A 'Leaner, Cleaner, Greener' Oil and Gas Industry

September 2020 David Brown, Explorer Correspondent

The good news is that for oil and gas jobs, it’s about to get better. The bad news, of course, is that much of that is because there’s so little room for things to get any worse. And even then, don’t expect a quick bounce-back. With expectations properly managed, though, there is good reason for hope for those who adapt to the ongoing changes within the industry.

Duane Dickson

The industry's jobs outlook evolved as companies struggled through the 2015-17 downturn and then faced a new challenge from the COVID-19 pandemic this year. Fundamentally, the industry is getting:

Leaner.
Cleaner.
Greener.

"Leaner" because companies are cutting employee headcounts in response to reduced demand and lower prices. The pandemic has brought not only cyclical layoffs but also systemic reductions – jobs that will not return when the recovery occurs.

"Cleaner" because companies continue to streamline operations and introduce efficiencies. The industry has seen an increased focus on core competencies and core assets, with operators shedding properties that don't fit their strategic vision.

"Greener" because the energy transition is now well under way. The oil industry is already taking part in a bigger way than many people realize, although BP's recent announcement of plans to deemphasize hydrocarbons put a very large exclamation point beside the trend.

Flexibility and Agility

"Everywhere we look – and this would not be exclusive to the oil industry – there's obviously been a lot of layoffs and furloughs," said Duane Dickson, vice chairman and U.S. oil, gas and chemicals leader for consulting firm Deloitte LLP in Darien, Conn.

"The way you prepare for the comeback is first, with technology. Another is outsourcing," he said.

Dickson predicted a much more flexible workforce for the oil industry in the future, as companies will only reluctantly add full-time, permanent jobs. Agility will be essential, he said.

"You can basically move your labor (levels) up and down. This is part of the new way things happen," he noted.

"Jobs will be done differently in the future, with more flexible employment conditions and contracts that will help companies turn a fixed cost into a variable one – something that can be turned up and down as you need it," he said.

That could mean a growing "gig economy" aspect to energy industry employment, with more part-time positions, more contractors. Oil companies have been moving jobs to automation for years, using everything from drones to computer-enhanced drilling stations.

“There are a lot of digital technologies that allow certain jobs or tasks to be automated and done more safely,” Dickson said.

The possibility of systemic change in hydrocarbon demand is also affecting the industry’s thinking. With today’s reduced travel and continued growth in electronic vehicles and shared vehicles, future fuel demand could level off, Dickson observed.

“This is the first time we’ve started to realize that demand growth isn’t going to be constant forever,” he said.

Longer Term Outlook

In its “Midyear 2020 Oil & Gas Industry Outlook,” Deloitte stressed the need for oil companies to handle the pandemic and decreased energy demand without damaging their ability to respond to a future recovery, and to continue long-term planning.

“Something like LNG is long term, one of the cleaner forms of energy. It has a lot of applicability to power generation,” Dickson noted.

But the short-term LNG global oversupply requires a longer-term strategy for the industry, he said. Dickson sees a parallel for crude oil, also.

“There are certain parts of the world where the middle class will continue to rise along with vehicle ownership and demand for lower-cost vehicles, including those with internal combustion engines,” he said.

“It’s going to be a while before electric vehicles come down the cost curve,” he added.

A demand recovery will come, and “longer term there will probably be periods of shortage. There will be spikes where it will be difficult to meet demand,” Dickson predicted.

COVID-19 hit the U.S. industry hard, especially the shale sector. Deloitte earlier projected that shale players could end up with $300 billion or more of impaired assets in a sub-$40/barrel price environment.

“There’s a fair bit of distress in the shale space. We’ve seen some shut-ins. We’ve seen some bankruptcies,” Dickson said. “So we’re not going to see a lot of capital move into that space for a while. We’ll likely see consolidation.”

Investment Will Continue

But overall, exploration and investment will continue, Dickson noted, so the industry outlook isn’t all gloom-and-doom.

“I think in other parts of exploration and production, good projects always get funded by companies that maintain discipline and keep good balance sheets,” he said.

In a survey conducted for its midyear outlook, Deloitte found that “more than 90 percent of oil and gas respondents said their company has or is developing a long-term strategy for a sustainable, low-carbon future.”

“Furthermore, 50 percent of oil and gas respondents said their company is already investing in energy efficiency, cleaner fuels to power field operations, and acquiring businesses outside their core focus,” it reported.

Dickson said, “before the pandemic and the real change in oil prices, there were companies making announcements about what they want to do in the energy transition, and about carbon emission goals and things like that.”

While that can involve significant expense and a major change of strategy, “I can’t find a single example of where companies have relaxed those commitments,” he said.

The extent to which the oil industry is already participating in the energy transition would probably surprise the general public, and maybe even some people inside the industry. This green wave could open interesting new career paths for future industry employees.

Deloitte reported that, despite spending a relatively small portion of their total budgets on clean technologies and renewable energy, “large oil and gas companies have struck 60-plus cleantech deals per year since 2016,” including wind and solar investments.

“There are a lot of signs pointing to the energy transition moving forward at the pace it was before COVID, and maybe even accelerating,” Dickson noted.

In the future, E&P will be “much more of a disciplined game,” demanding low-cost operations, he said. The oil industry has already cut its workforce sharply and likely will be cautious about adding jobs in the future.

“There’s still a good case for continued exploration. It’s just not a case that depends on constant demand growth over the long term,” Dickson said.

Oil and gas companies have been trying out ways to improve operations and increase efficiency, using pilot projects as a way to investigate possible responses to today’s industry challenges, he said.

“I think the acceleration is going to come from taking a hard look at what’s working, and what’s working in other industries,” he said. “We’re going to start seeing stories about how some of the things those companies have been doing are coming out really well.”