Sign Up with the Oilfield News Online

Weekender

Oilfield NEWS

www.oilfieldnews.ca

Published By: NEWS COMMUNICATIONS since 1977

Saturday March 21st, 2015

100,000 LAYOFFS AND COUNTING: IS THIS THE NEW NORMAL?

This time a year ago, the oil industries biggest problem was finding a way to deal with the 'retirement tsunami' about to crash down on it as older oilfield workers hung up their cork boots to enjoy freedom-55. Now, with oil prices still in the doldrums, many of those same workers are lucky to be hanging onto their jobs, while others have been booted from the payroll as an ugly wave of layoffs takes hold.

One of the worst-affected areas is the Canadian oil sands, where a higher per-barrel cost of production than conventional sources has oil companies scrambling to cut capital expenditures and in several cases, put long-term projects on ice.

On Thursday one of the region's big players, Husky Energy, announced that about 1,000 construction workers employed by a contractor at its Sunrise oil sands project would be issued pink slips. The bad news for the workers came a day after Husky said that it had started to produce from the $3.2 billion, steam-assisted gravity drainage (SAGD) Sunrise operation, which it co-owns with BP.

The layoffs by Husky followed Suncor's decision in January to cut 1,000 employees and Royal Dutch's Shell's announcement that it will shed close to 10 percent of the workforce at its Albian sands project - around 300 workers.

The Canadian Association of Oilwell Drilling Contractors, which closely tracks drilling activity, said in February that up to 23,000 jobs could be lost as the number of rigs fall. Since the price started dropping last September, about 13,000 positions in the Alberta natural resources sector, mostly oil and gas, have been eliminated, according to Statistics Canada.

The bloodletting among the oil majors and their vast web of ancillary services has of course extended to the United States - which appears to be taking far more casualties than Saudi Arabia in the battle for market share. In January oilfield services giant Baker Hughes said it will lay off 7,000 employees, about 11 percent of its workforce; that number was rivaled only by its competitor, Schlumberger, which let go 9,000 workers. Shell, Apache, Pemex and Halliburton are among major oil companies to issue recent pink slips to the growing army of unemployed oil workers. In the U.S., the worst pain is, not shockingly, expected to be felt in Houston. Assuming a one-third reduction in oil company capital expenditures this year and 5 percent in 2016, the hydrocarbon capital of the world could lose 75,000 jobs, in a city that has added 100,000 new positions every year since 2011, said a professor at the University of Houston.

The oil jobs nightmare is in fact spreading like a cancer. According to Swift Worldwide Resources, 'the number of energy jobs cut globally has climbed well above 100,000 as once-bustling oil hubs in Scotland, Australia and Brazil, among other countries, empty out,' Bloomberg reported recently. Examples include foreign-trained engineers whose promise of employment at LNG plants in Australia have evaporated as projects get delayed; development projects halted in Brazil resulting in the closure of international schools and the relocation of workers; and 8,000 Mexican workers left without paycheques after Petroleos Mexicanos slashed contracts and purchases, Bloomberg said.

Of course, industry defenders say the oil and gas business is boom and bust by nature, and most veteran oilmen have gone through many a cyclical downturn and lived to fight another day. The question of whether or when the oil price will recover and all those laid-off workers are rehired is best left to the prognosticators. In the meantime, there is a danger in oil companies cutting too deep, according to oil and gas industry recruiters. They say firms that lay off too many workers will put pressure on older workers who may opt for early retirement. That could leave companies in the same situation as the 1980s, when an oil downturn meant few businesses hired and new graduates went into other more promising fields, leaving a serious talent gap.

'They will be very careful about reducing staff, because they've seen cycles like this before where commodity prices are weak for a certain period time, they lay off employees and they're not well-positioned to get access to high-quality talent,' said Mike Rowe, vice president of exploration and production research at Tudor Pickering Holt, an energy investment and merchant bank, on how the layoffs could come back to haunt the industry.

CANADIAN OIL PATCH LAYOFFS SPREAD TO DOWNTOWN CALGARY

ConocoPhillips became the latest major oil company to chop staff numbers to deal with the oil-price crash, and more layoffs in downtown Calgary are likely as the industry digs in for a lengthy downturn.

The Canadian unit of the Houston-based oil major told employees on Wednesday it was reducing its work force by about 200 workers, or 7 per cent of its total.

Conoco's cuts follow hundreds of job losses announced on Tuesday by Nexen Energy ULC, which is controlled by China's CNOOC Ltd., and Talisman Energy Inc., now being taken over by Repsol SA of Spain – all in response to oil's swoon.

Industry-wide layoffs since the start of the year now number in the thousands, although most have been in field operations. The loss of white-collar jobs shows the slowdown has entered a new phase that could further crimp already-weakening Alberta and Canadian economies.

Highlighting the predicament, the Organization for Economic Co-operation and Development cut its projections for Canada's growth this year and next, citing the skid in oil prices and other commodities.

"I think we're going to see more [industry] spending cuts because people have to adjust their plans even more than they already have," said Jackie Forrest, economist with ARC Financial Ltd. in Calgary.

"I expect prices will stay in this range for the next few months but there could be periods where they drop further for a short time period. Over all, for the second quarter, we expect weaker prices than we saw for much of the first part of 2015."

Talisman is reducing its head office staff 10 to 15 per cent, which equates to 150 to 200 employees.

None of the layoffs is a function of Talisman's impending change of control from public shareholding to Repsol, said spokesman Brent Anderson. "This is due solely to the decline in global commodity prices and our reduced capital budget for 2015." Nexen said on Tuesday it was cutting 400 positions including 340 in North America and 60 in the North Sea.

Early on Wednesday, West Texas intermediate crude tumbled to a six-year low below $42.50 (U.S.) a barrel after the U.S. Energy Information Administration reported that already-swollen inventories grew by 9.6 million barrels last week. At 458.5-million barrels in storage, U.S. stockpiles are at the highest seasonal level for at least 80 years.

But oil rallied late in the session after the U.S. Federal Reserve signaled that a return to historical interest rates will be gradual, even though it is open to the first hike in a decade, which drove down the value of the U.S. dollar. WTI jumped $1.20 to settle at $44.46.

The unexpectedly large storage number "spooked" the futures market, said John Kilduff, a partner at hedge firm Again Capital.

"There's no relenting on the imports; there's no relenting in the domestic production, and the refineries are still operating below 90 per cent [of capacity], and they can't chew through it fast enough," Mr. Kilduff said.

Despite the glut, foreign producers are still battling for market share in the U.S. Imports averaged 7.5 million barrels a day for the week ended March 13, nearly 200,000 b/d more than the same time last year. Canada is the largest foreign supplier to the U.S.

Mr. Kilduff said there is growing concern in the market that the storage at the Cushing, Okla., delivery hub could hit capacity constraints, leaving producers with no market for surplus production. Cushing is vital because the crude under WTI futures contracts is deemed to be delivered there.

But Ms. Forrest said those fears are overblown. She expects imports to decline as North American prices weaken compared with international levels. And she observed that U.S. shale producers are ratcheting back operations, with the Energy Information Administration forecasting that production will start to decline in April.

"Even if we were to continue at this pace – which is highly unlikely – we wouldn't hit a physical constraint in general in the U.S. until early June," she said. "And the reality is I don't think we're going to see the inventory builds continue at this pace."

Still, the ARC Financial economist said the rapidly filling storage tanks bode ill for Canadian producers, whose prices are set against WTI.

"In the longer term, this is going to cause pressure on the oil markets in North America for some time to come. Even if we do see tight oil pull back as people expect by mid-year, it's likely these inflated inventory levels will stick around as long as another year. And that's going to weigh on prices because it's just such a large amount of inventory to work off over time."

19-Mar-15				
	Active	Down	Total	% Active
Western Canada				
AB	84	446	530	16%
SK	8	124	132	6%
BC	46	35	81	57%
MB	-	15	15	0%
WC Total	**138**	**620**	**758**	**18%**
Eastern Canada				
QC	-	1	1	0%
Canada	**138**	**621**	**759**	**18%**