Oil industry looking at barrel half full

U.S. crude ended year at $60, highest since '13

BY RICHARD THOMPSON

A year into an OPEC-led push to rein in a global oil glut and buoy prices, U.S. crude oil ended 2017 at $60 a barrel, the highest year-end price since 2013.

What’s more, some industry leaders see signs that the hard-hit oil and gas industry may have finally turned a corner. But that’s never a safe bet to last.

If crude prices continue to hover around $60, many experts don’t believe it will be enough of a catalyst to jumpstart significant drilling in Louisiana. Instead, any slight price increase could spur a rush of activity in lower-cost shale production elsewhere, which could saturate the market and cause prices to fall again.

"The problem is that when the price goes up like this, you always see a response on the shale side," said retired LSU economist Loren Scott, who has tracked the region’s economic outlook for decades. "You see people rushing back into the shale market, producing more oil from the shale, and that has a tendency to depress prices back some."

So far, statewide job numbers have seen a slight bump. November was the seventh straight month that nonfarm jobs posted year-over-year gains in Louisiana. Even the battered mining and logging industry, the officially designated labor sector that includes oil and gas jobs, added 600 positions for the month and 200 for the 12-month span, ending a 34-month streak of losses, according to data from the U.S. Bureau of Labor Statistics.

Benchmark U.S. crude stood at $61.44 a barrel Friday after having averaged $51 per barrel in 2017, up $7 per barrel from the 2016 average.

Brent crude, used to price international oils, stood at $67.62 per barrel Friday in London. That’s up from about $55 per barrel when production cuts agreed to by OPEC took effect Jan. 1, 2017.

Prices rose even though U.S. crude production climbed through the first nine months of the year, reaching 9.2 million barrels per day,
up more than 384,000 barrels per day. The increase was largely attributed to the highly productive, cheap-to-drill Permian Basin in western Texas.

Despite the added U.S. production, global supply cuts led by the OPEC pact, coupled with strong global demand, lifted prices for the year.

Louisiana-based oilfield services companies, such as the ones that are big players in hubs like Lafayette, likely will benefit from additional work even if it is located elsewhere.

Lafayette already has seen some of that. The region's economy showed signs of improvement in November, adding 200 jobs for the month and 600 jobs from 12 months earlier, according to federal data.

"I don't think anybody feels like we're out of the woods," Lafayette Parish Mayor-President Joel Robideaux said.

Many oilfield companies that survived the industry’s latest boom-or-bust cycle, when oil prices cratered from nearly $110 four years ago, are now operating more efficiently than in the past.

"We've suffered pretty significant job losses in this area, and with the work that’s going on outside of Louisiana, I think that accounts for most, if not all, of that uptick," Robideaux said.

"Obviously, if it stays in the $60s, I think that you're at a price where a lot of the fracking can occur, and so it'll stabilize, but it'll be far from a boom scenario," he said, referring to the drilling technology that is driving U.S. production in shale formations.

More offshore activity?

With U.S. production rising, President Donald Trump's administration last week announced a new five-year leasing program that calls for opening nearly all federal U.S. coastal waters to offshore energy production. Interior Secretary Ryan Zinke said the proposal would develop energy resources "in a safe and well-regulated way" while creating jobs and generating billions of dollars for coastal conservation.

The proposal calls for 47 potential lease sales beginning in 2019, opening up 90 percent of federal offshore waters to development. In addition to expanding drilling in the Arctic and off the Atlantic coast, as well as federal waters off California for the first time in
decades, the plan would make available 12 lease areas in the Gulf of Mexico. It ultimately would open the majority of the eastern Gulf to leasing for the first time since 1988.

A White House push to expand offshore leasing was long expected as part of Trump’s plans for an "energy revolution." However, experts have said only a recovery in energy prices will restore the thousands of jobs shed over the past few years.

Not surprisingly, the proposal for expanded leasing is backed by the energy industry, as well as officials in some coastal states, including Louisiana, where lawmakers hailed it as a potential boon for the state’s economy.

But a coalition of more than five dozen environmental groups spoke out against the plan, and it’s almost certain to face legal challenges.

In addition, some analysts aren’t convinced the proposal would be game-changing for an industry that’s grappling with the price of oil.

"Companies are not going to be tripping over each other to be doing all this," said Brian Youngberg, a senior energy analyst for the investment firm Edward Jones.

Instead, at $60 per barrel, more companies are focused on eliminating inefficiencies and exploring cheaper shale operations, where they can adjust spending more quickly, he said.

"That’s really where the main focus will be for a lot of these companies, and you’re seeing that in the Gulf," Youngberg said. "We have a few new projects coming online this year, and then after that, it’s a little more uncertain."

He predicted that the deepwater Gulf, where drilling is likely to face the least opposition, could see the most interest.

However, the potential litigation over the expanded drilling proposal could be too much of an obstacle. "I think the legal and environmental pushback will just drag it out, and by then, everyone may decide it’s just not needed," Youngberg said.

One bright spot in the recent rise in U.S. production is that it has boosted export numbers, which reached 1.7 million barrels per day in October, less than two years after restrictions on exports were lifted.
"We have the ability in Louisiana to be one of the world's leading exporters of oil," U.S. House Majority Whip Steve Scalise said last week at Blessey Marine Services in Elmwood, a family-owned firm that transports liquid-bulk cargo. "That's going to mean more jobs for us. It's going to mean more work for the Port of New Orleans and some of the other export facilities that are being built around Louisiana."

What will OPEC do?

But questions surrounding future prices remain and, for the foreseeable future, are tied to whether global demand will grow enough to absorb the increased U.S. production and whether the OPEC supply cuts will be extended beyond the end of 2018.

Last week, 924 rigs were exploring for oil and natural gas in the U.S., up from 665 a year ago, according to the Houston-based oilfield services company Baker Hughes.

That year-over-year increase was led by the Permian Basin, where 400 rigs were at work last week, up from 267 a year ago.

Jim Bourgeois, interim president and CEO of One Acadiana, a Lafayette-based agency that leads economic development efforts in nine parishes, said many in the region viewed the recent job gains with "some very restrained optimism."

"When you look at those jobs, the issue is that the people being hired here are not being hired to work here; they're being hired to work in Texas and other places," he said. "It's not about the Gulf of Mexico activity. It's still about the Permian Basin."

Still, if additional drilling areas are made available, it could mean more work for Louisiana companies.

"Anytime that they are going to be having the opportunities for drilling that may lead to new investments, that's generally a good thing for Louisiana because we've got so many service companies that are specialized in offshore, and that are based here and service really globally," said Gifford Briggs, vice president of the Louisiana Oil and Gas Association.

But, Briggs said, that's still a big if: Prices have to climb and stabilize for new deep-water projects to be feasible.

"That's the key. It's great that we have more opportunity. The question is: Are the companies going to be making those investments in
the Gulf of Mexico and stop this trend of moving offshore assets and investment dollars onshore?" he said.

One other caution: Some experts, including David Dismukes, executive director of the LSU Center for Energy Studies, believe that a price correction could be on the horizon.

Dismukes said prices may retreat to near $55 per barrel. But in the long term, it will depend on whether OPEC decides to extend its cuts beyond 2018 when the cartel meets in Vienna this summer. And at this rate, with the recent U.S. production gains, the OPEC members may not look at continuing the cuts as favorably, which could have a dramatic ripple effect.

"Every six months, they're getting increasing pressure to define strategies of weaning themselves off this production cut, and the drumbeat for doing this gets louder and louder," Dismukes said.

"If (the deal to limit production) falls apart, oil prices (are) hit, and the bottom falls out again, literally falls out again."