



BOSTON STRATEGIES INTERNATIONAL
Global growth. Guaranteed.

To: BSI Clients

From: Christopher Chand

Date: June 24, 2010

Re: The Deepwater Horizon Blow-Out: Supply Chain Lessons

NOTE: The analysis below is based on available information at the time the research was conducted. Boston Strategies International does not warrant or certify the accuracy of any of the information presented, which was not sponsored and was based on available sources at the time of publication.

The explosion at Deepwater Horizon has resulted in the loss of 11 lives, over \$2 billion already spent for cleanup, and forecasts of total costs reaching as much as \$60 billion.

In addition to being a public relations nightmare, the blow-out highlights a failure of supply chain management principles and practices. While details on the incident are still emerging, the interaction among multiple parties in the oil and gas supply chain appears to have played some role in it. For example, Cameron manufactured the blow-out preventer (BOP) that did not activate, Halliburton laid the cement plugs in the well that yielded under pressure, Transocean owned and operated the drilling rig, BP oversaw the project, and the US Minerals Management Service was supposed to be monitoring the risk of the project.

Where might the supply chain have broken down? It is hard to tell until proper investigations have been completed. BP acted as the general contractor on the project. BP planned how the well would be drilled and how it would be cemented. BP's procedures related to safety, inspection, and failure response may also have played a role. Transocean apparently modified the BOP on the well, so engineering drawings may have no longer matched what was on the seabed at the time of the failure. Risk mitigation is a critical aspect of supply chain management, and in this case the US Minerals Management Service was responsible for oversight and also for awarding certain test exemptions. Maintenance and engineering procedures of all parties involved may also have shaped the ability to recover from an unexpected incident.

Best-in-class supply chain management practices could have prevented the disaster by establishing accountability as well as foolproof, transparent and reliable interfaces among all five actors throughout the drilling lifecycle. Processes and procedures should be more thoroughly documented, more completely followed, and more closely monitored for the purchase, receipt, inspection, testing, installation, servicing, and continuous monitoring of equipment and supplier performance across all parties involved and over time. Oil companies, their suppliers, and regulators should study the multiple causes of this accident and redouble their efforts to deploy best-in-class supply chains to ensure that another such disaster never takes place.