North Sea industry faces perfect storm

Toxic combination of aging, drying wells and plunge in oil prices

In this Monday Feb. 15, 2016 photo, a man walks past oil platforms laid-up in the Cromarty Firth near Invergordon in the Highlands of Scotland. North Sea oil has passed its zenith in terms of production as the recent plunge in energy prices forces oil companies to rethink investment in fields that were already in decline.—AP

ABERDEEN, Scotland: It's Thursday night and the Spider's Web pub is packed with beefy guys in windproof jackets and massive backpacks. The exhausted oil rig workers pile their bags against the wall, play pool or just slump in the leather seats, knocking back pints of beer.

But despite the drink, there's not much laughter. It's not work that bothers them, but the prospect that the work will end. "I'm worried," says Fraser Jamieson, an engineer who has spent the past 20 years on North Sea oil rigs. "We're all worried."

The North Sea oil industry, the biggest and oldest in Europe, is struggling with a toxic combination of aging, drying wells and the recent plunge in oil prices, which is forcing companies to rethink investments and putting thousands of jobs at risk. Estimates suggest more than a third of some 330 oil fields in the UK North Sea will close in the next five years.

"There is a sort of perfect storm," said Dorrik Stow, director of the Institute of Petroleum Engineering at Heriot-Watt University in Edinburgh, Scotland. "Those cumulative factors are going to negatively impact on the North Sea unless there is a fairly significant upsurge in the price of oil."

Brent crude, the benchmark for international oil, hit a 12-year low of $27.10 a barrel in January amid slowing economic growth in China and increased production in the US. That's down from more than $100 a barrel as recently as September 2014. While prices have recovered somewhat, Brent traded for just $40.95 on Thursday and most experts don't expect a significant rebound soon.

Low prices are causing turmoil internationally in an industry that has been going through booms and busts ever since 1859, when the first drilling rig was built in Titusville, Pennsylvania.

Downward spiral

For the North Sea, each new bust accelerates its downward spiral, hurting the countries that tap it - Britain, Norway and to a lesser extent the Netherlands. Norway on Thursday slashed interest rates in a bid to help the economy manage the oil sector's drop. In Britain, the government this week offered tax relief to oil companies to protect jobs and stem a decline in government income. Tax revenue from the industry dropped to 2.1 billion pounds ($3 billion) last year from 10.9 billion pounds in 2011-12.

Some of the biggest platforms are being dismantled as the industry forecasts production will drop to 45 million tons of oil equivalent this year, less than a third of the 150 million tons produced in 1999. Shell, for example, has started the process of decommissioning the Brent oilfield - which has produced 3 billion barrels of oil equivalent since 1976 and gave its name to the international crude oil benchmark.

Oil companies are expected to invest about 1 billion pounds ($1.4 billion) in new projects this year, compared with a recent average of 8 billion pounds, industry association Oil & Gas UK says.

And it is hitting workers hard. Some 5,500 people have lost their jobs, or 15 percent of the 36,600 directly employed in the industry at the end of 2013, according to Oil & Gas UK. The group estimates that total direct and indirect employment supported by the industry has fallen to 375,000 from a peak of 440,000.

If the oil price remains around $30 a barrel for the rest of 2016, almost half of the North Sea fields "are likely to be operating at a loss, deterring further exploration and capital investment," according to Oil & Gas UK. "2016 is going to be quite pivotal," said Fiona Legate, a research analyst at Wood MacKenzie. "We will see distress sales, and it will be make or break for a lot of companies."

The doldrums are evident in the port of Cromarty Firth, a small deepwater estuary near the Scottish town of Inverness at the back door of the central North Sea. In the past, the port usually housed two rigs at a time as they underwent periodic maintenance. Now it hosts 10 - split roughly between rigs that are expected to be dismantled and those that are parked in hopes that higher oil prices will mean new contracts.

It's tough for a community in which rig maintenance meant good jobs. The port's chief executive, Bob Buskie, believes this downturn is unlike others because there isn't likely to be a boom after the bust.

"We have to realize that what's gone on in the past is in the past, and for the industry to survive in the future the whole model has to change to some extent," he said. For Buskie that means getting work decommissioning the platforms once built and maintained in Cromarty Firth. It also means looking for new business. He's trying to attract more cruise ships packed with tourists who want to take in the delights of the Scottish Highlands, complete with bus tours of nearby Loch Ness and local whisky distilleries.

"There is a new normal," Buskie said. "We have to find out what the new normal is." And in the period of transition, there is uncertainty for those who depend on oil for their livelihoods.

In Aberdeen, the Scottish city at the heart of North Sea oil, restaurants are empty at lunchtime. Hotel parking lots are barren. Helicopters once busy ferrying workers are parked on the tarmac. It's common to hear conversations about people who have been laid off or are barely hanging on. Retired engineer Ken Forbes, 70, suggests the high-fliers made rich by oil are "coming down to Earth with a big bang."

At the cozy Sanddollar cafe on the Aberdeen seafront, the lunchtime crowd clears quickly despite the prospect of luscious lemon cake and hot tea. Waiter Piotr Kowalski, 23, said he's noticed that people are much more careful about what they order. "They spend less," he said, noting the downturn. "They don't go out so often in the first place." Tommy Campbell, a regional organizer at the Unite union's Aberdeen headquarters, sees the pain every day. Just last week one worker told him the entire team on his rig - some 30 people - had been put on notice for redundancy.

He argues oil companies have responsibilities not just to shareholders, but to the communities that support them. He thinks a summit would be good to bring companies, politicians and the community together to think creatively about what's next rather than just cutting headcounts. At the moment, though, too little is being done to stem panic. "We're throwing rattles out of the prams," he said. "Everybody is losing out." —AP

Gold edges down, still heading for weekly gain

LONDON: Gold edged down yesterday, as the dollar steadied from a five-month low, but it remained on track to end the week on a firmer note after the Federal Reserve scaled down rate hike expectations. Spot gold was down 0.3 percent at $1,254.53 an ounce by 1130 GMT, while US gold fell 0.8 percent to $1,255.30 an ounce. Spot gold was up around 0.4 percent on the week.

"There has been a bit of selling into the rally in the past couple of days but on whole gold has managed to hang on to its gains," Mitsubishi Corp analyst Jonathan Butler said.

"With the dovish overall macro outlook - the Fed's more dovish stance and ECB and Bank of Japan also pursuing very aggressive stimulus policies - affecting the strength of the dollar and US Treasury yields, gold should benefit."

The dollar rose 0.3 percent against a basket of main currencies, but was still near a 17-month low against the yen and set to end the week 1.5 percent lower. The US central bank held interest rates steady on Wednesday and indicated it would tighten policy this year, but fresh projections showed policymakers expect two quarter-point increases by year-end, half the number forecast in December.

Expectations the Fed would raise rates steadily this year had faded since the bank's initial hike in December, as concerns over global growth roiled financial markets.

A low interest rate environment tends to decrease the opportunity cost of holding non-yielding bullion. SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, said its holdings rose 1.50 percent to 807.09 tons on Thursday from 795.20 tonnes on Wednesday. Silver rose more than 1 percent to its highest since late October at $16.13. It is up 4 percent this week. Platinum fell 0.3 percent to $980 and palladium gained 0.5 percent to $592.70. —Reuters

Fastjet seeks legal advice on shareholder letter

LONDON: African budget airline Fastjet Plc said yesterday it was taking legal advice after shareholder easyGroup Holdings Ltd made public a letter it sent Fastjet regarding their contractual relationship. EasyGroup on Thursday sent a letter to Fastjet's board demanding that the carrier resume reporting monthly passenger statistics and updated cash flow forecasts for the current financial year.

"Whilst the board of Fastjet welcomes constructive engagement with all shareholders, it cannot understand why easyGroup ... has published this particular letter without first raising its concerns with the company," Fastjet said in a statement.

"The board considers the publication of this letter as wholly inappropriate and is taking legal advice on the matter." Fastjet declined to give further details when contacted by Reuters. EasyGroup did not immediately respond to calls and an email seeking comment.

EasyGroup, which is controlled by Stelios Haji-Ioannou, is Fastjet's second-biggest shareholder with a 12.6 percent stake. Stelios has been at odds with Fastjet. Two weeks back he called for the immediate dismissal of Fastjet's chief executive, Ed Winter, saying the CEO had created a high cost base that was disproportionate to its six-aircraft fleet.

Fastjet said on Monday Winter would step down on March 18. The company's shares dropped as much as 35 percent to 23.5 pence in early trading on London Stock Exchange. —Reuters