

security of supply

relationships

Supply Chain Code of Practice

Report on 2002
Compliance Survey

changing the way we work

creating a future

sustaining the future

co-operation

working together

supporting jobs



the right course for oil and gas success



SUPPLY CHAIN CODE OF PRACTICE

Report on 2002 Compliance Survey

Launched in March 2002, the Progressing Partnership Supply Chain Code of Practice aims to improve efficiency and reduce waste in the UK oil and gas industry supply chain by targeting working practices, behaviours and purchaser/supplier relationships. It is endorsed by senior managers from virtually all of the major operators and contractors involved in the sector.

Progress in the implementation of the Code of Practice is being monitored via an annual compliance survey conducted by the Department of Trade and Industry (DTI). The survey is believed to be unique to the UK oil and gas sector, reflecting the importance being placed by both the Industry and Government on securing the Code's adoption industry-wide.

The first questionnaire was sent out to the Industry in November 2002, with a request for responses by the end of January 2003. The findings of this initial survey establish the baselines against which future improvements will be measured.

This report documents the 2002 survey's main conclusions and the plans to pursue improvements in high-value priority areas across the UK supply chain during 2003.

2002 COMPLIANCE SURVEY

Questionnaires were sent out to the 78 signatories to the Supply Chain Code of Practice, with a response rate of 85 percent. The survey covered almost 24,000 contracts with a cumulative value of some £8 billion. There were 12 non-respondents.

Analysis of the data reveals that more work needs to be done to simplify the requests for data and clarify some of the definitions used in the survey questionnaire. As a result, the initial survey will be re-designed for 2003 to make it more user-friendly and allow easier data analyses.

Survey response

Code of Practice signatories	78
Respondents:	
• Operator Purchasers	20
• Contractor Purchasers	26
• Suppliers	38
(NB – some companies respond as both purchasers and suppliers)	
Number of non-respondents	12
Total number of contracts	23,975
Total contracts spend	£7, 835 million



KEY CONCLUSIONS

Companies were surveyed on compliance in five key areas:

1. Award of Contract

Data was analysed for all contracts as well as for a sub-sample of contracts with a value above £300k, involving 24 companies. The level of compliance is higher on larger contracts (ie above £300k) where an average 54 per cent is reported. Areas for improvement lie in providing opportunities for bidders to add value in "invitations to tender" – or ITTs – (such as including investment in new technology as part of the bid), more feedback for unsuccessful bidders and greater use of standard contracts and performance review processes.

	% All contracts	% Contracts > £300k
Contracts awarded using FPAL-registered suppliers	43	72
ITTs with opportunity for bidders to add value	41	62
ITTs where unsuccessful bidders were given feedback	12	53
Contracts using LOGIC/CRINE Standard	18	24
Contracts using performance review process	38	60

2. FPAL Performance Feedback During/After Contract Award

Once again, the extent of compliance is greater for higher value contracts, but overall, there is a major opportunity for improvement in the area of FPAL performance feedback.

There are also improvements to be made in targeting payment of invoices within 30 days. While 55 per cent of purchasers claimed they had settled invoices within the 30 day period, only 26 per cent of suppliers said they had received payment within the same period.

FPAL Performance Feedback	% All Contracts	% Contracts > £300k
From purchasers to suppliers	6	33
From suppliers to purchasers	2	17

3. Named Contacts in Procurement

The publication of named individuals within company procurement departments is encouraging. Thirty-one companies have published details of the relevant contacts for their organisations, while 33 of 35 suppliers agree that this information is now fully or partially available to them.



4. Change in Commercial Behaviour

78 per cent of respondents report no change in overall commercial behaviour, while positive and negative changes in commercial behaviour are reported by 11 per cent of respondents respectively.

5. Progressing Partnership Share Fairs

The Code of Practice called for six-monthly "Share Fairs" to encourage the flow of information and the communication of upcoming work plans to the supply chain. Two industry Share Fairs were held in Aberdeen in April and November 2002, both attracting excellent attendance and positive feedback.

More than 90 per cent of supply chain attendees believed that attendance at a Share Fair had helped internal planning and all attendees believed the Share Fairs had enabled them to identify key contacts in operating companies.

2003 PRIORITIES

Analysis of the 2002 Compliance Survey results highlighted four high-value priorities for the Supply Chain Code of Practice Implementation Group in 2003. The Implementation Group's overall aim for the year will be to secure a measured improvement in Industry performance by the time of the next survey which will be carried out at the end of 2003. Objectives, measurement criteria and action plans are in place for each priority area and progress will be monitored throughout the year.

The areas to be targeted for improvement are:

- **30 day payment of invoices:**

- to demonstrate a 25 per cent improvement in 30 day invoice payment by year-end 2003, as measured by the annual Compliance Survey;
- to establish by June 2003 an industry-wide set of "30 Day Payment Principles" to which Code of Practice signatories will be asked to commit their companies.

- **Increased sign-up to FPAL:**

- to extend participation in FPAL beyond the current membership by a further 17 per cent by year-end 2003, as measured by the annual Compliance Survey;
- to record significant progress in 2003 in extending FPAL membership to ALL contracts where pre-qualification is necessary.

- **Increased use of standard contracts:**

- to demonstrate an improvement in industry use of standard contracts in 2003, as measured by the annual Compliance Survey, from 18 per cent to 30 per cent.

- **Engagement with the next tranche of companies:**

- to identify and engage with up to 500 companies involved in the oil and gas industry supply chain with the aim of securing their support for the Supply Chain Code of Practice;
- to establish a baseline in 2003 for these new participants as a basis for improvement in future years.

For further information on Progressing Partnership
and the Supply Chain Code of Practice, visit the PILOT website at

www.pilottaskforce.co.uk
