

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 NUMBERS(S) 14-35-0001-30660-19903.

SPONSORING OCS REGION **Gulf** of Mexico.

APPLICABLE PLANNING **AREA(S): Gulf** of **Mexico**.

FISCAL YEAR(S) OF PROJECT FUNDING **1993**; 1994; 1995.

COMPLETION DATE OF REPORT **November** 1995.

COST(S): FY 1993:\$47,000 FY 1994 **\$50,000**; N 1995:\$2,994. Cumulative PROJECT COST \$99,994.

PROJECT MANAGER(S) Rntb **Seydlitz**.

AFFILIATION Environmental **Social** Science Research Institute.

ADDRESS University of New **Orleans**, New Orleans, **Louisiana** 70148.

PRINCIPAL INVESTIGATOR(S)': 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. The 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 independent **companies**, and **9 large** and **11 small nonintegrated** independent 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 **spring** 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 revealed that there are five **distinct** types of companies operating in the **Gulf**: major corporations, 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 integration (**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 minimum **bid**. **In addition**, there was widespread dislike for four 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 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 offices 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.

This 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 of the major corporations' **headquarters** were not **in** the Gulf region while most of the **nonintegrated** companies' **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 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 PRODUCT(S) 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 Institute, Department of Sociology, **University** of New Orleans. OCS Study MMS 95-0055. U.S. Dept. of the **Interior**, Minerals **Mgmt.** Service, Gulf of Mexico OCS Region, New Orleans, La. 188 pp.

*P.I.'s affiliation may **be** different than that listed for Project Manager(s).