Peak performance

Demand for training from the oil & gas industry has created a wellspring of opportunities for providers. But could the slump in the price of oil reverse the trend, asks **Daniel Thomas**

Last March, workers for Schlumberger, the world's largest oilfield services company, held a protest at a facility in Ghana. Complaining they were paid far less than their foreign co-workers, they barred expatriates from entering the plant and told reporters they had been treated as "cheap" labour. According to a local union, the workers were missing out on perks like meal and housing allowances, not to mention a global bonus scheme open only to expats.

Such grievances are all too common in oil-producing countries and capture perfectly what Jim Playfoot calls the "resource curse". A managing director at oil training consultancy Getenergy, he says that without an effective education and training system, and without the ability of hydrocarbon producing countries to develop and train their own people, the workforce becomes largely or entirely dependent on non-national workers.

"At a very basic level that means that the local people just don't have the access to the employment opportunities and therefore the economic benefits of the oil and gas industry. Meanwhile you can have people working for the likes of Shell and BP earning huge sums of money living on foreign soil."

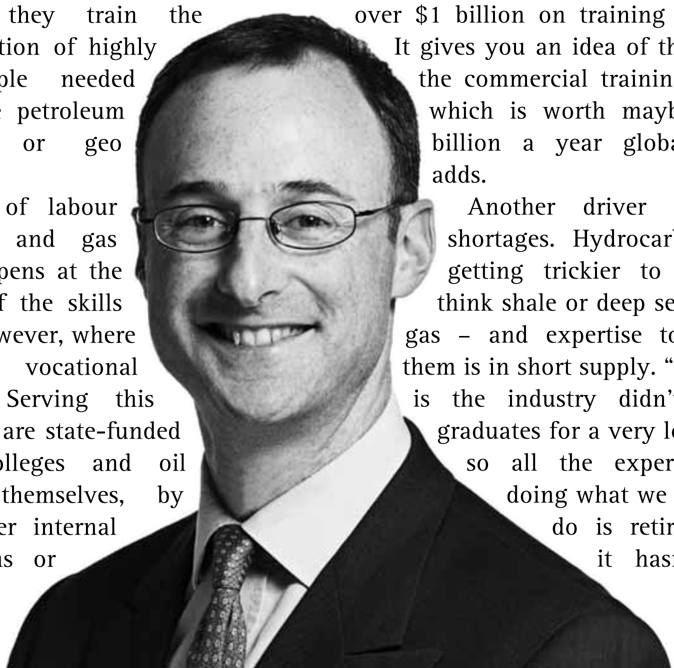
The damage is apparent in countries from Saudi Arabia to Nigeria and goes beyond merely resentment. Without investment, national education systems remain in states of disrepair which impedes the flow of human capital to other parts of the economy. Meanwhile, oil companies driven by short-term results continue to import costly foreign workers, putting their long term viability at risk. In Ghana, the government says it wants 80% of all its oil workers to be nationals by 2020. Firms who don't comply could end up being penalised or getting kicked out.

However, a solution may be at hand. According to Playfoot, driven not only by demands to hire locally, but also to tackle their own skills shortages and rising costs, oil companies are themselves starting to invest more in training. That in theory should help wean them off expat labour and offer some payback to oil-producing economies.

For the corporate training industry meanwhile, it creates significant growth opportunities along with increasing access to investment capital.

A fracked market

hard to get an exact measure on the oil & gas training market, but most agree it is fragmented. Playfoot says the industry can be divided into camps. The first is universities, often based 'in country' and operating in partnership with oil companies; they train the small proportion of highly skilled people needed in areas like petroleum engineering or geo science.



The bulk of labour in the oil and gas industry happens at the lower end of the skills spectrum, however, where training is vocational in nature. Serving this constituency are state-funded technical colleges and oil companies themselves, by way of either internal training arms or external providers. This latter group typically teach staff offsite and out of country – flying them out to Aberdeen, say, or Calgary – in-country and onsite, or online.

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Until December, Paul Groves was managing director of Petrofac Training, the largest private training organisation in oil & gas and part of the Petrofac Group, a global oilfield services company. He describes the private training sector as "very fragmented" with just two firms out there posting revenue in excess of $100 million (£64 million): Petrofac and Falk Safety Services. There are some mid-market players with revenues in the $20-$30 million bracket, offering everything from drilling instruction to simulated training environments to e-learning.

The market for such firms has grown over the last decade, primarily because of oil company spending. During the six years he was at Petrofac Training, Groves claims revenues increased by 400%. "One of the major international oil companies – I can't say who – spent over $1 billion on training in 2013. It gives you an idea of the size of the commercial training market which is worth maybe $6-$8 billion a year globally," he adds.

Another driver is skills shortages. Hydrocarbons are getting trickier to reach – think shale or deep sea oil and gas – and expertise to extract them is in short supply. "The issue is the industry didn't recruit graduates for a very long time, so all the experience of doing what we currently do is retiring, and it hasn't been

replaced," says Groves.

Add to this the rising pressure on oil companies to recruit locally, and the huge investments being made in vocational training programmes in oil-dependent economies – think Saudi Arabia's Colleges of Excellence programme – and it seems private training companies have good reason to be excited.

Black gold?

Certainly investors are optimistic. Groves claims two to three training business are

about to be put on the market and one he's advising is currently under bid.

Those already invested include HG Capital, which bought a stake in Atlas in 2007, and BV Investment Partners (formerly Boston Ventures), which bought PetroSkills, the largest standalone provider in the market in 2010. Just before Christmas, US private equity firm the Riverside Corporation acquired a controlling stake in Mintra, too, a proprietary e-learning platform designed for oil and gas companies.

Simon Gluckstein, managing director at Quayle Munro, a corporate finance house, says the sector is attractive to investors for a number of reasons beyond merely demand.

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He puts this in part down to incidents such as the Deepwater Horizon oil spill, which have led to greater demands of companies to stay compliant. Making sure employees are – and have been – properly trained in everything from health and safety through to technical operations is likely to play a big role in that.

But what about competition from public further education colleges? Couldn't they swoop in and offer the same sort of training much cheaper?

"There is probably is an opportunity for those FE brands to do more but it's important to remember the global aspect of oil & gas training," says Gluckstein. "Are the FE providers going to be able to reach their arms around the full international market? It's a challenge. Would businesses with private equity backing be better placed to put their arms around that market? Yes."

> I've heard from a few companies that are likely to scale back their own in-house provision because what they want is more 'on demand' provision, and that could end up benefiting nimble, high quality training providers who are able to respond as in-house provision falls away

Sump costs

The route to growth is spattered with oil slicks. The elephant in the room is the recent slump in the price of oil. At about $50 a barrel (as of 16 February), crude oil prices are down by more than half from their June 2014 peak of $107. Oil companies have made cuts to staff and new projects, and conceivably could do to training.

For Playfoot it could go two ways for providers. Scaling back could hit oil and gas firms' education and training budgets, leading to a short-to-medium term fall in demand. However, another argument suggests it could end up benefiting private training providers.

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Jim Playfoot, managing director, Getenergy

Paul Groves, former head, Petrofac Training

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Gluckstein adds that the investment oil and gas suppliers are making in training is still a relatively small element of their overall budgets, albeit "an increasingly 'must-have' element". "It is therefore not exposed to some of these broader funding vagaries, even at a time where there are uncertainties in the broader oil and gas market."

He says that if anything reduces the demand for training, it will be the decline in the overall workforce, not disproportionate cuts to training itself.

There are other possible issues, though, such as standards and accreditation. According to Groves, standards are well established in certain segments of oil and gas training like survival or drilling training, but there is a "gap" when it comes to blue collar skills.

Currently training providers tend to follow City & Guilds' NVQ framework, but there is a "general feeling that this needs to be updated", he says. "We need something developed by the industry and applied globally. That's really very patchy at the moment and I think it's going to take some time to evolve."

The issue for players in the space, then, is how to benchmark themselves against each other and prove that they are high quality suppliers. However they may get hit by one last hurdle: a lack of trainers to staff their businesses. Much like the workforce itself, highly experienced trainers tend again to be expats approaching retirement age. Groves says that this poses an acute "problem" and that the industry must act.

More teacher training courses would help, so too the rise of e-learning. Petrofac for example bought Oilennium, an online business in 2012, while virtual reality based instructors like Immerse Learning are doing a brisk trade in the oil sector. For Groves though, the future shape of instruction will be 'optionality', allowing learners to pick from of classroom-based, on the job, online or simulative programmes.

The optimists are sure that the market for oil and gas training will continue to grow. The disheartening reality is that few countries are ready to replace oil with renewables and oil companies will be pumping oil for some time to come, regardless of its price. That will require a steady flow of skilled workers of course, and training firms that can roll with the macro trends should prosper.

But will more training crack the deeper problem at hand – the over dependence on expat labour?

"In many of the countries the ratio of nationals to non-nationals in the oil and gas workforce is still very poor," admits Playfoot, "but it's changing."

There is definitely a shift towards a greater sense of responsibility in the oil companies, he says, adding tellingly: "Smart companies should also begin to see that it helps the bottom line too. If you do invest in local education and you're there for the long haul then over time you begin to see huge benefits and your operating costs go down." ■