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*Big Oil, Big Energy*

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# Layoffs Hit The Oilpatch, With Worst Yet To Come

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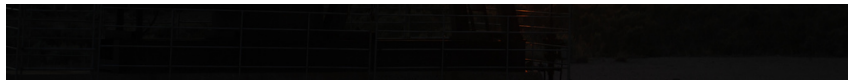
***Updated Jan. 15 with Apache Corp. and Schlumberger layoffs. And Jan. 20 with Baker Hughes.***

***We've already seen thousands of oilpatch layoffs. How bad could it get for oil and gas workers? Pretty bad.***

On Thursday morning came the news that Apache Corp. will lay off about 250 people, or 5% of its workforce. Later in the day a bigger shoe dropped: oil services giant Schlumberger said it was in the process of slashing 9,000 workers worldwide. These are only the latest blows to land on an oil industry already staggering under \$50 oil. So far there's been at least 31,000 cuts announced in North America alone by the likes of Shell, Pemex, Halliburton and Suncor (**full list compiled at the end of this piece**) and they will only get worse. It's not just Houston. In North America, Midland, San Antonio, [Sweetwater](#), Oklahoma City, Williston, Pittsburgh, Alberta, Mexico City, and even Bakersfield, Calif. will feel the pain. But Houston is the energy capital of the world, and will unfortunately take the brunt of the cuts.

Prof. Bill Gilmer of the [University of Houston has crunched the numbers](#) on some worst-case scenarios for Houston. Assume an average 33% reduction in oil company capital spending this year, followed by 5% growth in 2016. That, figures Gilmer, would result in the loss of 75,000 Houston jobs. This would be an enormous shock considering that Houston has added 100,000 new jobs every year since 2011.





Sunset on the oilpatch.

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But buck up campers. All is not lost, for Texas anyway. Our diversified economy should withstand the oil downturn. The Federal Reserve of Dallas in a recent report determined that 2015 job growth here should be on the order of 250,000 jobs. That's down from 400,000 new Texas jobs in 2014, but enough to help cushion the oil blow. It might feel hard to believe right now, but the Fed's economists insist that Texas won't into a recession this year even if oil prices stay around \$50 a barrel.

A less appreciated impact of oil's plunge will be on the ranchers and farmers who have leased their land for drilling, and have been the beneficiaries of billions of dollars of royalty income in recent years. Texas produces [more than 2 million barrels](#) of crude oil per day. The average royalty rate for landowners is at least 20%, which means that landowners' accounts get fattened by the market price of roughly 400,000 barrels of oil every day. When oil was at \$100 that amounted to \$40 million per day, or \$14.6 billion a year. At today's prices that means a lot less mailbox money sloshing around the Texas economy.

Last week I met with Leslie Tipping, a minerals management advisor at Northern Trust. Some of her clients have owned land in Texas for generations and have been blessed with hundreds of millions of dollars in royalty income from drilling in the Eagle Ford, Permian and Barnett plays. She explained that because royalty checks lag two months behind production, the full effect of today's \$45 oil won't truly set in until March. Even so, she says, "We're really feeling the crunch. How far down it goes no one can truly predict."

My prediction: we're not at the bottom yet. Inventories of crude oil are 11.5% above the 5-year average. Inventories of refined products are also surging. Onshore storage capacity in the Atlantic basin is at 85%. Cash-crunched producers like Venezuela and Russia and lots of highly leveraged E&P can't afford to stop producing because they need to service debt.

Joel Moser, CEO of Aquamarine Investment Partners, explained to me that oil companies are unlikely to throttle back production until prices are so low that they can't cover their cash costs of production (think pumping, processing and transportation). "As long as these fields are generating positive current cashflow they will keep on producing, if only to create collateral for their debt financings," says Moser. So what's the price when current cashflow disappears? Wood Mackenzie, the oil consultancy, says in a new report that even if oil went down to \$40 a barrel there would only be about 1.5 million bpd of production that would become "cash negative" — mainly old "stripper wells" in the U.S., mature production in the North Sea

and some oil sands projects. Moser says a Bakken operator with “mud on his boots” told him that already developed North Dakota fields wouldn’t go cash negative until oil hits \$23. For those slow in math, that’s a 50% drop from today’s price.

As oil analyst Amrita Sen of [Energy Aspects](#) wrote in a report this week:

“ So really, nothing is working for crude these days. OPEC remains the only factor that can stabilise markets in the short-term by quickly subtracting volume. But with the group out of the picture, the market is looking elsewhere for a tangible reaction. The problem is this can take a while. It is often, if not always, better to keep production running at a loss, rather than shut-in existing output. So the production response outside OPEC tends to take the form of delays or cancellations to new projects; hence the time lag. Thus, prices may continue to fall further and remain low for some time.

Hey at least the Great American Oil Boom taught us something: if worse comes to worse this country has the rocks and the know how to damn near become self-sufficient in energy. Before the bust we got our domestic supply up to 13.2 million barrels per day of crude oil and condensate. Sure we still import about 7 million barrels a day, but you know what? We also export about 4 million bpd of refined products. There’s no doubt in my mind that given another 5 years of \$100 oil the U.S. would be self sufficient. Add in Canada’s 4.3 million bpd and Mexico’s 2.5 million and our NAFTA region already produces more than we use. If only [Washington](#), Mexico City and Ottawa could get it together (and build Keystone XL, etc), we could form our own oil bloc, refuse to buy oil from OPEC or Russia and tell the Saudis to go pound sand. (For more on this plan, read “[Economists: To Protect Frackers U.S. Should Restrict Oil Imports.](#)“)

Such protectionism could work because we’ve proven that North America has the oil supply to make it work. Yes, in this fantasy scenario our North American oil would cost more than the prevailing price in the rest of the world, but we would also benefit from having a thriving oil industry, one insulated from the whims of Riyadh. Make no mistake, the Saudis are waging a price war on America’s tight oil drillers. We’ve achieve too much, too quickly, and it has made them nervous. I say “we” because I’ve lived in Houston for the past decade and I’ve seen first-hand the incredible and wonderful growth that has come to this city and I’ve met so many people who earned their fortunes by dreaming up new ways to crack oil and gas out of rocks once thought worthless. I’d much rather the petrodollars flow to these guys than to the sheikhs, potentates and kleptocrats of OPEC.

Here’s what I’ve compiled so far (if you know of more please leave a comment below and I’ll add to the list):

Petroleos Mexicanos (Pemex): [10,000](#) (in Mexico).

Baker Hughes: 7,000.

Halliburton: [1,000+](#) (Eastern hemisphere).

Suncor: [1,000](#) (Canadian oil sands).

Ensign Energy Services: [700](#) (in California).

U.S. Steel: [700](#). (Cleveland and Houston).

BP: [hundreds](#).

Schlumberger: 9,000.

Tenaris: 300 (Mississippi).

Hercules Offshore: [300](#).

Shell: [300](#) (Canadian oilsands).

Apache Corp.: 250.

OFS Energy: [150](#).

EOG Resources: [150](#) (Canada).

Enbridge: [100](#).

[The World's Biggest Oil Companies](#)

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