Oil, gas, and chemicals companies are in the midst of a two-pronged crisis: an oil price war and the impact of COVID-19. Oil prices dropped dramatically a few weeks ago when OPEC and Russia failed to agree on production cuts. This oil supply/demand imbalance is occurring in tandem with depressed need for chemicals and refined products stemming from industrial slow-downs and travel restrictions in the wake of COVID-19. Consequently, the short- to medium-term outlook for high-cost producers, smaller operators, and those companies with high levels of debt appears to be more challenging now than ever.

Potential long-term impact on oil, gas & chemicals companies

Large oil, gas and chemicals companies are responding by cutting capital and operational expenditures, which will filter down to suppliers and oilfield services companies. This suggests:

• Inefficient and highly leveraged companies may face a liquidity crises, with some being forced out of business.
• US shale producers will be particularly under strain if the supply glut and depressed prices continue.
• Some of the larger, healthier companies may alter or accelerate their plans to diversify into other energy segments, prompting a change in business model.
• In the wake of lay-offs and furloughs, companies may face a shortage of skilled labor when the market rebounds.

Key questions executives and boards should be asking

• How can we maintain the safety of our people first?
• How do we make sure our assets (e.g., oilfields, chemical plants, LNG trains, refineries, etc.) can continue to operate in an environment where everyone feels at risk?
• How do we assess and mitigate supply chain risk, including the risks among different countries?
• How do we retain our talent so we have access to sufficient skilled labor when the market recovers?

Practical next steps

Oil, gas, and chemicals leaders will be defined by what they do along the three dimensions of managing a crisis: respond, recover, and thrive. Some key next steps include:

• Assess whether the company has the financing to continue, balancing the trade-off between immediate needs and what has been promised to the market in terms of returns, dividends, share buy-backs, etc.
• Consider if the crisis can be used as a catalyst to rethink how work is done, such as accelerating adoption of digital capabilities.
• Determine what the future of work will look like and align talent strategies for the new environment.

For additional steps that companies should consider taking, visit www.deloitte.com/covid19-resilient-leadership
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