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Strategies to Survive and Thrive in Low Oil Price Environment

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Adapting business strategies to navigate a prolonged period of lower oil and gas prices is a challenge that many companies throughout the ***Middle East*** and wider world are currently facing up to.

While surviving such a volatile commodity cycle is the main priority for some, other corporates are using sub $50 a barrel oil as an opportunity to innovate and recalibrate their businesses. This was certainly the key takeaway from the recently held ***Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC)***, where the overall mood amongst major companies at the industry symposium was upbeat - though of course this optimism was not always shared by their smaller counterparts. Executives in attendance appeared confident that they had the tools to adapt – and even thrive – in today's low oil price environment.

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Consistent strategies emerged from executives at ADIPEC: rationalisation across business lines to focus on key strengths and reduce production costs; diversification across the value chain to identify and maximise value from every field; innovation, focused on the role technology plays in the industry, especially if it can deliver efficiencies and cost reductions; and collaboration between co-venturers and companies across the industry to maximise asset value. In addition, in many jurisdictions, the market is also driving legal and regulatory change that will alter the long-term economic balance between state and investor.

First and foremost, contractual and joint venture structures are being revisited, as are profit splits, local offtake prices, and tariffs, to encourage investment and make projects more viable. Governments are also seeking to make decisions more quickly and streamlining investment and procurement procedures (such as the fast-tracking of low-cost onshore developments to address domestic shortages).

These changes correspond to trends in global markets where, for example, traditional long-term LNG offtake contracts are increasingly being replaced by spot sales and shorter term contracts. The overall effect is to keep the market nimble, but developers need to find new ways to finance projects that have traditionally relied upon 'bankable' long-term offtake. Innovative debt and equity structures are often required and companies across the value chain are forming new contractual and non-contractual alliances as a result.

Another emerging trend is a much greater focus on the bottom line, and the use of technology and innovation to achieve this. It is obvious that when a commodity is selling at a cheaper price, the costs of its production need to reduce. This principle can be applied right across the production spectrum, from exploration, through to development, production and maintenance. Across the board, shareholders and executives are challenging their teams to come up with new and more efficient ways of finding and producing oil and gas, and of maintaining and enhancing the assets that support this.

In the services sector for instance, companies are not only reducing short-term internal costs, but investing in technologies that will help reduce customer costs in the medium to long-term, and positioning their portfolios not just to withstand a prolonged downturn but also take advantage of a recovery. While longer term structural cost reductions take time to make an impact, in the interim, prices are being reduced and payments delayed and deferred, passing credit risk along the chain from upstream operators to their service providers.

All of the above will have long-term effects on the industry beyond the current price cycle. While the future movement of oil and gas prices remains tough to call, what is clear is that many companies are innovating and forging new alliances in the Middle East and elsewhere that will not only enable them to survive, but also open new doors and prospects for the future.

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