

Interview of John Small, the executive Director of the Block Services of NIS

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Only in the year 2012, about 25 million dollars was invested in the improvement and development of technical capabilities of a NIS block “Oil Field Services”. The said investment relates to the procurement of most advanced equipment, investments in training and education of the workforce and implementation of new technologies. The above mentioned changes are focused on one strategic goal – creation of a competitive Oil Service with regional ambitions, which is part of the overall NIS strategy, aimed at achieving regional domination. The course of reforming this segment of the company, plans and projects with “Balkanmagazin” were the topics of the interview with John Small, the Executive Director of the NIS Block “Oil Field Services”.

What are the tasks of the Block “Oil Field Services” in Serbia and in the region at this moment? What results of your business operations do you expect in the future period?

First of all, I must explain what the Oil Services are primarily engaged in. The work is primarily focused on drilling the exploratory and development wells, and their servicing. In addition, the Block is actively engaged in seismic surveying of potential fields, for the purpose of gathering information on potential hydrocarbon deposits. I would also like to mention that the increase in the volume of the proved hydrocarbon deposits represents the guarantee for a stable development of any oil company, and consequently the prerequisite for implementation of the NIS strategy, aimed at dominance in this part of Europe.

The operation of Oil Services has always been of great importance to NIS, but the complicated situation the Company was in until the year 2009, practically prevented the development and improvement of the Services from reaching the satisfactory level. Therefore, we could be proud neither of our equipment nor of the technologies used until

recently. However, the situation has changed significantly in the recent period. The affiliated companies have been founded within the Block "Oil Field Services", which have now been provided a significantly larger operating area when it comes to business. In fact, the independence of the services segment of the Company is nothing new, it is now a real business trend in business operations of successful oil companies. The experience I gained in "Schlumberger" company is of great help, because I have already applied the knowledge gained there in my work in NIS.

Now we can talk about the gradual, but also safe, improvement of all elements of the Block. Namely, new equipment is being purchased, a team of managers and experts is being formed who should be responsible for managing this part of the NIS story. The reason is very simple – one of our major priorities is to open new regional markets for oil services, which is in accordance with the NIS strategy, aimed at achieving the leading position in the Balkans. This task would be impossible to realize without technological improvements and quality human resources. Now, with the investment amounting to 25 million dollar only in this year, I believe that we are on the right track and that we will be able to show everyone in Serbia and beyond, what we are really worth.

Our results in the first 9 months of this year were not the best, but I am convinced that by the end of the year we will succeed in improving that image. As for the year 2013, I am optimistic. Therefore, our strategic objectives include service quality improvement, opening new markets in the region, maximum contribution with respect to the transformation of NIS into a modern, regional energy holding company and positive business results.

You have mentioned the establishment of the affiliated companies, so what is now the structure of the Block "Oil Field Services"?

At present there are three companies operating within the Block, 100-percent ownership of NIS. These include Naftagas "Petroleum Services", Naftagas " Technical Services" and Naftagas "Transportation", all founded in the year 2012. Allow me to tell you that this was not an easy task, primarily due to the transfer of various contracts with suppliers, but we have managed to almost completely resolve that issue. I would also like to emphasize that during the transition from NIS into the affiliated companies, all the employees remained in possession of their respective social packages, which the company offers to its employees, therefore all the arrangements and agreements with employees, engineers and managers have been fulfilled. By the end of this year, we will have been physically separated from NIS, actually we will move offices from the Business Center of the Company in Novi Sad into commercial premises in a settlement "Šangaj" in Novi Sad.

Can you explain what exactly NIS has been investing in, when it comes to the Block "Oil Field Services"?

As I said, only in the year 2012, the sum of 25 million dollars was invested into technological development of the Block "Oil Field Services", and these investments have had a very thoughtful character. I will just list the key deliveries. At the beginning of the year the amount of 8 million dollars was invested into procurement of the most advanced machines for geophysical surveys – five SERCEL NOMAD 65 vibrators and a modern data integration set

SERCEL 42XL. These will enable us to significantly improve the quality of our geophysical surveys, thus increasing the possibility of finding new sources of oil and gas.

Another direction for investments – procurement of drilling equipment. Speaking of which, we are very proud of our Top Drive installation, which accounts for an integrated system for drilling tools rotation and fluid circulation. In addition, the system increases the level of occupational safety and safety of equipment, provides for higher drilling productivity, and provides the competitiveness of the Company's drilling equipment both in domestic and foreign markets. The first Top Drive has already been installed on the drilling installation of the "National" type, any two more similar systems will have been provided by the end of the year. This "pleasure" cost us about 7,5 million dollars.

There is another issue of great importance, not only for our Block but for the Company as a whole, and it is ecology. Modernization and upgrading of drilling services equipment is aimed at reducing the environmental risks, which surely exist when it comes to drilling. New equipment, we have been purchasing, will allow us to drill according to the principle of so called "dry locations", which means that we will completely eliminate soil pollution, i.e. the occurrence of waste pits previously used to dispose of the fluid used during the drilling process. This drilling system satisfies the strictest standards of environmental safety at work.

But the equipment and tools is not all necessary for success. The most important factor in our business is the people, and this is exactly why one of our priorities is investment into employee training and education. Moreover, we intend to use the partnership relationship which NIS has established with the universities of Belgrade and Novi Sad in order to timely provide young, ambitious and professional staff for our Block. All in all, we approach the process of training and modernization of oil services with utmost responsibility.

Are there any specific intentions for opening new markets and providing services to foreign partners? Are there any ideas of strategic partnerships? Who do you consider as potentially interesting partner in the region?

I can already say that we plan to open branches wherever we feel we can operate in Europe. The registration of a subsidiary company in Hungary is in progress and we will soon have our representative office in this country. We have also planned to open subsidiaries in more or less all neighboring countries we have a border with and where the representatives of the Block "Exploration and Production" believe the business operations may be developed. Also, there is a possibility of partnerships for services with other companies in the region, and we are open to all proposals of this type. I am very familiar with this segment of business – while I was working in "Schlumberger" company, I was responsible for partnership with one of the branches of "British Petroleum", so I have plenty of positive experience in this field.

I would also like to mention that the breakthrough into the region accounts for the overall strategy of NIS, and our activities are in compliance with the activities of the Block "Sales and Distribution" and other segments of the Company.

But apart from the Balkans, there are other areas of interest to us. We have signed a contract extension with "Dragon Oil" for another three wells in Turkmenistan. We believe that there is a potential for at least another year of operation there. The Government of

Turkmenistan grants the permission for one company to drill a total of three wells at one time, so that the companies are constantly in position to request new permissions for new wells, and this determines our engagement there. For the time being, according to the present state of affairs, we have the minimum of another five months of operation there and we expect that the contract shall be extended for the period of another year.

As far as other activities in that region are concerned, drilling installation "Nacional 2" is currently located in Egypt, and we are seeking a job for it in Libya, but we have some other options with "Газпром нефт" in the region of North Africa.

What made you decide to work in Serbia? Does an Englishman like to work in a Russian company with Serbian employees?

I like challenges and working in conditions which are not so simple, which offer room for creativity and non-standard approach to problems. NIS is exactly that kind of opportunity, and when they called me and made an offer, I decided to accept it. I feel good in Serbia, the country and the people in many ways resemble what I have already seen in other countries, so that it did not take me long to get accustomed. Serbia, according to my opinion, has at least three beautiful features which distinguish it from other countries, and these are: friendly people, fantastic nature and delicious food.

A physicist by profession, John Small has an extensive experience in working in oil business. He worked on onshore and offshore projects in Eastern Europe and Central Asia for more than 10 years. From 1999 to 2004 he performed various managerial positions in "Schlumberger" company in Azerbaijan, Russia, Kazakhstan and Turkmenistan. From 2006 to 2008 he performed the function of the Production Director of Burren Resources Petroleum Limited company. Prior to his engagement in NIS, he worked in "Schlumberger" company as the Director for Planning, Supervision and Coordination of Work of this company with the joint company of Russian oil company TNK and a British company British Petroleum. He goes to work by bike.

Source NIS