

Industry Analysis

Oil and Natural Gas Services

Q1 2014

Industry Overview

To say that the Deepwater Horizon Oil Spill of 2010 created adverse effects on the oil and gas sector is an understatement. More than three years after a blowout of the Macondo well destroyed BP’s drilling rig known as the Deepwater Horizon in April 2010, the world is still witnessing the impact of the disaster including multibillion-dollar settlements with individuals, groups, and businesses affected by the explosion and the ensuing oil spill. While these billion-dollar payments have resolved hundreds of thousands of claims related to the oil spill, the legal battles over the tragedy are far from over.

The oil spill has inevitably shaken all oil and gas industries – limiting opportunities for production due to government policies and pressures from environmental groups in adopting rigorous standards. Halliburton is among the major players in the oil and natural gas services industry. Oilfield services companies that make up this industry provide the infrastructure, equipment, intellectual property and services needed by the international oil and gas industry to explore for, extract, and transport crude oil and natural gas from the earth to the refinery, and eventually to the consumer.

Oil exploration and production is a complex process, and each step of the oil supply chain involves specialized technology. Oil reservoirs are identified through geological field work, geological modeling, seismic imaging and exploratory drilling. Oil is then extracted with production equipment and transported in tankers and pipelines. Oil refineries refine crude oil into various marketable end products including gasoline, diesel fuel, jet fuel, marine fuel, petrochemical feed-stocks and other chemicals. Most oil companies do not build the equipment needed to complete all of these difficult and costly tasks. Instead, they turn to engineering and industrial firms that build and operate the oil rigs, tankers, and pipelines that are the backbone of the industry.

The U.S. oil and natural gas services industry’s demand is driven by oil and gas prices. The profitability of individual companies depends on technical expertise and efficiency of operations. Large companies can offer a broad range of services. Small firms can compete effectively by specializing in a particular type of service or geographic area. Oil and gas field service companies provide drilling (about 30 percent of sales) and support services (about 50 percent) for oil and gas wells and make drilling equipment. Major support services include preparing wells for production, maintaining and enhancing the output of producing wells, and exploration.

This industry is not any different than most commodity-based industries. Drilling and other service firms are highly dependent on the price and demand for oil. They are the first to feel the effects of increased or decreased spending. If oil prices drop, they are the first to size up land, setup rigs, extract oil, transport it and refine it before the market recovers. In other hand, oil services and drilling companies are the first on the scene when prices rise.

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