Human impact

Oil industry job cuts are inevitable in a downturn, but there are strategic arguments against making redundancies

JOB CUTS AT IOCS

6,500
Royal Dutch Shell

7,000
British Petroleum

Rigging the figures: Oil companies are reducing headcount around the world

by Mark Lazell

THE headlines have been brutal. Plummeting crude prices, which teetered around $38 at the time of going to press, continue to ravage oil company earnings. Declines have been rapid, shaking business models and testing long-term strategies. And thousands of workers have been, and are being, laid off. Oil companies are in survival mode and it's not a pretty picture.

Gulf oil firms haven't escaped the swathe of redundancies, but not all executives believe they are necessary.

"Shedding staff is the easiest thing to do," says Amran Marhubi, technical director at Petroleum Development Oman (PDO), the state oil company. "But this is the opportunity to actually upgrade our talent." He was speaking at an industry conference in Bahrain last month.ww

Nevertheless, urgent measures are being taken by the region's big firms to mitigate the oil price collapse, with expatriate staff bearing the brunt of cuts. Qatar Petroleum (QP) was reported to have dismissed as many as 3,000 people last year. Hundreds more jobs were said to have been lost at its subsidiary RasGas and Danish company Maersk, which operates an offshore oil block with QP.

Meanwhile, last month Kuwait Petroleum Corporation (KPC), aiming to wipe some KD190 million ($630 million) from its annual payroll, announced that it was looking to turn its expatriate administrative staff into 'contract workers', as well as cut incentives for all non-Kuwaitis. In the UAE a November 2015 report in Dubai's *Gulf News* revealed that Abu Dhabi National Oil Company (Adnoc) aimed to slash its operational costs by up to a quarter, although it wasn't clear whether that would involve job losses. However Patrick Allman-Ward, the chief executive of Abu Dhabi-listed Dana Gas, told reporters at a Dubai energy forum in January that his company was aiming to slash its head office workforce by 40 per cent.

Job cuts are just one tool for an industry shocked and shaken by the ferocity and speed of the oil price slump. Tony Mills, vice president of upstream consulting at energy consultancy group Wood Mackenzie, says the immediate priority for management teams will be simply getting through 2016 with oil at $40.

"It really has been a grim year. There is blood on the carpet of the industry, which has been haemorraging cash. But they'll need to start thinking how they will adapt, how they will fashion their upstream portfolios to make them capable of making money at a low oil range."

However Mills describes the quick reactions of oil companies as 'amazing'.

"In 2015 they cut by $22 per barrel the figure required to maintain cashflow neutrality. It has been an heroic effort, but it needs to do more."

"The fat has gone, we're cutting into the muscle and we'll be down to the bone next."

Deeper cuts into the bone will inevitably mean further job cuts, with international oil companies (IOCs) leading the way. Royal Dutch Shell is cutting 6,500 jobs this year, Chevron 7,000 positions and BP is set to lose five per cent of its 80,000-strong global workforce.

PDO's Marhubi reasons that this means there are a lot of talented people on the job market now.

"A lot of companies are throwing away talent. Now is the time to look in the market and act counter-cyclically. The companies that will do well when oil prices are high again are those that are prepared."

"I've witnessed four oil price crises in my career," he continues. What did I learn from previous crises? Not to panic. In 1986 we panicked at PDO. We cancelled projects, and it took us another 20 years to get back up to speed. That was 20 years of missed opportunities."

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>
> *Tony Mills, Wood Mackenzie*

Taking a bold long-term view may be easier said than done for a jittery industry desperate for signs of market recovery. The prognosis is not good, with high oil inventories and slowing Chinese demand testing the mettle of an upstream sector where projects and technologies are implemented on long lead times.

"We're all aware of the headlines regarding short-term actions being taken to help companies achieve financial results which will keep them going through this survival mode," says Jamie White, a manager at ExxonMobil Exploration.

"But hopefully we're not losing track of long-term objectives. A winning strategy is not a one-size-fits-all exercise. NOCs [national oil companies], IOCs, independents all have different strategic drivers. What really matters is understanding our shareholders' expectations. NOCs in the Gulf have a very different set of responsibilities than a private equity-backed independent from southeast Asia," he notes.

Marhubi says the strategies that oil companies have built up over the last two to three years have not become bad strategies overnight just because oil prices are low.

"It's just that the execution is going to be tougher. Staying the course is the most important thing. It's easy to say, but difficult to do."

There will be many factors determining whether oil companies can stay the course. Payroll considerations will be one.

"Laying off thousands of people might save costs but it affects the performance of oil and service companies in many ways," says Ibraheem Assa'adan, executive director of exploration at Saudi Aramco.

"Good people are lost when headcounts are reduced. When the next upturn in the cycle happens they may be lost forever, for example they may have changed career. It happens in every cycle – then when oil prices rise, the companies are forced to hire thousands of staff again. It can take two to three years to build the industry, yet the next downward cycle may be shorter than that."

It is unlikely many companies will heed that advice during these difficult days. While the oil industry has never offered much job security, today uncertainty is the only constant. ■