

STUDY TITLE: Characteristics and Possible Impacts of a Restructured OCS Oil and Gas Industry in the Gulf of Mexico

REPORT TITLE: Characteristics and Possible Impacts of a Restructured OCS Oil and Gas Industry in the Gulf of Mexico

CONTRACT NUMBER: 14-35-0001-30660-19903

SPONSORING OCS REGION: Gulf of Mexico

APPLICABLE PLANNING AREA: Gulf of Mexico

FISCAL YEARS OF PROJECT FUNDING: 1993; 1994; 1995

COMPLETION DATE OF REPORT: November 1995

COSTS: FY 1993: \$47,000; FY 1994: \$50,000; FY 1995: \$2,994

CUMULATIVE PROJECT COST: \$99,994

PROGRAM MANAGER: Ruth Seydlitz

AFFILIATION: Environmental Social Science Research Institute

ADDRESS: University of New Orleans, New Orleans, Louisiana 70148

PRINCIPAL INVESTIGATOR: Ruth Seydlitz

KEY WORDS: Gulf of Mexico; OCS Oil and Gas Industry; Five Types of Oil and Gas Companies; Oil and Gas Extraction; Business Environment; Business Characteristics; Business Practices; Major Corporations; Independent Companies; Possible Impacts; Restructured Industry

BACKGROUND: A restructuring of the offshore oil and gas industry in the Gulf of Mexico began in the mid-1980s. Major companies have been reducing their presence while independent firms have been more aggressive. The resource base now is substantially different from the resource base when the major corporations began operations about a half a century ago. New sources of oil and gas are in areas from which extraction is increasingly difficult and capital intensive such as subsalt regions and deep water. In addition, the infrastructure is aging. Hence, operating conditions in the Gulf create different challenges and place different pressure on the companies currently operating than those experienced by the major corporations. Therefore, it is important to examine the characteristics, environment, and practices of companies currently active in the Gulf.

OBJECTIVES: (1) To examine the characteristics of major and independent operators currently active in oil and gas exploration and production in the offshore Gulf and to determine how these characteristics have changed since 1986. (2) To investigate the business environment and to see how this has changed since 1986. (3) To explore how the characteristics of the companies affect their practices. (4) To explore how the business environment influences the practices of companies. (5) To determine if there is any evidence that a shift in the companies involved in offshore exploration and production in the Gulf has occurred. (6) To discuss potential impacts of such a shift.

DESCRIPTION: There were two data collection phases of this project. Their first was an exploratory study of 11 significant major corporations and independent companies. Face-to-face in-depth interviews with key representatives from these firms were conducted. The results were used to construct an interview instrument, which was used in the second phase. The second phase was to conduct telephone interviews with upper level executives from five types of companies active in the offshore Gulf of Mexico. The companies were selected by random sampling within each of the five types of firms. The sample consisted of 11 major corporations, 13 large and 4 small integrated businesses. These numbers represent relatively large percentages of each of the five types of companies. The interview instrument used in the second phase of this project consisted of open-ended questions concerning the companies' characteristics and use of service firms in the fall of 1994 and in 1986; the executives' predictions about the future of the oil and gas industry in the offshore Gulf; and the influences of leasing policies, technological developments, federal agencies, and environmental regulations on the companies' practices in the Gulf. Frequency and percentage distributions were calculated for the questions that elicited answers that could be quantitatively coded. Content analysis was used to analyze the responses to the questions that elicited answers that could not be quantitatively coded.

SIGNIFICANT CONCLUSIONS: The results reveal that there are five distinct types of companies operating in the Gulf: Major cooperation's, large and small integrated independent firms, and large and small nonintegrated independent companies. The findings also suggested that six trends are occurring. First, there was an increase in the number of companies operating in the Gulf between 1986 and the fall of 1994. Second, most of the companies obtained more oil and gas in 1993 than in 1986. Third, most of the firms were more involved in exploration in the Gulf in 1994 than in 1986. Fourth, participation in joint ventures increased between 1986 and the fall of 1994. Fifth, changes in the companies' activities suggested a tendency toward becoming involved in downstream integration operations. Sixth, changes in characteristics, views of the business environment and practices implied that a shift is occurring in activity in the Gulf: the nonintegrated independent businesses are becoming more involved while the major and integrated independent companies are maintaining a steady rate of activity or reducing their involvement.

STUDY RESULTS: The findings revealed that there were more differences between the five types of companies by integrations (integrated vs. nonintegrated firms) than by size or the usual categorization scheme of major vs. independent businesses.

Regarding the companies' characteristics, the findings showed that most of the companies extract both petroleum and gas. Also, most of the firms obtained more of both substances in 1993 than in 1986, especially the nonintegrated firms. Moreover, the majority of the firms had their headquarters in the Gulf region, particularly the independent companies, while only about half of the other offices were in this region, mainly those of the nonintegrated concerns. Further, the bulk of the companies increased their staffs between 1986 and 1994, particularly the nonintegrated businesses. Finally, there were three key areas of employment: production/platform maintenance and operation, exploration, and administration.

The responses to the questions about the business environment revealed that there was widespread support for areawide leasing and the reduction in the possible regulations (in descending order of influence): the Clean Water Act, the financial responsibility provisions of OPA '90, the Clean Air Act, and the increases in lease bonding to cover plug-and-abandon liabilities. Also, almost all of the companies used 3D seismic data, about half did horizontal drilling, and very few, mainly major corporations, were involved in deep water or subsalt exploration. Moreover, almost all of the companies were involved in such joint ventures and most of the firms increased their involvement in such projects between 1986 and 1994. In addition, the use of service companies was ubiquitous and most of the firms made greater use of these companies in 1994 than in 1986. Finally, the majority of the officials were optimistic about the future of oil and gas extraction in the Gulf.

Business characteristics affected the companies' operations. Major corporations extracted the most oil and gas, had their headquarters out of the Gulf region, and had the largest staffs. Independent firms were more involved in exploring in 1994 than in 1986 and had their headquarters in the Gulf area. Integrated businesses had more of their other offices outside the Gulf region while nonintegrated ones had more of their other offices in the Gulf zone. In addition, integrated firms tended to close their other offices in this area between 1986 and 1994 while nonintegrated ones tended to open other office in this area. Moreover, integrated companies had larger staffs than did nonintegrated ones and integrated concerns tended to reduce their workforces between 1986 and 1994 while nonintegrated ones tended to enlarge their staffs.

The business environment also influenced the companies' practices. Almost all of the executives felt that the prices of oil and gas influence operations, over two-thirds of them were negative about the prices in the fall of 1994 and almost half were not optimistic about future prices. In addition, the executives felt that areawide leasing and the reduction of the minimum bid increased activity in the Gulf. Moreover, the executives viewed 3D seismic data and horizontal drilling positively while deepwater and subsalt exploration were too new for the executives to have an opinion on how these two technologies would affect their firms' operations. Finally, the executives were concerned that the four possible regulations would have adverse effects on the business environment and thus oil and gas activity in the offshore Gulf.

There was more evidence for a shift in activity levels of different types of companies in the Gulf than evidence against such a shift. The results indicated that the three types of integrated companies are reducing their presence in the Gulf while the nonintegrated businesses are engaging in more exploration and production in this area. The evidence for the shift includes the following. First, the nonintegrated firms overwhelmingly were obtaining more oil in 1993 than in 1986 while only about half of the integrated businesses obtained more oil in 1993 than in 1986. Second, the vast majority of the nonintegrated companies did more exploring in 1994 than in 1986, yet only about half of the major and small integrated corporations were more engaged in exploring in 1994. Third, most the major corporations' headquarters were not in the Gulf region while most of the nonintegrated corporations' headquarters were in the area. Fourth, integrated firms closed offices in the Gulf zone while nonintegrated enterprises gained offices in this territory. Fifth, the integrated endeavors reduced their staffs while the nonintegrated concerns added employees between 1986 and 1994. Sixth, the bulk of the nonintegrated firms were more involved in joint ventures in 1994 than in 1986 while only about half of the integrated companies participated in more of these operations in 1994 than in 1986. Seventh, the representatives of nonintegrated businesses were more optimistic about the workforce size in 1998 than were those from integrated companies.

The potential impacts are due not only to the shift in the operators in the Gulf, but also to the changes in the prices of oil and gas, the degradation of the pipelines and other aspects of the infrastructure, the increases in the costs of drilling, and various other factors. Three categories of potential impacts were discussed: 1) working conditions and employment, 2) operations and 3) government revenues.

STUDY PRODUCTS: Seydlitz, R., J. Sutherlin, and S. Smith. 1995. Characteristics and possible impacts of a restructured OCS oil and gas industry in the Gulf of Mexico. Prepared by the Environmental Social Science Research Instituted, Department of Sociology, University of New Orleans. OCS Study MMS 95-0055. U.S. Department of the Interior, Minerals Mgmt. Service, Gulf of Mexico OCS Region, New Orleans, La. 196 pp.