

The oil and gas industry



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INTRODUCTION

The oil and gas industry is essential to survival of the economy for different purposes. The industry provides energy and chemicals to the economy vital for transport, companies and household in U. K. Through the industry the government earn valuable and substantial tax and export revenue to support the economy. The figure below tells it own tale:

- v Three quarters of the UK's primary energy.
- v Employment for more than 380, 000 people.
- v Has invested £ 150 billion over the last 25 years.
- v Has paid £ 150 billion in taxes since the 1970s.
- v Adds £4 billion a year to balance of payments.
- v Accounts for one-fifth of UK annual investment. (oilcareers. com)

This primary aim of this report is to consider key environmental factors that are currently affecting the industry. This will be done through PEST (Political, Environmental, Social and Technological) analysis. This report will also take into consideration rationale of industry and companies chosen for this project, in addition a number of financial ratios will be considered to determine the performance of the companies in the industry. This will help in establishing where each company stands in relation to their competitors; as well allowing the strongest and weakest companies to be determined.

RATIONALE FOR INDUSTRY

This Oil and Gas industry contribute significantly to the economy. The rationale based on this industry choice is to gain an insight to how prepared companies are regarding the risk posed by climate change. According to a report by Palma (200*) she explored increasing pressure in the Oil and Gas industry face from climate change. She indentified such risk as:

Damage to corporate reputation: As the understanding and awareness of the damages posed by climate changes increases and develops, failure to observe and account for the impact of climate change on social and environmental resources is progressively likely to damage company's status and reputation.

Increasing pressure on water resources: There are growing concerns regarding changes in rainfall patterns. This has led to water shortages, poor water quality and drought and flooding has significantly increased the demand for water. For companies that rely heavily on water, increase competition for available resources could create operational problems for companies.

Drop in value of financial assets: In order to meet the economy increasing demand for energy, oil and gas companies need to secure further investment for exploration, production, and manufacturing. Shareholders are placing more and more importance on the business impacts of the change, as risk impact cost and revenue drivers. It is probable that insurance cost could rise due to greater chance of physical plant damage because of weather events.

Dealing with such risk is not as easy as it may sound, some companies profit may decline due to the necessary changes in order to combat climate change. It will take a collective effort as well as individual effort for the industry to maintain its status as one of Britain's strongest industry.

RATIONALE FOR COMPANY CHOICES

The diagram below shows that the companies are similar in size, employees employed and turnover. This makes it easier for comparability purposes in finding out how each company are performing. In addition all companies chosen are in the FTSE 350.

JKX Oil and Gas

JKX Oil and Gas plc principle activity is developing and producing oil and gas reserve, which is conducted through there subsidiary undertakings. JKX main principle interests are located in Ukraine and in Russia, with further interest in Georgia, Bulgaria and United States. As of December 31, 2008, the Company drilled two exploration wells. As of December 31, 2008, the Company acquired 25% interest in the Svidnik, Medzilaborce and Snina from Aurelian Oil & Gas plc.

Cairn Energy

Cairn energy Company is an independent public oil and gas exploration and production company. Together with its subsidiaries, the company engages development and the production of oil and gas largely in countries such Bangladesh, India, and Nepal. The company also operates in Tunisia, Australia, Spain and Papua New Guinea. The company's headquarter is based in the United Kingdom at Edinburgh

Tullow Oil Plc

Tullow Oil plc operates as an independent oil and gas exploration company.

The company has over 100 licences in more than 20 countries.

The group accomplished a 77% exploration success rate with 17 out of 22 successful wells in 2008. Currently in 2009, Tullow has drilled 12 successful wells out of a total of 14.

FINANCIAL RATIO'S

Financial ratios are calculated to provide a quick and relatively easy means of measuring the financial wellbeing of a business. Ratios assist to highlight the financial strength and weakness of a business.

PEST ANALYSIS

In order to understand factors that affect the industry, the PEST analysis could offer some help. PEST analysis helps is the analysis of external factors which are beyond the control of the companies and these factors sometimes could be a potential treat. Moreover these factors can lead to new opportunities being created for companies to explore.

Political Factor

Political decisions made by the government will definitely affect the oil and gas industry in one shape or another (more (directly or indirectly)). One of the main political talking points is the effect the industry has on climate change. According to Chapman (2009), companies do not really recognize the effect the industry and company has on climate change. Steps have and are been taking to ensure that companies recognize changes in climate. The U. K government not long ago, update the Petroleum Act, tightening the law

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on decommissioning, making it adamant and compulsory that companies take into account the impact of climate change. The government realizes that actions and policies are needed in order for the industry to continue providing energy for the economy while the industry reduces the amount of emission they produce and also providing new powerful energy option. In 2000, the royal commission proposed that U. K would need to reduce its emission of CO₂ by 2050 and if possible to reduce it by 80% by 2100. This was an international agreement proposed in order to prevent concentration of carbon dioxide from rising above 550 parts per million in volume. At 2000 it stood at 380 and rising, moreover it would be safe to assume that it has risen significantly.

The political factor takes into consideration political stability, pricing regulations, industrial safety regulations, tax rates and incentives and many more.

An effective way in which government believe would encourage the industry to limit the amount of pollution they create is the carbon tax charge. The purpose of this is to lower greenhouse gas emission produced by the industry. Similar to this charge is the climate change levy (referred to as tax on energy). This was put in place on the 1st of April 2001. The importance of the tax is to encourage change in the industry. This has persuaded the industry to start looking for new renewable energy source or risk having to pay additional cost of the levy on their energy bill. The levy applies to electricity, oil and gas industry, if a company produces the energy from a renewable energy source they will be exempt from this levy. Furthermore

companies that agree to the governments' emission target will be given an 80% discount.

Economical Factors

The economical factor takes in consideration of such issues as exchange rates, economic growth rate, unemployment rate, inflation rate and price in oil and gas. The Oil and Gas industry is one that holds a stronghold in the world and the U. K economy and it provided 450, 000 jobs in UK in 2009. It diagram below an increase in employment from 2007 and to 2008.

Unfortunately the increase from 2008 to 2009 could not be shown has it had not been inputted. But from the diagram, it shows signs of improvement since 2004 to 2008.

The economy in U. K receives a massive boost when there are increase of activity drill in respect to Oil and Gas. As by (====) Oil and gas production contributes massively to the government through tax revenues with a report £271 billion being paid over the last 40 years (2008 money). Unfortunately high price for oil in the modern day is major problem for economies around the world (both rich and poor). The reality is that in many countries including UK, oil is becoming unaffordable for more and more people. In the fiscal last year (2008-2009) £12. 9 billion was contributed by the industry in terms of tax revenue, this was likely due to high oil and gas prices. If oil and gas price continue to increase this could change the balance of trade between countries and exchange rate. This increase would cause a decline in the balance payment of net oil-importing countries thereby putting downward pressure on exchange rate therefore import become more expensive and export less valuable which leads to a drop in national income.

Social Factors

There different social factor affect the industry such as customer buying patterns, ethical issues and the environment. Due to very nature of the industry, the environment in real danger from drilling and transportation process. The chemical used in drilling can be harmful to the environment. The burning of oil as fuel creates destruction, whereby it contributes to such problems as global warming and acid rain. In addition, forest are now at major risk as there are increase pressure applied by the oil and gas industry leaders pushing for new drilling in sensitive and regions which were once protected

Two main factors affect the industry are major event and consumer attitudes and opinion. Consumer attitude and opinion are changing in the modern day environment. More and more people are moving to solar energies instead of using fuel or gas, this is called the " GREEN CULTURE". There are more concern for the environment now than ever, prompting the search for alternatives. The government intend to have in place coal and gas fired and nuclear power in place by mid 2020 as alternatives.

Furthermore, employees' health and safety is another political talking point. Due to the volatile conditions in which employees have to work in and also sub standard physical asset could potential have a negative impact on the health and safety of the employees which would therefore compromise the employer and public liability insurance cover.

Technological Factor

Technologies are essential to oil and gas industry, due to the harsh and demanding environment we currently live in; the industry leads in <https://assignbuster.com/the-oil-and-gas-industry-essay-samples/>

technological innovation in order to overcome challenges of recovering oil and gas from difficult reservoirs and deeper waters. For the industry, the need of need technology is need in order to discover new ways of reducing production cost, improving performance and making marginal fields economic to develop. The effort put in by the industry to develop new technologies for locating and producing oil and gas has led to various inventions and technical advances that have been used elsewhere.

An area in which the government and the industry highlight as potential growth area is in the field of Carbon Capture and Storage. European Union alongside with other countries has recognised this potential and legislation have been put in place and funding made available in order to finance demonstration plant in Britain and other countries. The industry's knowledge of undersea geology, reservoir management and pipeline transport will undoubtedly play an important role in making this fledgling technology work effectively

Advantages of PEST

- Easy to do
- The analysis provides a deeper understanding of the wider business environment in which they operate.
- Provides an understanding of the wider business environment.
- Raises potential threats to a project
- Through this analysis organisation can foresee future difficulties and take a course of action in order to minimise their effect
- It could help a company realise opportunities and utilise them

Disadvantages of PEST

- Could take considerable time to do
- Variable pace of change could make it difficult to predict development which may affect a company in the future
- The analysis might be based on unfounded hypothesis