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OIL WORKERS

THE OILWORKER

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From the Vice President's Desk

Members must Press for Health, Safety Improvements

Last September when we held our National Oil Bargaining (NOB) conference in Pittsburgh and came up with our proposals it looked like this round of NOB negotiations was going to be Our Time. No one could have predicted that later in the fall the world economy would tank and that it was not a good time to negotiate a contract.

We felt the effects of this worldwide recession in our bargaining. The oil companies used the economy as a shield to not have to pay any more for our proposals than they had to. They kept putting up roadblocks all during negotiations to stop us from working cooperatively with them over meaningful process safety language that is badly needed to improve conditions in our facilities.

What irritates me is that these oil companies—which earned over $142 billion in profits last year—did not think enough of their employees or the surrounding communities to negotiate meaningful health and safety language that would have been a win-win for them. That's the message we need to get out to the public. Write those letters to the editor and tell everyone you know—your family, friends, acquaintances, church members and organizations you belong to—that the oil companies are not willing to see us as equal partners in solving the health and safety problems at their facilities.

They think their own health and safety staff and programs are good enough. If they were, we wouldn't be seeing the conditions that led to the 2005 BP Texas City explosion prevalent across the industry.

It took a horrific fire and explosion to wake up BP and have the company work with the union on an equal basis in health and safety matters. Let's hope another such disaster doesn't occur again.

It Wasn't Time

We would have had to go on strike nationally to get our health and safety language accepted, and realistically, a national strike was not an option for us during this deep recession we are experiencing. We did not want to see gas and diesel prices spiking, home foreclosures of our brothers and sisters, and other hardships. So we opted to reach an agreement on economic issues. In this time of job loss—2.8 million jobs were lost in the past five months—and people taking pay cuts to keep their jobs, we did not lose anything and even gained a little.

Our struggle for meaningful change in the health and safety arena is not over. We will continue to work with our employers on health and safety matters, but what we want is to be equal partners with them—for them not to "tell" us what to do, but to consult with us.

Get yourselves a notebook, list the health and safety problems you see, document your conversations with supervisors regarding these problems and follow up with them to make sure something is done to correct the problem. If you have a joint health and safety committee, bring hazards to their attention. We must take an active role in our health and safety—our lives and the safety of our community depend on it.

Gary Beevers
International Vice President

Task Force Seeks Your Input on Safety

Vice President Joe Biden launched a White House Middle Class Task Force Jan. 30 that is seeking input from citizens on a wide range of subjects, including how to improve workplace safety.

If you have thoughts on what the task force and government need to do to improve workplace safety, go to http://www.whitehouse.gov/strongmiddleclass/ (scroll down lower right) and provide your input.

The House Education and Labor Committee is working on revising the Occupational Safety and Health Act by increasing penalties, enhancing the ability to bring criminal prosecutions, covering public employees and improving discrimination protections. Other items the committee is working on include addressing oil refinery safety, 40-year-old chemical protections, work-related musculoskeletal injuries and the expansion of OSHA's resources.

You can view the committee's activities at http://edworkforce.house.gov/labor/worker-safety-and-health/.

We Need Your Input

Send us articles about the issues and activities your local is engaged in. Such pieces should be short and to the point. We especially like quotes from the membership. We'll accept articles that are up to 500 words in length. Keep in mind that we reserve the right to edit contributions for length and clarity. Be sure to put your name, local union number and phone number where you can be contacted during the day or evening in case we have questions.

If there are any issues you would like to see covered or questions about bargaining that you have, we'd like to hear about them as well.

You can send your articles and contact the editor, Lynne Baker, at lbaker@usw.org; phone: (o) 615-831-6782; (cell) 615-828-6169.

Federal Court Strikes Down Emission Exemption

The U.S. Court of Appeals in Washington, D.C. struck down last December a 14-year-old EPA regulation that allowed refineries, chemical plants and other industrial plants to exceed pollution limits during startups, shutdowns and equipment outages. The court ruled that the regulation was a violation of the Clean Air Act.

Public health advocates in Southern California praised the decision, claiming that facilities routinely operate in malfunction mode to evade pollution caps. The Washington-based Environmental Integrity Project wrote a report in 2004 that showed how the 1994 EPA regulation allowed facilities to emit tens of millions of pounds of excess toxic pollutants annually.

A ConocoPhillips spokesman told the *Los Angeles Times* that his company's preference is never to flare, but that "flares are federally approved safety devices that allow refining operations to shut down in an environmentally sound manner."

"If we have a major plant upset, we need to be able to safely depressure the unit involved," an official from the Chevron El Segundo, Calif., refinery told the *Contra Costa Times*.

A spokesman for the South Coast Air Quality Management District, which regulates refinery emissions in Southern California's refinery belt, said refiners can flare during a true emergency but that "they can't have a flare for convenience."

U.S. environmental activists say that facilities routinely use flares in the production process while claiming they were suffering a malfunction.

Giant safety flares at refineries and chemical plants are in place to burn off chemicals that cannot be processed normally. Burning them off prevents explosions which could kill or harm workers and destroy equipment.

Prior to the 2005 explosion and fire at BP's Texas City refinery, the company had used a blowdown drum to handle the excess hydrocarbons instead of a flare system. BP's interim report stated: "Blowdown stacks have been recognized as potentially hazardous for this type of service, and the industry has moved towards closed relief systems to flare….Opportunities to tie the Splitter relief lines into a flare system were not taken when it could have been efficiently done in 1995 or 2002…."

Oil Bargaining Website to Continue

The oil bargaining website will continue past the resolution of the local oil bargaining contracts. We can use this site for such items as reporting on the activities of the oil locals, the issues that are coming up at your workplaces, and the campaign for better health and safety in the industry.

If you go to www.oilbargaining.org or access it through the USW homepage, www.usw.org, you will find issues of *The Oil Worker*, photos, articles on oil bargaining that ran in USW@Work, press releases, information on past rounds of bargaining, a history of oil bargaining from 1965 to 2005, and downloads of documents such as the oil refinery safety survey done nine months after the 2005 explosion and fire at BP's Texas City refinery.

This is your site, so please submit short articles, photos and videos and send them to *The Oil Worker* editor Lynne Baker at lbaker@usw.org.

Chemical Safety Board Investigates Silver Eagle Refinery Fire

The Chemical Safety Board is investigating a fire that happened Jan. 12, 2009 at the Silver Eagle refinery in Woods Cross, Utah. At about 5:20 p.m. a large vapor cloud was released from an atmospheric storage tank, known as tank 105, which contained an estimated 440,000 gallons of light naphtha. Witness interviews state that vapor was seen escaping from atmospheric vents on the west side of the tank, according to a CSB press release.

The CSB determined that the vapor cloud found an ignition source—for example, a utility room with a gas heater or an electrical outlet connected to a conventional refrigerator—and the ensuing flash fire spread up to 230 feet west of the tank farm.

Two refinery operators and two contractors, who were standing in a shed 230-238 feet from the tank, were engulfed by the flame front and suffered serious burns. All four were hospitalized and are now recovering.

On the day of the incident, tank 105 was receiving up to three different streams of hydrocarbon liquids from the refinery, including "light" or low-boiling substances. The primary feed into tank 105 had been sent from the #1 crude unit preflash accumulator for about three weeks prior to the incident. Feeding tank 105 directly from this unit was a recent process change and the feed from this unit had undergone a different form of processing. Workers were also purging equipment with nitrogen to remove flammable liquid, with the intent to pressure the liquid into tank 105.

History of Vapor Leaks

The CSB is investigating reports from plant personnel indicating a history of vapor leaks from tank 105 both prior to and following tank repairs.

The CSB will be investigating if the floating roof on tank 105 was equipped with the appropriate seal for use in the storage of light hydrocarbons of the type sent to the tank. The investigation will examine possible failures within tank 105 such as gaps between the seal and the inner tank wall, the integrity of the seal, and the design and structural integrity of the tank.

There will be an examination of changes to the process unit sending liquid to tank 105 and possible effects that these changes had on the incident.

In addition, the CSB will review facility siting issues relating to the release and fire. The occupied lab was affected by the flash fire and is located in close proximity to operating process units. In the March 2005 explosion and fire at BP's Texas City refinery, portable work trailers were located too close to the process equipment and 15 contract workers who were in those trailers were killed.

The CSB will be seeking to identify the root cause of this incident.

International News

Nigerian Unions Extend Strike Deadline

Nigerian oil and gas unions—NUPENG and PENGASSAN—extended their strike deadline to Feb. 13 so they could continue talks with the Ministers of Labor and Petroleum on the urgent need to have the government guarantee safety and security for workers and their families in the Niger Delta, reported the ICEM newsletter.

In the past few weeks union members' families have been the target of kidnappings. Armed groups are calling for ransoms of up to $100,000 after grabbing at gunpoint innocent family members of oil and gas workers.

The unions count 12 kidnappings of oil and gas staff, their spouses, or family members since Jan. 24 in Port Harcourt alone. Reports say there have been at least 10 attacks on vessels in waters off the Niger Delta since Jan. 1.

"The government is not doing enough to protect staff and their families and this now has become a very serious industrial relations matter," NUPENG National President Peter Akpatason told the ICEM (International Federation of Chemical, Energy, Mine and General Workers' Unions).

The unions are also pressing the government and oil companies to address gaps in pay, working conditions, and social welfare benefits for casual workers and workers on fixed-term contracts. They also are seeking more employment opportunities for Nigerian nationals in the oil and gas industry and liberalization in the downstream sector if existing private-sector employers commit to investments.

At the end of January, NUPENG and PENGASSAN demanded the government revoke a contract with US-based Cobalt International that covers pre-shipment services on oil exports. The unions said the government should allow Nigerians and Department of Petroleum Resources workers to do the work.

Iraqi Military Breaks Up Workers' Peaceful Protest

At the request of a state-owned petrochemical facility, Iraqi military busted a Jan. 28 peaceful protest that members of the Petrochemical Workers' Union of Basra held to demand wage arrears from the facility, reported the ICEM newsletter.

The army brought protesters to a military holding camp for interrogation. Company management began its own investigation Feb. 2 of workers' right to peaceful assembly and targeted four workers with leading the protest.

The union is filing complaints with the government over the company's handling of the dispute.

Journalist David Bacon has written extensively about the oil unions and labor situation in Iraq. The following information comes from one of his articles: Since the start of the US occupation of Iraq, unemployment has been at 70 percent. Order 30, issued by occupation czar Paul Bremer in September 2003 (and still in force), lowered the base wage in public enterprises, where most permanently employed Iraqis work, to $35 a month, and ended subsidies for food and housing. Law 150, issued by Saddam Hussein in 1987 to prohibit unions and collective bargaining in the public sector, was continued under the occupation. The current Iraqi government still forbids the Oil Ministry to formally recognize the Iraqi Federation of Oil Unions (IFOU), seizes union bank accounts, and won't allow unions to function normally.

Bacon writes that Iraqi unions see these moves as a way to soften up workers to ensure they don't resist the privatization of the country's economy, particularly its oil. Iraqi unions, especially the IFOU, are the backbone of the country's popular movement against oil privatization, without which the multinational oil giants would have taken control of the industry long ago.

Contractors Demand Refinery Jobs Go To UK Workers

UK contract workers returned to the job Feb. 9 after striking over the use of foreign labor at the UK's Lindsey oil refinery operated by Total, reported *Oil Daily*.

The contractors walked out when the Italian subcontractor chosen for the refinery expansion decided to use its own permanent work force. This incited a wave of unofficial wildcat action across the UK, Wales and Scotland involving thousands of oil and gas workers. Those protests looked likely to continue amid rising unemployment and a poor economy.

Government mediators brokered a deal, supported by the unions, which would create 102 new jobs for UK contractors to work on the expansion project alongside Italian and Portuguese workers.

"Lindsey is part of a much wider problem that will not go away," Derek Simpson, joint head of the UK's biggest union, Unite, said. (The USW merged with Unite last summer at the convention.)

"There are still employers who are excluding UK workers from even applying for work on construction projects," he said.

Unions called on the government to examine European Union rules governing the free movement of labor between member nations. They say employers are flouting the rules in order to bring in cheaper foreign labor. The European commissioner for employment pledged to examine EU rules more closely.

National Oil Bargaining Settlement Offer

The Company proposes that all issues raised by the 2009 National Oil Bargaining Policy be resolved as follows:

TERM OF AGREEMENT

February 1, 2009 through January 31, 2012. (Applicable to contracts expiring January 31, 2009).

WAGES

Effective February 1, 2009, all hourly wage rates will be increased 3.0% rounded to the nearest cent.

Effective February 1, 2010, all hourly wage rates will be increased 3.0% rounded to the nearest cent.

Effective February 1, 2011, all hourly wage rates will be increased 3.0% rounded to the nearest cent.

RATIFICATION BONUS

All represented, full time, active employees in the USW represented bargaining units at eligible locations on the payroll as of the date of ratification of the agreement, will receive a one time, lump sum payment of $2,500. For those locations on the national pattern settlement date (January 31st), the payment of this bonus is contingent upon ratification occurring by no later than February 16, 2009. For all other locations with expiration dates not on the national pattern settlement date, the payment of this bonus is contingent upon ratification occurring by no later than fourteen (14) calendar days from the applicable contract expiration date.

The ratification bonus, which will be paid as soon as practical following notification to the Company of Union ratification of this entire agreement, is non-benefits bearing. This means that it will not be included in the definition of earnings in calculating any benefit under any Shell benefit plan, policy, or payroll practice.

The ratification bonus will not be included in wages for purposes of calculating vacation pay, holiday pay, sickness and disability pay, occupational illness and injury pay, overtime pay, workers compensation premiums, or any other types of premium or special payment.

The ratification bonus will be subject to all deductions required by law, such as applicable withholding for federal, state and local taxes.

HEALTH CARE

The Company renews and extends its current commitments that the Company's contributions toward premiums for the Shell medical plan for active employees will be based on an employer contribution rate of 80% of the premium and an employee contribution rate of 20% of the premium. The Company's contributions toward premiums for approved alternate company sponsored medical plans for active employees will be based on an 80% contribution, but in no case will it exceed its monthly contribution to the Hospital Surgical Medical (HSM) option.

NO RETROGRESSION

The Company agrees to renew the letter agreements on layoff notice, plant closure, rate retention, national health insurance, health and safety, successorship, and job security where such letter agreements exist.

We Need Your Input

Send us articles about the issues and activities your local is engaged in. Such pieces should be short and to the point. We especially like quotes from the membership. We'll accept articles that are up to 500 words in length. Keep in mind that we reserve the right to edit contributions for length and clarity. Be sure to put your name, local union number and phone number where you can contacted during the day or evening in case we have questions.

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OSHA Cites ConocoPhillips Trainer Refinery for Multiple Violations

OSHA cited ConocoPhillips's Trainer, Pa., refinery for 27 violations that the agency said could lead to serious injury and possible death, reported *The Delaware County Daily Times*.

OSHA issued 26 serious violations with penalties totaling $91,500 and one repeat violation, carrying a $25,000 penalty, for a total of $116,500 in penalties.

The agency began its investigation June 19, 2008 as part of its National Emphasis Program that focuses on petroleum refinery process safety management. OSHA started the program after the investigation of the March 2005 explosion and fire at BP's Texas City refinery revealed the agency's inspections had not paid enough attention to refinery process safety.

The repeat violation was the company's failure to update operating procedures as required. "They changed their practice, but they didn't modify the procedures," said an OSHA spokesperson.

The serious violations include failure to provide the appropriate devices for material storage; establish a system to promptly address hazard analysis findings; address the hazard of explosion in occupied buildings; address human factors; develop and implement operating procedures; provide appropriate training; confirm all requirements of pre-startup safety review were in place; follow management of change procedures; correct deficiencies that were outside of acceptable limits; and properly document use of equipment.

Air-Quality Violations

The Trainer facility had to pay $129,524 in penalties to the Department of Environmental Protection last December for air-quality violations. One of these violations was a hydrocarbon emission Feb. 10, 2007 that forced the voluntary evacuation of area residents.

The DEP said ConocoPhillips incorrectly reported emissions of sulfur oxides in 2002 and 2004. In 2006, DEP noted excess emissions of sulfur dioxide, hydrogen sulfide, isobutene and propane, as well as minor tank violations at the Trainer facility.

Local Unions Need to be Careful about What they Post

Everyone can see what you upload to the web, especially the company and the media. We didn't put our general messages on the oil bargaining website because it is information only for the membership and not the public at large. It does not make sense to have the public, especially the company, to see our strategy in negotiations.

Unfortunately, some local unions posted these general messages and, in one instance, the NOB policy book on their websites. In 2002 when they did this no one noticed, but this time the media searched for these messages, found them and published the information. As a result, many members learned of this information first, not from their union, but from the media. We don't negotiate in the media and tell what issues we are having problems with and ones we've resolved. It is none of the public's business. It is only our business.

We tried to put out the tentative pattern agreement we had reached with the industry to the members first so they could learn about it from their union and not the media. But a couple of local unions posted the settlement on their websites and the media found it and published the information. The international tried to let you have the material from us first, but we can't do much if your brothers and sisters post the information for the world to see.

There are other ways you can keep your members informed about negotiations without having to resort to telling the world first. Put the latest information on a handbill and use your Communication Action Team, Rapid Response or steward network to distribute it. Create a listserv on your home computer with members' home email addresses and send them update messages. Have more frequent contract meetings. Set up a phone tree.

If you have a newsletter and it contains contract information, distribute it by hand and do not post it or else the media will find it. We did this inadvertently once in *The Oil Worker* and sure enough, the media found the contract information and published it.

So unless you want the media and the public to read what you write or post, find another low-tech way to get the information out.

News Briefs

The Credit Crisis

Unable to obtain credit like they used to, national oil companies like Russia's Gazprom are having to delay necessary investments and some of their customers worry this could cause there to be too little oil and gas available in the middle of the next decade, reported the *Financial Times*.

This situation is causing international oil companies, which are better capitalized, to have more opportunities than when the high price for oil caused oil-rich countries to push them aside and go with national oil companies and oil services groups.

Now that credit is more difficult to obtain and is more expensive, these same countries are approaching the international oil companies for new deals.

Whether the world has enough oil and gas to fuel its economic recovery could rest on the national oil companies' willingness to embrace technology and foreign expertise, said the Financial Times.

National oil companies control as much as 94% of global oil and gas reserves.

News Briefs

Sunoco Tries to Buck Pattern Agreement

Even though Sunoco posted earnings of $776 million last year, it wants to cut positions at its two Philadelphia area refineries. The company also has left off the Local 10-901 bargaining table language concerning job security and retrogression of pay that is in the National Oil Bargaining pattern agreement.

Local 10-1 President Jim Savage said the company informed him that it plans to reduce expenses by cutting the operations work force about 25 percent, even though the South Philadelphia refinery (the country's sixth largest) will run at full production. He said the cut equates to about 100 fewer operators.

The local has rented a billboard across from the refinery that has a photo of a refinery fire in the background with the words: "Don't Let This Happen Here! Demand Safe Refinery Staffing Levels at Sunoco."

"Our members and negotiating committee intend to fight for every job in our refinery," Savage said. "Too many of our members in operations can't get a day off now. Sunoco's stated intentions are highly irresponsible in our opinion. We intend a full-out community outreach program—the billboard is only Step One."

Both locals' contracts expire March 1. The union contract for the Toledo, Ohio, refinery expired Feb. 8, and a new agreement has been ratified. Sunoco offered the pattern settlement at Toledo but has not offered it at the Philadelphia and Marcus Hook locations because it does not want to abide by the job security letter in the pattern agreement, said International Vice President Gary Beevers.

Impact on Safety

Sunoco told Local 10-901 President Tim Kolodi that it plans to shut down parts of its Marcus Hook, Pa., refinery. Possible cuts include 60 of 270 operators and 30 of 150 mechanics. Kolodi said pay cuts have been proposed for certain employees.

Both locals are concerned about the impact the cuts would have on safety at the refinery and the surrounding community. One of the causes of the 2005 BP refinery explosion and fire in Texas City was inadequate staffing levels. Operators were expected to do the jobs of two people. Fatigue was an issue because BP operators had worked a number of days straight without time off.

Like BP did, Sunoco is trying to reduce expenses. The company's chief executive officer, Lynn Elsenhans, said at a December meeting with analysts that the company had wide-ranging cost-savings opportunities: in corporate overhead; in operations and maintenance in refineries and chemical plants; and in the purchasing of supplies, utilities and services. She said such items as the corporate jet would be sold.

Earlier this month Elsenhans said Sunoco would curtail operations at its refineries because the poor economy has cut demand for fuel. Total crude unit utilization was dropped to 76 percent of capacity in January, from an average 86 percent in the fourth quarter of 2008, because of weak fuel demand.

Operations Indefinitely Suspended at Bakersfield Refinery

Unable to acquire crude oil supplies since its parent company filed bankruptcy before Christmas, Big West LLC indefinitely suspended operations at its 66,000 barrel per day Bakersfield, Calif., refinery Jan. 28.

Executive Vice President Fred Greener told Reuters that since parent company Flying J Inc. filed for Chapter 11 bankruptcy, the refinery "has not had the cash liquidity needed to purchase crude in the necessary types and quantities under the terms being offered by suppliers."

Shell Oil Co., which operated a pipeline supplying the refinery, told the *Bakersfield Californian* newspaper that it has done nothing wrong and would supply the refinery as soon as an adequate oil supply contract could be worked out. Sen. Barbara Boxer (D-Calif.) has accused Shell of trying to force the refinery's closure by cutting supply to the facility.

Big West is looking for buyers for the refinery. Meanwhile, 40 staff employees were laid off Feb. 6 and more layoffs are to come. Big West spokesman Peter Hill said in a written statement that when and how the layoffs take place will depend on what needs to be done to keep the refinery in a ready state. He said the specifics are under discussion with USW Local 219, which has 140 members working at the facility.

The refinery's closure is helping gas prices to climb in California. Big West supplied 6 percent of California's diesel and 2 percent of the state's gasoline.

Is ExxonMobil Ready to Deal?

Oil industry experts believe that ExxonMobil may buy a rival energy company or enter into a partnership with an oil-rich country in need of capital, reported *The Wall Street Journal*.

Flush with cash, ExxonMobil is one of a few companies able to pull off such a deal. It sat on the sidelines when oil was high, conserving its cash. Now it is situated to weather the plunge in oil prices.

The company has increased its cash on hand from $3 billion at the beginning of 2000 to $36.7 billion last September. It has bought back 2.2 billion of its shares, which are now worth $170 billion. This is almost the market capitalization of Microsoft Corp. or General Electric Co.

"Having maintained discipline during the boom years, just sitting there during the down cycle will frustrate his (Chief Executive Rex Tillerson) shareholders. He'll be considering action," Deutsche Bank analyst Paul Sankey said.

Some possible purchases observers cite are buying Royal Dutch Shell, merging with BG Group PLC or partnering with Brazil.

"It is very nice to have a AAA credit rating and $40 billion in cash. Deals come to you," Fadel Gheit, an oil analyst at Oppenheimer & Co., said.

2008 Oil Profits Reflect First Half Run-up in Oil Prices

Buoyed by rising crude oil prices in the first half of 2008, many of the majors saw healthy profits in 2008, but the situation started changing in the fourth quarter when the world economy started tanking. During National Oil Bargaining the oil companies acted on the negative turn of affairs. It did not matter that they had a profitable year because of the run-up in oil prices. They were looking at how gasoline demand and oil prices have fallen in the fourth quarter and continue to go down.

ExxonMobil, the leader in the most profit ever for a private company, saw its annual profit jump 11 percent to $45.2 billion. BP earned $25.6 billion for 2008. Chevron's annual profit was $23.9 billion. Due to the lower value of its oil inventory, Shell had a fourth quarter loss of $2.8 billion. But if this paper loss is excluded, it made a record yearly profit of $31.4 billion.

ConocoPhillips recorded a loss of $31.76 billion in the fourth quarter because it took $32 billion in write-offs. These write-offs could have been booked in whole or in part at any time over the last few years, but doing it now provided a better tax advantage with the company coming off an incredibly profitable year. If these paper write-downs are disregarded, ConocoPhillips's fourth quarter profit is $1.9 billion and yearly profit is $16.4 billion.

Valero Cuts Back

It was a different story for Valero, the largest independent oil company in the U.S. The company lost $3.28 billion in the fourth quarter and $1.13 billion for the year after taking a $4 billion write-down of all the company's goodwill. (Goodwill is the difference between the purchase price of a company and the book value of its tangible assets, such as equipment and real estate.) Excluding this paper loss, the company reported fourth quarter net income of $732 million and full year 2008 net income of $2.9 billion.

Due to lower demand for gasoline and low margins, Valero temporarily closed its Texas City refinery while it undergoes maintenance in the first quarter. It also stopped gasoline production at its Corpus Christi East Plant, delayed certain projects and warned that other plant closings could be necessary if demand does not pick up. Capital spending is projected to be down for 2009.

Although 2008 was a banner year for Big Oil, the future started revealing itself in the fourth quarter. With demand down and lower oil prices, the oil companies are scaling back. Analysts expect consistent announcements of lower profits and reserve write-downs.

The oil and gas industry is adjusting to the recession by reducing spending and cutting jobs. ConocoPhillips is cutting 4 percent of its work force—about 1,300 workers—slashing capital spending by 18 percent and writing down the value of various assets by $34 billion.

Hard Times for Refiners

Refiners have had a difficult time the last 12 months. As the price of crude rose, refiners struggled to keep prices for refined products high enough to generate a profit. Then when the price for crude came down, demand took a nosedive.

During the fourth quarter refiners were losing money on each gallon of gasoline, said John Felmy, chief economist at American Petroleum Institute. Bloomberg News reported that the national margin on refined gasoline averaged a loss of $4 a barrel since November.

Like Valero, refiners are cutting back production in hopes of raising prices. They are also selling diesel fuel, which has a better profit margin now. However, they cannot sell more diesel without making more gasoline, which is already an oversupplied market.

Expect supply problems in the future and gasoline prices rising because the oil industry does not learn from past experience.

During the previous downturn in oil prices, from the late 1990s to the early 2000s, the big oil companies cut jobs and put off investment projects, sowing the seeds of the supply shortages that sent prices soaring in subsequent years.

The oil companies are repeating the pattern and by laying off skilled people now they shoot themselves in the foot later when they need the expertise and cannot get it.

Candida Scott of Cambridge Energy Research Associates told the *Financial Times*: "Last year everyone was talking about skills shortages and encouraging people into the industry. If the companies do lose people now, then it puts the industry into a huge hole."