SIMPSON CROWDEN

Search for Energy

THE OIL PRICE AND THE LABOUR MARKET

PREPARED BY **SIMPSON CROWDEN**
MARCH 2015

Rather like the global economy, every 10 years or so, the oil industry seems to experience boom and bust. The oil price collapse by 50% since June 2014 is the latest bust phase of the cycle. The questions we consider here relate to the short and long-term effects these cycles have on the labour market. Specifically, is the business learning from previous experiences and are there alternatives to industry-wide blanket redundancies?

BACKGROUND

The traded crude oil market is the most manipulated of all commodities. Saudi Arabia and its cartel, OPEC, are responsible for a third of daily global production, with the Saudi's being the world's key swing producer. They are able to dictate overall supply and hence control the price of a barrel of oil. When the demand side of the equation is low, this power can - and has - been used positively to rein back supply to meet demand. However, it can also be used strategically for narrow purposes. This is where the oil industry finds itself right now, although some might say the recent oil price correction is overdue. The Saudi's have net foreign investments of $733 billion so can easily ride out the oil price slump until they have seen off the key threat of US shale oil to their status as the world's main oil producer. To be economic, shale oil requires a substantially higher oil price than we are currently seeing. As this medium-term, yet grand game of chess plays out, the impact on the current and future oil and gas labour market is much more prosaic.

IMPACT ON THE **LABOUR MARKET**

Given that hydrocarbons are the world's pre-eminent energy source and that supply can be distorted to meet demand, very few people thought we would ever see another oil price shock on the present scale. Over the past few months there have already been many redundancies. However when compared with similar oil price collapses of the past, it is clear that the larger companies have shown remarkable restraint so far, though this may well change in the months ahead.

IN THE OVERHEATED RECRUITMENT MARKET OF THE PAST FEW YEARS, THE ABSOLUTE SCARCITY OF OIL & GAS PROFESSIONALS AGED BETWEEN 40 AND 50 HAS BEEN ABUNDANTLY CLEAR.

In 1986, when the price of a barrel of Brent crude dropped to $11, many staff were culled 'en masse' over a matter of days and weeks. Further, the industry substantially cut entry-level recruitment for almost a decade. This has led to an unbalanced age demographic across the industry ever since, which won't be corrected for another 10-20 years. In the overheated recruitment market of the past few years, the absolute scarcity of oil & gas professionals aged between 40 and 50 has been abundantly clear. The oil price didn't pick up much in the 1990's, and from mid-decade onwards a barrel of Brent crude traded at between $14 and $17. This was considered stable and, with a degree of certainty, oil companies made investment decisions and started to recruit again.

Then came 1999 and another market correction with Brent crude dropping to $9 a barrel. A lot of staff were let go, but this time something different happened. Oil majors recognised that they had grown fat with inflated tiers of management and large middle and back office bureaucracies. This led to merger-mania and the creation of the Super Majors. The redundancies at this time mainly affected management and support functions. The industry did not lose too many people from the core disciplines of geoscience, engineering, production/operations and commercial. Managers, being few in number, were soon re-absorbed by the business when it picked up, or were responsible for creating the plethora of new start-ups at the time. Many staff from support functions, such as Finance and Administration had skills which were transferable to other industries and so those people who did not re-join oil companies were absorbed by the wider global employment market. Entry-level recruitment seemed to remain largely untouched. By 2007, the oil price had climbed considerably. In 2008, when the global financial crisis hit, Brent crude dropped to around $40 – but quickly recovered over the following year and there were few redundancies.

THE COST OF REDUNDANCY AND **POSSIBLE ALTERNATIVES**

In this present predicament, oil companies appear to be showing some signs of learning and adaptation when it comes to their people. They seem to have learnt that when voluntary redundancy is offered on very favourable terms, the brightest and the best are usually the first to put their hands up. They also seem to understand that making people redundant (senior staff professionals have been known to leave with $600,000 in their pockets), isn't always good business sense, especially when they find themselves bereft of essential skills once the market improves. Shareholders demand cost savings under these circumstances, but should be better educated in the false economy that is created when two or three hundred people are made redundant at a cost of several hundred thousand dollars each. Although those salaries may no longer be on the balance sheet, the real cost of redundancy and the skill deficits created, is substantial.

The oil industry can be a puzzle. It's a long-term business impacted disproportionately by short-term events. Many oil & gas developments beginning in 2015 won't reach first production for several years. No one can predict how much a barrel of crude oil will be worth by then.

Before making people redundant, perhaps oil companies should think more creatively. They could offer sabbaticals, or encourage their best talent to pursue sponsored post-graduate courses. In the same way that sports team's loan out their players to rivals, oil companies could loan out their staff to other industries (in the cases where skills are transferable) or to charities at subsidised salaries. National Oil Companies (NOC's), particularly in the Middle East, are often busier at times of low oil prices, taking advantage of rig availability and lower costs. These NOC's would be delighted to bring in highly qualified oil people from the private sector for a limited period. In turn, the experience would allow staff to grow and add additional value when they returned to their employer. Importantly, these types of arrangement would limit big pay-offs and be an effective way of preserving the skill and knowledge base of a business.

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SUMMARY

If the oil price hovers at around $50 for the next two years, predictably oil companies will cut huge numbers of jobs and cancel most entry-level recruitment. This will store up future skill shortages because people will leave the industry and new graduates will go elsewhere. Further, students choosing degrees or graduates looking at industry related post-graduate courses, will have absolutely no incentive to choose oil related studies.

In terms of manpower, the next 10-15 years could see the industry approaching the ‘perfect storm’. Imagine a scenario where the oil price recovers in a couple of years’ time and then in line with past experience, suffers a further correction in 2025. The age demographic at present is skewed towards the 50+ group. By 2025, a lot of these people will be ready for retirement rather than be prepared to struggle through another oil slump. Then consider the lost generation behind them. Whole swathes of talent will be missing at the mature end of the labour market and the supply of staff across the 30-50 age group will be patchy. Add to that limited entry-level recruitment for the next few years and the industry could be substantially under-skilled and in major trouble.

So far, no adequate replacement for oil or gas has been found. Nuclear power has lost ground in recent years and renewables are still a work in progress. Hydrocarbons may continue to be the primary energy source for our planet for the next 50-100 years. If so, more strategic thinking is required to prevent a ten-yearly cycle of boom and bust and the consequent de-skilling effects on the oil labour market.

Simpson Crowden has successfully supported clients through some of the most challenging economic climates, offering a range of services including executive search, career management and outplacement. We work across all E&P functions, and up to Board level. All of our consultants have on average over 20 years oil & gas experience and professional backgrounds in recruitment, assessment, generalist HR, psychology, outplacement and industry.

To hear more about how we can assist your business with alternatives to redundancy, or to discuss any of our other services, please contact us.

CONTACT US:

For further information please call Damien McCawley on **+44 (0)203 755 5043** or **+44 (0)7712 588965** or send an email to **mccawley@simpsoncrowden.com**

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