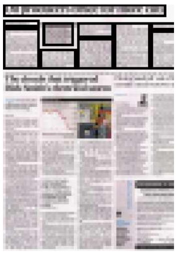

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Oil producers brace for more cuts

Angela Macdonald-Smith

After a 70 per cent plunge in crude oil prices in the last 18 months, local oil industry leaders fear more pain is to come.

Chief executives and chairmen of Australian oil companies are not ruling out a further dive in crude oil prices into the $US20s a barrel range over the next few months and warn of the inevitability of another harsh round of cost and investment cutbacks, and job losses.

As Brent crude oil prices slid to their lowest for almost 12 years overnight on Thursday, they signalled that a bottom in prices probably had yet to be reached in a market still plagued by oversupply despite billions of dollars of cancelled and deferred investments.

"I think it will touch $US30 and maybe have a two in front of it in the first quarter of this year. I think that means most of the business around the world doesn't have long-term sustainability at that price," said Oil Search chief executive Peter Botten.

"There will be more pain in the industry; there will be more lay-offs inevitably in the short term, and a serious look again at what is needed in terms of investment."

Prices for Brent, the global oil benchmark, made modest gains from Thursday's close of $US33.75 in Asian trading on Friday but remained below $US35.

Prices have slumped from about $US115 a barrel in June last year, including a drop of almost a third since early November, as US production remains stubbornly high and the prospect grows of increased Iranian supply after Western sanctions are lifted.

"If it got into the $US20s that would not surprise me," said Jim McKerlie, chairman of Drillsearch Energy, noting the latest declines reinforced the logic of the planned $380 million merger with Beach Energy.

Both Mr Botten and Mr McKerlie predicted a fresh wave of M&A activity as stronger companies look to pick up assets from their financially stretched peers. "I think oil prices over the next 12 months are going to put a lot of oil companies under stress," Mr Botten said. "More assets will be traded as certain companies get more desperate for cash."

Oil Search, which in October rejected a $11.6 billion takeover approach from Woodside Petroleum, has more than $US1.6 billion in funding and has "a lot of buttons to push and levers to pull to manage our business and still be profitable," he said.

The merged Beach-Drillsearch will weigh up investing itself in exploration and development against acquisitions, Mr McKerlie said.

"Sometimes it is better to buy someone else's folly where they have run out of money," he said. "It's all about getting those barrels of oil in your inventory so you can produce them at some point in time."

The industry is confident prices will recover, especially given the dearth of investment in exploration and longer-term supply. "The deeper the price falls and the greater the contraction in capital expenditure, the stronger the ultimate recovery," said Peter Stickland, chief executive of explorer MEO Australia. "The challenge for our industry is to maintain its nerve, focusing on the fundamentals," he said.

Key points

Australian oil company executives are not ruling a $US20 per barrel oil price.

Brent crude prices dropped to their lowest point in almost 12 years on Thursday.