Special Challenges for U.S. Oil and Gas Business

The summer of 2014 was an exciting time in the North American oil and gas business.

In June of that year, the price of oil was cruising along at $107 a barrel and the North American oil rig count hovered at almost 2,200. Things were going so well, in fact, employers had challenges finding qualified workers.

Fast-forward to the here and now and a much different picture emerges.

As of August 2015, oil was at slightly under $44 dollars a barrel. The North American rig count had dropped to just under 1,100, according to a report from Baker Hughes. Since the price of oil began its downward spiral, approximately 150,000 jobs have been lost out of an estimated 600,000 total jobs created in the past two years in the oil and gas sector.

The oil and gas sector is often cyclical, said Jeanne Jankowski, head of Energy & Marine, Zurich Global Corporate in North America.

One factor influencing the sector now is a global oversupply of oil. Global refinery throughput is operating at the highest recorded levels, at 95 percent and upwards.

But demand by China, a critical buyer, has slowed as it deals with economic turbulence, while at the same time, OPEC continues to steadily produce oil and many experts expect Iran to soon add its product to the global supply of oil.

In addition, the shale revolution in the U.S. and Canada has responded to the downturn by improving drilling technologies and increasing efficiencies to keep its oil production cost-effective. On the upside, demand for oil appears healthy right now and, according to industry experts, the price should return to sustainable levels over time.

“We've seen a lot of reductions in force, particularly within the oil field service companies, where we have seen a dip in both revenues and capital expenditures among our customers,” Jankowski said.

With the market contracting in North America, U.S.-based oil and gas entities are looking to reduce costs where they can.

Conrad Maier, head of Exploration and Production, Zurich Global Corporate in North America, explained that the company is seeing a trend among international drilling contractors to prioritize their international operations to help counter the turnkey style approach often experienced in the USA. These international regions include Middle East, Asia or Africa … wherever their services can be used profitably.

“They're prioritizing their business based on where the profitable business is, where they can keep the rigs on a longer term contract ensuring the rigs' day rate,” he said.

In terms of the workforce, U.S.-based payroll dollars have been decreasing since the fourth quarter of 2014, according to Stacie Prescott, head of International Programs, Energy, Zurich Global Corporate in North America.

MEGA-MERGERS happening in the marketplace right now could impact international oil and gas economic growth.

“IT'S ANTICIPATED THAT THE DOWNWARD TREND IN THE PRICE OF OIL DUE TO THE OVERSUPPLY WILL CONTINUE INTO 2016.”

— Jeanne Jankowski, head of Energy and Marine at Zurich Global Corporate in North America

Larger companies are more often using local nationals for the overseas operations, she said. Yet, while there are cost advantages to hiring locally, there are also challenges, such as ensuring best practices in safety because of geo-political differences, regulatory issues and local practices.

“Hiring local is not a panacea,” Prescott said.

She added that Zurich expects those trends to continue for the short term, as companies that serve the international oil and gas industry are charged to grow their international footprint.

One trend that could impact international oil and gas economic growth is M&A activity, as there are mega-mergers and potential mergers happening in the marketplace right now.

“The challenge in supporting international trade and foreign investment is the world still remains extremely complex for everyone,” she said. “And that is true especially with taxing and compliance, which often can be a deterrent to global business development.”

“Risk managers have to be more judicious about how they look at their multinational programs,” she said, noting that there are more than 200 countries and territories, some of which have multiple provinces per country.

“We do find as underwriters we're getting many more questions when we're putting these programs together, about why we do things a certain way from a compliance standpoint.

“Every country's licensing requirements and taxing requirements need to be factored in, and potential taxability of claims payments can all be different. Further complicating the matter is that there can also be varying definitions of coverage,” Prescott said. “What we call a particular coverage in the U.S. may mean something completely different in a foreign country. Or a certain type of coverage might not even exist.”

Along those lines, Zurich is sponsoring an initiative that involves educating its customers about the need for international reform for multinational insurance. The goal is to achieve greater standardization and alignment in local country insurance regulations, which will simplify programs and add predictability to the management of international insurance needs.

“We are passionate about it at Zurich,” Jankowski said. “It's a very important initiative and at the heart of what Zurich represents. We are very serious about reaching out and embracing the need for simplification of cross-border type programs. The oil and gas industry is a perfect example of how much it's needed, with the trend towards more globalization.

“We have capabilities to write business on a global basis,” Jankowski said. “Not only do we offer a comprehensive network, we also have over 900 experienced risk engineers and 8,000 claims professionals dedicated to service our international customers.”