by nearly 4% to 1.8 million b/d. Lukoil reiterated that output kept growing at the Filanovskogo field in the Russian sector of the Caspian Sea and noted the launch last year of the Pyakyakhinskoye field in West Siberia. Gas output, meanwhile, jumped by over 12% thanks to rising output in Russia and Uzbekistan.

Downstream, Lukoil's refining throughput grew by 1.6% on the back of higher runs in Russia. Planned maintenance at the company's refineries in Italy and Romania caused a decline in products output, but the company benefited from healthy refining margins, which have helped European refiners nearly across the board lately.

**Nadezhda Sladkova, Moscow**

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## Saipem CEO Calls for New Approach to Oil Services

Stefano Cao, head of Saipem, one of the biggest global offshore oil-field service contractors, says upstream operators and service firms must change the way they work together to achieve lasting, structural reductions in development costs.

While costs have fallen since the oil price collapse in mid-2014 and projects have started to move ahead, much of the recovery in the upstream sector has come at the expense of the service sector under pressure to cut rates. During the early stages of the downturn, the oil companies played contractors off against each other to secure lower pricing, as projects were deferred or canceled, and service companies struggled to fill gaps in their backlog of orders. Although the more recent uptick in oil prices — and upstream activity — has helped alleviate the resulting squeeze on contractors' margins, producers are still treading cautiously until prices settle. Thus, competition at least among European service providers for fewer contracts looks set to continue next year.

"Obviously, there is a point beyond which you cannot go because then there is no marginality for our activities and consequently the whole industry runs into trouble," Saipem CEO Stefano Cao told *International Oil Daily* in an interview this week. "So, I would say there must be a second stage whereby the approach — commercial, contractual, and engineering — changes, and on both sides of the industry we must devise a different client-contractor relationship and a different technological situation aimed at all times at reducing the overall cost of developments."

Despite operating cost reductions — of up to 50% for example in the North Sea — oil and gas producers are still taking a cautious approach to capital investment pending a sustained oil price recovery. Clues as to whether they will adjust their spending plans given the recent run-up in prices will emerge next February and March when companies normally announce their capital budgets.

"This year has shown that the crisis is going to last longer than expected. And quite frankly, at the moment I see no distinct signs of a recovery," Cao said. "That for us will be an important point to see whether there are more concrete signs of a possible recovery going forward" (IOD Jul.26'17).

In Cao's view, there are still opportunities for the industry to improve on efficiency in order to see structural improvements in the economics of oil and gas projects. For all the talk of "standardization" across the industry, aimed at saving money, he believes "there is still a long way to go," suggesting the culture has yet to be instilled throughout organizations.

"There is no reason why we should not be in a position to rebalance the industry and make money at $50-$60 a barrel," he argues.

Under Cao, who was appointed CEO in April 2015, Saipem, like its peers, has restructured and recapitalized to prepare for what he sees as a "lower forever" oil price scenario. The new organization is based on five divisions: onshore and offshore drilling, onshore and offshore construction, and the newly created high-value engineering dedicated to identifying and applying new technologies.

Cost control is a priority, targeting savings of €1.7 billion ($2 billion) from 2015 to end-2017. But the revamp has also involved difficult decisions to close some of the firm's global engineering offices a couple of fabrication yards and lay off employees. By the end of the year, Saipem, which is controlled by Italian oil major Eni and state-backed fund FSI, will have slashed its 50,000-plus workforce to around 34,500. And the rationalization process is expected to continue.

To combat the downturn, some oil services companies have responded by consolidating, including Saipem's rival, France's Technip, which last year merged with US firm FMC Technologies. "I would expect to see more consolidation going forward," Cao said.

Saipem itself has taken a "lighter approach," forming an alliance with Aker Solutions to test the market for more integrated subsea oil and gas projects, particularly deepwater developments, bidding jointly for certain projects. "If that solution is not favored, then we'll have to consider some different form of ties," he said. Like many of its peers, the Italian firm is seeking to diversify its business and Cao sees decommissioning as a potential new market (IOD Apr.24'17).

Nonetheless, Saipem will also look to expand its reach in its core onshore Middle East market in the midstream downstream and petrochemical sectors — "all areas favored by the low oil price." Indeed, Cao hints that could also include a role at Iran's giant South Pars gas field development where French major Total is soon to award subcontracts for its Phase 11 development — although that project could be impacted if the US reinstates sanctions against Iran (IOD Nov.23'17).

"We continue to observe the great potential of the market very closely. Obviously, we respect and abide by the law, so we'll only carry out operations and activities which are consistent with rules and applicable laws," Cao says.

**Deb Kelly, London**

## No End in Sight to Russia's Jet Fuel Price Surge

The strong rebound in passenger travel seen so far this year in Russia is certain to persist in 2018 due to the World Cup, intensifying pressure on refiners to crank out more jet fuel to mitigate the hefty price increase hurting domestic carriers.

Passenger numbers on Russian airlines over January-October soared by nearly 20% to 89.8 million people, the country's aviation regulator announced on Wednesday, while jet fuel prices at domestic airports have climbed over 20% at Moscow's three main airports since the start of the summer, according to a price index compiled by the St. Petersburg International Commodities Exchange.