INSIGHT

Oil price volatility - risks and opportunities in 2015

March 11, 2015 | Written by Heidi Watson and Sara Khoja

Update 6 - Global employment issues

Oil & gas layoffs have been grabbing the headlines in recent months following the slump in oil price. Shocking numbers have been bandied about by journalists billing this issue as one of the most damaging outcomes of the sector's current market position. A recent Bloomberg report suggested over 100,000 job losses have flowed from the crisis globally, with key oil & gas hubs around the world being hit hardest with high profile announcements being made in almost every region.

> *A recent Bloomberg report suggested over 100,000 job losses have flowed from the crisis globally*

Whilst these staff cuts are being attributed to the falling oil price, the headlines mask a more difficult underlying issue which has been slowly building across the industry over recent years and was likely to have led to a proportion of the job cuts we are now seeing. Producers have long been looking at the rising cost of production and acknowledging that operations need to be restructured to counteract a real risk to profitability. Restructuring was therefore already in the pipeline across the sector and, along with the natural conclusion of major projects and the scaling back of new ones, accounts for a proportion of the cuts this year. However, it is fair to say that the worst is likely not over yet as we see the impact of the oil price slump trickling down into oilfield services companies which continue to announce job cuts across the globe.

The numbers also do not take into account the effect of redeployment within businesses which are not picked up by the headlines. Businesses are looking at ways to avoid redundancies including adjusting rotas and shift patterns, although these proposals have encountered staunch opposition from unions. Other measures include the re-examination of the role of consultants in the sector as well as the use of mobile employees, considering reduced hours and down-manning offshore as well as contract days reductions. These measures will undoubtedly impact the overall number of job cuts in real terms, which are likely to be rather less than the numbers caught by the headlines.

Operators within the industry are in the medium to long term, likely to focus increasingly on growth of operations in the Far East and the Asia Pacific regions as Japan looks to alternative energy sources to its discredited nuclear programme and with consumption in India and China expected to double. New roles will become increasingly available in these regions which will go some way to limit the impact of job losses in other regions for the internationally mobile workforce.

The danger, as always, is balancing the benefits of realizing short term savings against losing key skills which will be difficult to get back into the business once markets recover. Prior to this current cycle of falling prices, the industry faced a skills shortage with a lack of young entrants and a retiring professional base. Mercer’s Global Talent Forecast (released in 2014), found that the industry currently has a global shortage of petroleum engineers with a world-wide shortage of roughly 22,000 forecasted for 2017. Mercer research indicates time-to-proficiency for a petroleum engineer can take between 20 and 30 years. Whilst there are a number of initiatives across the sector to attract and retain new talent, filling this skills gap remains a challenge.

In some regions this is compounded by local issues. By way of example, the focus within many Middle Eastern countries on developing and promoting the local workforce could also mean that it is much harder or impossible to get key staff back in country when demand increases, with Middle Eastern states imposing rules around the hire of local staff over ex-pats.

We can expect the headlines to continue to present a picture of large scale job losses across the sector well into 2015. However, the industry will ultimately be looking to create an efficient business model which will ensure it is able, and has the manpower skills in place, to respond to demand when the oil price inevitably recovers. Businesses will be looking hard at whether restructuring can provide this solution, and care will be needed when planning such projects particularly where the restructuring crosses borders, to ensure local legal requirements are complied with during the process. Planning is the key here to ensure that a consistent and joined up message is agreed before announcements are made to staff. This means engaging with advisers at an early stage so that regional variation in process can be factored into the planning. In terms of ensuring key skills are retained, finding innovative ways to avoid redundancies, such as sabbaticals, reduced hours and adjusting shift patterns, is in everyone's best interests. There is a bumpy road head but no doubt all within the sector will be hoping that the right balance has been struck to weather this storm and come out fighting on the other side.

Similar stories

12 JULY, 2013

Insurance Day booklet: A Legal Year in Brief 2012 - 2013

24 JUNE, 2013

Countdown to 20 August 2013: The Maritime Labour Convention 2006 - Part 1

30 JULY, 2013

Countdown to 20 August 2013: The Maritime Labour Convention 2006 - Part…

07 AUGUST, 2013

The United Kingdom ratifies the Maritime Labour Convention 2006

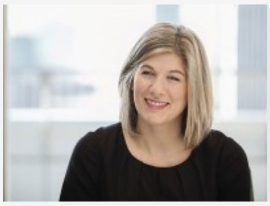
20 AUGUST, 2013

Countdown to 20 August 2013: Maritime Labour Convention 2006 Part 3 -…

09 SEPTEMBER, 2013

M&A activity: A global overview 2009 - 2013

Authors



Heidi Watson

Partner

Sara Khoja

Partner

More by the authors

- Doing business in KSA? Sending employees to KSA? Not without a licence!
- Managing your employee relations in MENA
- October changes in employment law
- Employment law developments across the GCC
- UAE introduces military service for all male nationals between 18 and…

Categories

Sectors

Employment, Pensions & Immigration | Oil & Gas

Services

Dispute Resolution | Employment & Advisory | Employment, Pensions & Immigration | Industrial Relations

Locations

Asia Pacific | Middle East & Africa | The Americas | UK & Europe

Tags

oil price volatility