
Image courtesy Prillen (2011)

# Oil Downturn Gives FPSO Labor Market Pause

## *Depressed prices, cost reductions put workers on notice.*

**By Patricia Keefe**

***It's starting to look a lot like, well, not Christmas, that's for sure. The buzz at the 7th FPSO Vessel Conference in Houston earlier this month was about the likelihood of a prolonged downturn in oil prices, much like what happened after the oil crash in the mid-1980s, when fallout from the massive layoffs, project shutdowns and bankruptcies took a toll for years.***

"The market is going to hell – there is very little happening right now. There are a few studies and not many new projects," said keynote speaker Peter Lovie, senior advisor, floating systems, Peter M Lovie PE, LLC. There will be a few places where field development is economic at \$50/barrel, with smaller vessels producing smaller amounts, but many less than a few years ago, he added.

"This will be different from the downturn of '09, where there was a big recovery the following year," Lovie warned, citing recent comments from BP CEO Robert Dudley and others that the current depression in oil prices will prove to be longer than anyone expected, possibly extending through 2018.

"FPSO orders are drying up, and in 2015 it's looking more and more like MODUs in 1986," says Lovie. "Companies cutting back on CapEx has had a big impact on proceeding with FPSO projects," adds Jim McCaul, President, IMA/World Energy Reports.

There are two oil prices that drive investment decision in new FPSOs, according to McCaul: The price that prevails over the few years in which the decision is being made; and the expected price once the FPSO comes into operation, typically 3-4 years down the road. "The price today affects how much cash is available for spending, but the expected price in four years is really what's relevant."

Given the time lag between orders and delivery – McCaul expects the number of FPSOs to increase in the foreseeable future as the industry was averaging 10-12 new orders a year over the last decade, even though new orders have virtually stopped.

So from an employment perspective, the picture is not all gloom and doom in the FPSO market, say recruiting firms. Companies that over hired last summer and up through 18 months ago are in the process of "rightsizing," says Eric Peters, managing director for the Americas, Faststream Recruitment, Ltd. He adds that companies also are trying to shift labor from a fixed to a variable cost.

The FPSOs coming on line will have to be built, readied and crewed, so there are jobs, but candidates will see some distinct changes: very specific job requirements, a movement onshore, a move toward contracting over fulltime employment, and more responsibility for retirement planning.

**A Sevan FPSO model 300 built in 2007-08 at Yantai Raffles (hull), Keppel Verolme (topside integration) and Nymo (gas compression plant). It is nearly complete here at the Nymo yard at Eydehavn, Arendal, Norway.**

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## The First Cuts Were the Deepest

Sixteen months into the current pricing collapse, the oil majors and independents reporting quarterly earnings in October sang variations on "lower for longer" like canaries in a gold mine, rolling out plans for more cuts and CapEx reductions for 2016 through 2018, with an emphasis on deep water. "Deep water has been decimated," says Gladney Darroh, President, Piper-Morgan AEI Energy Exploration, Production, Chemicals and Related Services.

Oil and gas-related job losses to date since last July are estimated at about 200,000, and counting. Layoffs are expected to continue, albeit it at a slower pace and with smaller hits, as companies continue to focus on their new top priority - cost-cutting to the bone. Among the discards? Generous benefits and perks from the gravy years.

While the FPSO sector has not seen the devastating workforce reductions enacted by the oil majors and service companies, there are definite signs of stress. SBM Offshore, one of the big three FPSO contractors, has cut at least 1,200. Contracts are being shortened and canceled. Oil prices will force the decommissioning of some FPSOs nearing the end of their life cycle that aren't profitable at $50/barrel, says McCaul.

"If you think environmental regulations are tough when you put a vessel out there, it's doubly tough when you decommission," notes Darroh.

In terms of new orders being placed, 2015 has turned out to be the worst year ever, with just three orders valued at $1.5 billion versus last year, which saw six orders of significantly higher value in the first half of the year. Given project development cycles, the impact of these few orders will hit home in 2019. As of 2014, the market stood at 156 active FPSOs worldwide, another 41 on order and 16 available for work.

Market research companies have all issued FPSO and FPS market reports this year, covering 2015-2020, and most see new orders and existing work picking up markedly, if not significantly, next year or the year after. Lovie is skeptical. "A couple of consulting companies at the conference tried to say there were a lot more orders coming, but the guys who make a living at it, weren't having any of that. If prices are bouncing around, "I don't know why you'd commit as an operator worried about uncertainly. Everyone follows the operators. I see nothing to indicate that 2016 and 2017 will come back great."

Neither, apparently did the attendees at the 16th FPSO World Congress conference in September, who generally expect things to stay the same or get worse over the next year. That would portend more layoffs hitting the FPSO market, more contract cancellations and more talk about consolidation and decommissions in 2016.

## Job Hunting Over a Barrel

With oil sloshing around between roughly $45-to-$55/barrel, now is not the best time to be looking for work in the sluggish FPSO industry, which is barely half what it was last year. But neither is it the worst. There are jobs; there is work on FPSOs out in the field. "It's cautious, not all doom and gloom," says Peters.

"The busiest areas we see right now are technical ship and vessel management positions and the shipyard," says Faststream's Peters, who is also cited postings on the engineering side – mechanical, electrical, instrumentation – mostly on the top side. Marine technical assurance people are also in demand. The mid-stream sector is still quite busy. Clients are still hiring crew, but core crew only.

In the hot and messy Brazilian FPSO market, companies that are in the production phase need personnel to run and

### Snapshot: FPSO Outlook 2015/2016

**FPSO WORLD CONGRESS 2016**

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| Attendees at the late September 16th FPSO World Congress 2015 were asked how low oil prices have affected FPSO contracting and execution. 45% see fewer opportunities; 35% saw delays in the decision-making process for new projects; and another 20% saw projects and orders being put on hold or frozen. |
| Most (48%) expect oil prices to reach $50-$60/barrel while 35% are expecting $60-$70/barrel. A majority see the market staying the same or slowing down in 2016: 40% slow down, 27% no change; 14% strong consolidation, 19% get better. |
| Top challenges facing the FPSO market?: Only 19% cited oil prices: 37% on-time delivery; 33% cost control, 30% project execution, engineering and design, 23% competitive market. |
| Most projects are at the execution stage (81%) and are comprised of conversions (85%) versus newbuilds. However, most companies (71%) are looking at new builds in the next two to three years. |
| And the top investment priorities over the next 12 months for vessel contractors?: Design consultancies (81%), asset integrity (75%), engineering services (68%), and topside technologies and EPCs, each at 63%. |

*Source: FPSO Network, FPSO World Congress*

"The price today affects how much cash is available for spending, but the expected price in four years is really what's relevant."
**– Jim McCaul, President, IMA/World Energy Reports, commenting on the two oil prices that drive investment decision in new FPSOs.**

operate their facilities, says Damir Tomicic, managing director, South America, Swift Worldwide Resources LLC. "We are absolutely hiring, mainly for the operating and producing phases."

Tomicic says Brazil expects to order 25 out of the 65 anticipated new FPSOs over the next four years, or 40% less than what Petrobras originally planned pre-scandal. Those 65 FPSO will need about 150 people each, which amounts to almost 9,800 new positions in the industry overall during the next four years, he noted. A key change is that these facilities "will be built to exact specifications, to try and do it as economically as possible to mitigate the low price of oil and low ROI," Tomicic says. Project management skills are going to be paramount in the new era of serious cost controls.

That's not the only thing sticking to spec. The jobs that are posted will be very specific in terms, says Darroh. "If they want six years of experience in the Gulf and someone has six years elsewhere in the world, they may say no now. Three years ago they'd say 'deep water is deep water.' Now they have to meet every single criteria and almost walk on water."

Generally, operators are looking for the most experienced people "who really know what they are doing, to control projects and get it done," says Lovie. "There is no shortage of talent, but there is a shortage of very capable and highly experienced personnel," agrees Tomicic.

There is also a palpable skill set shortage on the tech side of the marine industry, says Peters. "Fewer people are going to maritime schools; fewer go out to sea and those who do, stay out less time. When they come to shore side, they are not as ready as they should be, they don't stack up to those who came shore side 10-15 years ago after working on highly technical equipment," says Peters.

Regardless of skill set, there are opportunities for those who can be flexible about where the work is located and into which industry it falls, and who can accept the probability of lower pay for a period, says Darroh. "They have to be prepared to take a cut, to take a step back to go two forward."

This is truer for the naval architects and engineers of various stripes working in specialized niches in FPSO right now, versus those holding more generic seaman jobs, he adds. "These are smart people to begin with and good engineering skills are transferable."

FPSO Mystras at work off the shore of Nigeria

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### Go Onshore, Young Mariner!

Darroh and Peters see more jobs and more workers moving onshore, particularly with mid-stream companies. Engineering and construction companies do a lot of onshore work. Tugs and barges need people, as does the maritime construction industry as a whole, says Darroh. And, says Peters, there is a massive shortage of people on the maritime side of ports.

That many of the skillsets used in the FPSO market are transferable to other industries provides both a safety net for workers and a way out of the more volatile aspects of the industry if not an exit strategy.

The more highly skilled and degreed workers have the advantage of being able to apply skills such as those needed for engineering to other areas such as shipyards, especially in the U.S., where shipbuilding is going gang busters, particularly inland, and in downstream sectors like refineries and chemical plants, which have the added appeal of experiencing less blow back from the ups and down of the energy market, say Peters and Darroh. To that point, those businesses were cited recently by companies like Chevron and ExxonMobil as offsetting significantly reduced profits in other parts of their business.

### Strategies for Today and Tomorrow

With the proverbial handwriting on the wall, FPSO workers need to start thinking ahead, and putting their employment plans, networking and resumes in order, says Darroh. Resumes need to clearly lay out work experience, and be specific in terms of what the candidate has accomplished or contributed to, he advises. “You get paid for what you know, not what you don’t know.” Neither does Darroh hold much truck for ‘flowery’ resumes, which might, for example, talk about being a ‘visionary’ who does X. “No one hires visionaries. Steve Jobs or Einstein were visionaries. If you think are one, you should not be applying for this job.”

As for the more generically skilled, they better have a plan, says Gladney. He says, “These people are grown-ups. Anyone entering into this industry knows, and has to prepare for the fact that it is cyclical. That means having a savings plan, investing as much as you can in a 401K, constantly building your skills portfolio,” adds Darroh.

Right now, vessel, technical and project management are all hot skills to round out a resume. It’s better to be degreed than not, and certifications are always worth adding to a resume. For those who want to stay in the FPO industry – it’s all about being able to bide your time until the market comes back round again, and it will, because like all other marine and especially energy-related markets, it always does. But workers can expect, and had better be prepared for, a bumpy ride, with inconsistent activity over the next five years, according to most market reports.

### New Employment Paradigm

Longer term, employees and job candidates alike will find themselves working under a new employment paradigm, according to Faststream’s Peters. Taking a page from Europe, the biggest change

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workers throughout the maritime and oil and gas industries going forward will face is the loss of full-time "permanent" employment. Instead, companies seeking to cut their labor costs are increasingly contracting out work by the project. "It doesn't mean a lesser type of employee or that your job is any less uncertain. Whose job IS permanent?" asks Peters.

This will be the case regardless of the cost of oil per barrel. FPSO projects are plagued by cost overruns and delays. As operators attempt to claw their way back to a reasonable level of expenditures, these solutions to cutting labor costs are likely going to be permanent, even if the jobs are not.

### The light at the end of the tunnel …

FPSO builders and operators are in a bind because they need to cut costs to stay afloat today – but they know they will be desperately hunting for skilled employees once the market turns around. And it will be hard to find good people.

Shipyards are worried about when the market kicks back up and there's an onslaught of cold stacked vessels needing maintenance and repair work. "Who the heck is going to do that? Class societies say they can, but they can't," exclaims Peters.

So not surprising is the seeming paradox of companies continuing to recruit even as they lay off by the boat load. They have to, in part to make sure they have people ready to step up when the market comes back again. A large percentage of Marine and energy workers are over 50, and many are taking retirement packages.

Companies have to plan for what they'll lose through "natural attrition," say the recruiters.

For all the talk about wanting to avoid another industry brain drain, employers are limited in what they can do. Their best retention tool, is communication, say the recruiters. They can't pay people they don't need until the market returns. And when that will happen is anyone's guess, although several recent reports are predicting a slow, if uneven, turnaround over the next two to five years.

In the meantime, candidates who are more accommodating and open to doing contract/consulting work, who are flexible to the geographic setting and or who are willing to move onshore and transfer their skills to a different sector, will get more phone calls, and as Peters says, find that there is still "good work to be done."


**FPSO Crystal Ocean moored at the Port of Melbourne**

Credit: Marcus Wong (2010)