

Oil and gas industry can implement new ways of working with its suppliers to mitigate financial distress

Building long-term procurement and supply chain resilience, the worst effects of the crisis could be avoided.

ADIPEC Webinar told oil and gas operators need to work more closely with suppliers to mitigate financial impact of oil price collapse, stabilise supply chains and build long-term resilience

Abu Dhabi, UAE – XX June 2020 – The triple shock of COVID-19 and the subsequent collapse of energy demand and oil prices have put the future of the oil and gas industry's oil field equipment supply sector under threat, as operators impose activity and price cuts and renegotiate contracts to reduce costs.

Warning today's industry crisis is significantly more severe than 2014, when oil prices fell by 40 percent, Alexey Dolya, Managing Director and Partner, at Boston Consulting Group, said more than half of oil field equipment suppliers are at risk of bankruptcy if oil prices remain at \$30 per barrel until the end of the year.

Participating in an online ADIPEC Webinar, entitled *Building Future Business Resilience through Technology, Innovation and Partnerships*, Dolya said if the oil and gas industry can implement new ways of working with its suppliers to mitigate financial distress, while building long-term procurement and supply chain resilience, the worst effects of the crisis could be avoided.

In the short-term, he said, operators need to have forward-looking transparency into vendor financial health to mitigate supplier distress. In the medium term, operators and suppliers need to consider new technologies and strategic partnerships to unlock 20-50 percent lower costs to survive in a \$30 per barrel oil market.

"The current crisis is very different to what we have seen before," Dolya said. "Supplier prices have not yet recovered from the last crisis and many vendors' health is much weaker. However, the response of oil and gas operators has been similar to 2014, with activity cuts and requests for price cuts putting suppliers at risk of bankruptcy.

"Instead, operators should look to the automotive and defence industries, where there is close collaboration with suppliers and both sides learn from each other. Operators need to build forward looking models to try to understand how long supplies can last

in the current environment and work with suppliers to unlock significant potential from alliances and strategic partnerships.”

A BCG survey, conducted in May, shows the biggest impact on the oil field equipment suppliers industry is being felt in the well services, drilling and rigs and topside and process equipment categories. Other areas under pressure include seismic; subsea; logistics; engineering, procurement, construction and installation and maintenance and professional services.

According to BCG, unilateral measures to mitigate financial pressures on suppliers could include extending preferential rates; front loading ordering of products; improved access to finance, including direct lending to suppliers, direct payment of Tier 2 suppliers, bank guarantees and measures to safeguard against default, including an option to purchase, sell-off or recover input materials. Meanwhile, cross-operator levers could include government support packages for the oil field equipment supply industry, including tax exemptions; structural guarantees for key industries; greater clarity on the demand pipeline and coordinated cross operator bail-out efforts.

The ADIPEC Webinar series is a weekly online thought leadership event created by dmg events, organisers of the annual Abu Dhabi International Exhibition and Conference. Featuring key stakeholders and decision-makers in the oil and gas industry, the dialogues focus on how the industry is evolving and transforming in response to the COVID-19 pandemic and the rapidly changing energy market.

ADIPEC attracts more than 155,000 energy professionals from 67 countries; including senior decision-makers and energy industry thought leaders, over 2,200 exhibiting companies and 23 national exhibiting pavilions as oil and gas companies convene to share views and best practices to address the long-term impact of the triple challenge of lower oil prices, weaker demand and over supply.

To watch the ADIPEC webinar in collaboration with BCG go to:
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