Lower oil prices the ‘New Normal’ say CEOs

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Industry experts have told the Asia Oil and Gas Conference that companies need to get used to lower oil prices

Lower oil prices are here to stay and the industry will have to make some difficult decisions to succeed in the new price environment, the chief executives of Petronas and ConocoPhillips told delegates to AOGC 2015 on Monday.

“This is certainly not the first time the sector is going through a downturn, but it is amongst the most drastic,” Datuk Wan Zulkiflee Wan Ariffin, Petronas’ chief executive, said.

“The outlook is not very rosy. In my view it will be many years before we see prices anywhere near the $100 mark. I think we have underestimated the resiliency of US shale production,” he said.

ConocoPhillips’ chief executive Ryan Lance largely echoed that view.

“We see a gradual rise in prices but we see a lot more volatility. We may, with some geopolitical event or something else going on in the world, see $100 a barrel, but the fear is if we see that we’ll probably see $50/b on the back end pretty quickly,” Lance said.

The downturn has been sharp and jarring for the industry. Brent crude has rallied from the lows seen several weeks ago to around $55/b, but that is less than half the level it was last summer. A combination of surging output from US shale-oil fields and other parts of the world, weaker than expected demand and a muted response from Opec has driven prices lower than many thought likely just a few months ago.

“The world we find ourselves in today, we envisioned a couple years ago in our scenario planning. We called it ‘Tidal Wave’,” Lance said.

In response, companies have slashed spending. Petronas has cut its capital expenditure by 15% and ConocoPhillips has been forced to cut even deeper at 33%.

Squeezing lower costs from suppliers has been crucial. Lance says that rapid cost deflation is already happening in the industry. And some analysts say service costs could come down by as much as 30% this year. Finding efficiencies within their own companies has also been crucial. No area of the business has been spared. Petronas, for example, has slashed 30% from its travel and entertainment budgets as part of wider cost-cutting measures, Wan Zuikiflee said. But as the oil price has stabilised, Ariffin says companies need to continue to look for new opportunities in the 'New Normal'.

"Dwelling on the doom and gloom is counterproductive and will take us nowhere," he said. He pointed to major projects such as the RAPID petrochemical project in Malaysia and Petronas' liquefied natural gas venture on the west coast of Canada as major projects that are still going ahead as planned, though he acknowledged that exploration has taken a back seat in the company's planning.

Wan Zuikiflee also pointed to the importance of continuing to invest in new technologies such as floating liquefied natural gas in spite of shrinking budgets. "Oil and gas companies as well as their service companies must not just have enough firepower but also the right type of ammunition for the fight," he said.

Many analysts have argued that the downturn could lead to a wave of deal-making across the industry, potentially even leading to a new wave of mega-mergers like the one seen in the late 1990s. Shell's $70bn takeover of BG Group has fuelled this speculation.

Lance, though, disagreed with the assessment. He argued that many of the conditions that drove the last wave of mega-mergers such as a need to increase in size and scope, add reserves, cut costs and gain access to capital are not in place today. He said the unlocking of vast shale resources has fundamentally altered the landscape by providing growth opportunities without needing to take over rivals. Lance, though, said some opportunistic deals could be done, particularly by Asian national oil companies.

ConocoPhillips, anyway, is not in the market. "We consider potential deals, but we have not seen any to date that compete with our internal opportunities."