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# Work Force Management and Flexibility in an Oil Price Slump

# AN AFRICAN TALE

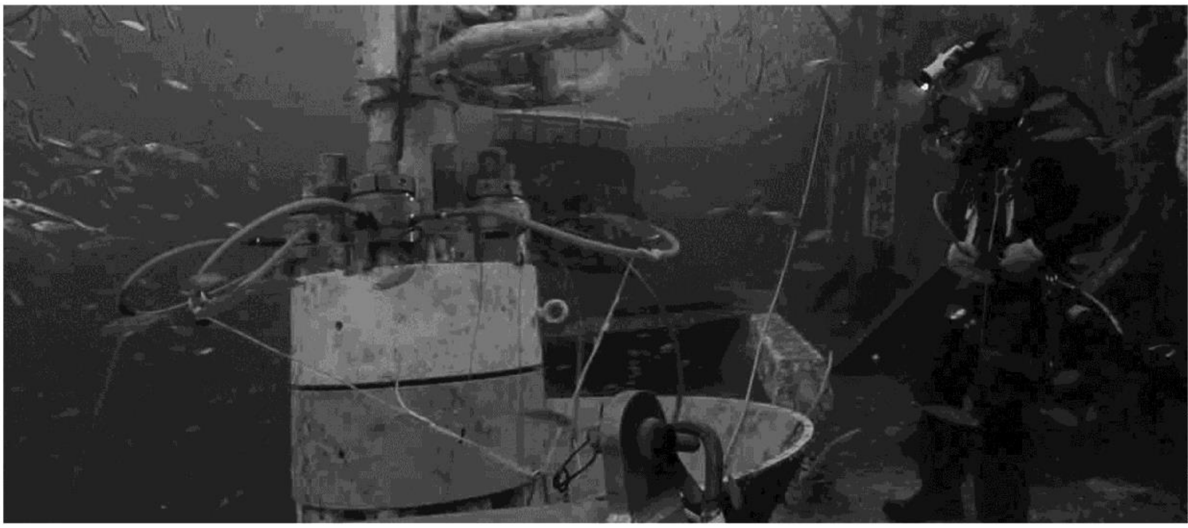
Whenever an oil company arrives in a new oil province or in a developing nation, there is only one certainty: it will immediately be subject to a barrage of pressure from governments, NGOs and other civil society organizations, unions, and the press to employ a majority of local staff and provide training to nationals. The rationale is also often similar: the big international companies have come to take the country's wealth, so they should at least do so by employing the most national citizens possible. Positive examples of successful local content measures, such as (although to different extents) Norway and Nigeria, are often highly restrictive and rigid local hiring and employment rules also make life harder for oil companies commencing their operations.

Although one may sympathize with or understand the logic behind these claims in countries deeply in need of employment and economic development, the truth is that they are often based on an inadequate understanding both of the oil industry's specificities, and of the national capacity to quickly integrate local workers in complex operations. These misunderstandings are often exploited by the unions to generate opposition to oil companies and try and force aggressive collective bargaining, which international oil companies and their goods and services providers are often not prepared for (both legally and conceptually). In extreme situations, they may lead to strikes and anti-expat sentiment, something that is neither in the interest of the companies themselves, nor of the governments trying to attract foreign investment.

## Education is the Answer

One of the best ways for governments and international companies to manage these tensions is to educate the populations, both in terms of the industry, and of raising qualifications for local candidates.

On the first aspect (and taking it for granted that the international oil industry has a bad PR problem), governments should work hand-in-hand with the industry to explain two basic premises to the local population: (i) the oil industry is a capital intensive, but not necessarily a labor intensive industry, and (ii) the employment of any person in oil operations requires, first and foremost, that they receive an adequate education that provides them with the skills required to man a rig, model a reservoir, design and engineer a production facility, or operate a support vessel, just to name a few oilfield jobs. It should also be clearly spelled out that certain oilfield jobs are extremely high risk, and cannot take on local employees from day one (think, for instance, of saturation diving). If expectations are adequately managed and information clearly passed on, tensions may be avoided, and the right conditions created to welcome the industry and progressively involve more local workers in the industry.



Source: Oceaneering

*Specialized operations require a highly skilled work force*

Source: Sonangol

On the second aspect, local governments have to ensure that they have in place an adequate education system to be able to provide the manpower that the industry needs. This effort starts with solid primary education, followed by secondary or technical education. Unfortunately, we often see countries starting to "build their house from the roof down," promoting higher education and specialized petroleum degrees, when they haven't first put in the necessary ground work to ensure that there is a sufficient number of medium qualified nationals to fill entry level positions in the oilfield. As to the participation of oil companies in the training effort, most will not shy away from this responsibility, provided that the governments also pull their weight in this respect.

## Education Alone is not the Answer: Enter Flexibility

Unfortunately for the industry the problems don't stop with work force qualification. Most new oil provinces are found in developing nations with highly protectionist labor rules and policies.

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Once again, there are reasons for the existing legal frameworks, which can range from colonial inheritance (as is the case of civil law jurisdictions such as Angola, Mozambique, Gabon, both the Congos, etc.), to a drive to protect the employment of the few that manage to secure formal jobs working for multinational corporations. However, a highly demanding industry requires sufficient flexibility and leeway to adequately remunerate and promote the workers that evolve and overachieve, while at the same time having the mechanisms to reconvert or even replace underperformers. The adoption of industry-standard work hours and operational procedures is also crucial for the success of operations, along with the increased possibility of using temporary contracts which are key in operations that have clearly defined cycles and phases. This last aspect is extremely important in an industry that can see a potentially prolific field be abandoned due to a succession of dry holes, or become uneconomic almost overnight due to an oil price shock, as is currently the case.

The above having been said, both local governments and populations alike must understand that greater flexibility is not always a curse. In fact, the truth is that the oil industry is (perhaps like no other) an international industry, where the best workers can be called upon to render their trade anywhere around the world, often with highly attractive pay packages. However, in order for oil companies to be able to tap into this global workforce, it is also necessary for countries to acknowledge this important characteristic of the industry. Measures that can be taken in this respect include, among others, (i) the counting of local personnel employed overseas by oil company groups present in a given country towards meeting the local hiring ratio, (ii) providing flexibility for the assignment of local workers to overseas operations, (iii) lowering tax rates of local personnel employed as expats in other countries, (iv) lowering bureaucracy on the acknowledgment of qualifications acquired overseas, and (v) waiving severance payments and simplifying procedures for local personnel transferred from a local group entity to an overseas group entity. All of the above measures, along with others that can be worked out between the legislators and the employers would allow the best workers to be transferred to economically viable operations in times of economic downturn, which in turn would allow capital flows to continue into the country.

The possibility of temporarily lowering wages (for instance along with a lowering of work hours) and/or wage related taxes, or suspending employment contracts during low oil price cycles would also avoid what has been common in these situations, and which even the most protectionist legislations can't avoid: massive lay-offs. A more proactive approach by the local authorities in the placement of oil-sector employees would also be important to protect national workers in times of crisis.

For instance, at a time where we see international oil companies abandoning certain countries, and their participating interests being taken over by the national oil companies or by corporations from China and other emerging nations, it would be interesting to see the government actively engaging the new players in the market to see them take on the largest number of qualified personnel possible. Not only would this allow for a more stable transfer of operations and continuation with lower disruption, but also protect the local workforce and economy.

## Thinking Outside the Box

The same way that engineers and project managers worldwide constantly surprise us with new creative solutions to make uneconomic or lower reward plays attractive, it is also important for legislators and regulators to think outside the box and try and work on legal and regulatory solutions capable of adapting to the ever shifting industry environment. In times of low crude oil prices, the industry tends to get creative in terms of exploration and production alternatives. It would be a shame to see jobs lost due to the rigidity of local governments and frameworks. Even Angola, which has traditionally been seen as a rigid jurisdiction in terms of labor rules has recently approved a new General Labor Law that affords companies more flexibility in the use of temporary contracts and simplified lay-offs in certain cases. Other African nations should consider following suit, lest they be left behind in these unstable times.

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