to the '**PERFORM & PAY**' parameter include:

- **Encouraging the use of Key Performance Indicators (KPIs)** - raising awareness that KPIs can be incorporated into contracts to align with appropriate FPAL performance criteria, thereby ensuring measurement consistency.
- **Encouraging 2-way performance feedback using the FPAL system** - this has gained momentum as tier purchasers recognise that their tiered compliance rating will be affected by performance review activity in FPAL based on the three parameters of the code.
- **30 day payment cycles** -
 - Fast tracked the development of a web information portal to help SMEs lessen their exposure to financial and commercial risks during the current economic climate.
 - Establishment of a supply chain payment hotline.
 - Analysis of circumstances across a typical supply chain within the sector to identify where payment cycles break down.
 - Initiated research into electronic payment and other good practice systems that could assist payment behaviour and practice.
 - Issued good payment practice guidelines.
 - Advisory note from Oil & Gas UK Board joint chairs and government issued to senior industry figures to encourage shortening of payment cycles to help the supply chain.

