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Oil giants strive as market weakens

LONDON/HOUSTON (Reuters) – As oil and gas companies cut ever-deeper into the bone to weather their worst downturn in decades, boards have adopted contrasting strategies to lead them out of the crisis.

Crude prices have tumbled around 70 per cent over the past 18 months to around $35 a barrel, leading to five of the world's top oil companies reporting sharp declines in profits in recent days.

Executives at energy firms face a tough balancing act: they must cut spending to stay financially afloat while preserving the production infrastructure and capacity that will allow them to compete and grow when the market recovers.

Companies have opted for differing approaches to secure future growth, often choosing to narrow focus to their areas of expertise and the geographic location of their main assets. American firms Chevron CVX.L ConocoPhillips and Hess Corp are withdrawing from more costly deepwater projects to focus on shale oil fields on their home turf, for example.

Britain's BP is betting on offshore gas in Egypt, while Royal Dutch Shell has opted for an alternative route as it seeks to safeguard its future: the $50 billion takeover of BG Group.

In the five years before the downturn began in mid-2014, when crude prices held above $100 a barrel, big energy firms had raced to expand production capacity, including buying stakes in vast, costly fields sometimes located thousands of metres under the sea, and miles from land.

Over the past year however, companies have slashed their overall capital expenditure, scrapping plans for mega projects that cost billions to develop and take up to a decade to bring online.

"Companies want to strike a balance between long and short-cycle investments while maintaining a robust balance sheet to fund their way through the down cycle," said BMO Capital analyst Brendan Warn. Focusing on a specific set of expertise and geographies allowed them to offer investors a "unique value proposition", he added.