

# It's sink or swim time for subsea

**The boom is over; it is time for the subsea contracting sector to admit that it must adopt a radically different approach to business if it is to survive and prosper, as Ciaran O'Donnell of consultancy Vinstra argues**

Subsea is in pain and needs major transformation, as developments have become too expensive, and the entire sector faces significant value reduction in the short to medium term.

Bluntly, subsea is at sink or swim right now. It has to slim down to be a viable economic alternative again.

Given that this hugely important part of the offshore industry is broadly sub-economic at oil prices below \$50, there is much to be done to make subsea significantly more efficient if we are to compete with terrestrial sources of oil & gas.

Since I started looking at the sector through the eyes of Vinstra, it has become strikingly obvious that subsea developments are being priced out of the market through over-complication, over-conservatism, multiple layers of duplication and price inflation.

One result is that subsea has especially lost significant ground to onshore production, including shale, as an investment opportunity.

Put simply, from an investor's perspective shale gas & oil have become

lower risk and more predictable when compared with offshore.

It hasn't helped that, during the decade or thereabouts of good times up until mid-2014, the subsea sector grew fat, flabby, bust its budgets and became prone to falling behind schedule.

It will take an enormous effort to make us competitive again.

It is essential that this sector takes a tough look at itself, re-configures and strives for new levels of efficiency and standardisation.

The past 15 years witnessed a boom like no other . . . remarkable for its length and levels of pros-

perity achieved. It has become hugely important to Aberdeen, the wider UK, plus North Sea neighbours like The Netherlands and Norway.

In 2014, the global subsea market was worth \$49 billion of which \$12 billion of products and services originated in Northern Europe. A decade ago it was a mere \$3 billion. What will it be in two years from now?

Without a doubt, the



Ciaran O'Donnell

North Sea has led the world in terms of subsea technologies development and their deployment using increasingly larger and more sophisticated ships and equipment.

But, over the past 18 months the pendulum has swung dramatically in the opposite direction to the point that, somehow, we must claw our way out of the now deep low and re-engineer subsea to the point that it becomes sustainable, simpler and more standardised.

We need to trim our income and profits expectations and strive to re-emerge as an attractive sector where investors can invest and build value again.

I am in no doubt about the long-term future for subsea; the question is when?

Sooner or later, onshore depletion will re-emerge as a major issue and deepwater reserves will again become an attractive proposition when seeking to mitigate supply shortfall. That could be over the next 10 years.

The good news . . . if there is such a thing at this time . . . is that the sharp decline in oil price and its "lower for longer" prognosis has left no one in any doubt of the required action.

In fairness, if they hadn't already started to take stock by Q4 2014, every company did so last year and started to take action.



Above: An operational shot of an Expro subsea landing string during deployment offshore

Indeed, last year saw some very tough decisions made across the service sector, some of which surprised us all and there is more to come.

Meanwhile, there seems to be an increase in the amount of collaboration across all stakeholders . . . from government bodies, E&P companies and throughout the supply chain.

## A helping hand...

Time is running out for limited company owners to benefit from Entrepreneurs' Relief before possible changes in the next budget.

Proposed HMRC changes are likely to result in a surge of solvent liquidations over the next few months.

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On the new projects front, due to the long delivery cycles in subsea a change in CAPEX takes years to work through the supply chain. It means that there is still further right-sizing to take place.

But it's not just about cutting costs, often through paying off people, there has to be strong leadership from the exploration & production companies if we are really to tackle the complexity, conservatism, and duplication that have come to characterise

subsea developments. However, we all know the expression "necessity is the mother of invention". This is a great opportunity for the subsea sector to have a complete new look at itself, and the way it does everything.

And there are some big issues to resolve, notwithstanding the background challenges to developing resources subsea . . . deepwater and ultra-deepwater, HP/HT, size of developments and so-forth.

There are fundamental questions that must be answered, such as:

- Why does the same subsea well take 30% longer to drill now than it did 10 years ago?
- Why have subsea development costs per well increased by 300% in 10 years?
- Why have vessel days/per tree installation doubled in the past 10 years?

However, many positives have also come out of the good times, witness

the huge amount of self-investment within subsea.

- Fifteen year ago we could only have dreamed of the subsea fleet of vessels we have today – 66% of the fleet are less than 10 years old;
- There have been significant technology leaps;
- There is much new manufacturing plant and increased capacity;
- There has been huge investment in people and their skills.

The trick now is that we need to find a way for the best of these assets to survive until subsea is back in vogue.

Nor should we lose sight of the fact that subsea infrastructure has continued to grow year on year and this OPEX-driven aspect of subsea has become a substantial industry in its own right.

There is also a growing offshore renewable sector with many committed long-term projects in the pipeline . . . £multi-billion-scale wind developments, plus significant pathfinder wave and tidal projects.

Then there is offshore decommissioning, which is another growth area where subsea engineering is required.

Odd though it might seem, I believe that we may have arrived at a place where this industry might in reality need less technology and not more.

Even though innovation is a watchword of the current crisis, perhaps subsea has gone through the innovation phase as an industry and that it is time to standardise and become more efficient. Behavioural innovation may now be more effective than more technology innovation.

That's not to say that there isn't a place for efficient game-changing technology innovation.

At Vinstra we are already evaluating reduced specification solutions and creating further standardisation with the subsea supply chain.

Our mission is to work with and across the supply chain with many diverse stakeholders and explore strategies for; new markets and products, new commercial models, new strategic partnerships, and new investors to help plot a course through these

**"Our industry has many strengths that will stand it in good stead during this extended downturn"**

tough times and emerge significantly more efficient.

Don't underestimate yourselves. Our industry has many strengths that will stand it in good stead during this extended downturn and which will help compensate for the weaknesses.

Those who embrace change and collaboration will survive and be stronger for it. It might not seem that way, but there really are exciting times ahead as we innovate new ways of working together to drive efficiency.

Ciaran O'Donnell is a co-founder and director of Vinstra. He is an engineering entrepreneur who has grown up with the subsea industry over the last 30 years

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