Coronavirus Risk Assessment
Oil, Gas & Mining
Oil and Gas Extractors

Oil and gas prices have declined due to weak manufacturing activity and reduced marine shipping activity, major sources of demand for oil. Additionally, uncertainty regarding negotiations with China and the US that would have potentially resulted in China purchasing higher volumes of US oil and gas has caused prices to pull back. Declines in the price of oil and gas threatens extraction firms’ profit.

Risk Level Key

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<tr>
<th>Risk Level</th>
<th>Symbol</th>
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<tbody>
<tr>
<td>High</td>
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<tr>
<td>Medium</td>
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<td>Low</td>
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Oil & Gas Refiners

The profitability of oil and gas refining is highly dependent on the trends of these commodities’ prices. With waning demand for oil and gas, due to weak industrial and shipping activity, prices have been slipping and adding considerable risk to refiners.

Mineral & Metal Miners

China is a major source of rare earth mineral mining activity. As concerns over COVID-19 (coronavirus) expand, workers are staying home and workplace quarantines are occurring, harming efficiency. This worker shortage has slowed mining activity, reducing global supply of minerals and pushing prices up.

Oil, Gas & Mining Equipment Manufacturers

Demand for oil, gas and mining equipment has declined slightly due to subdued activity in downstream markets. However, much of the risk in this industry stems from volatile metal prices as China experiences an oversupply of steel and other metals, leading to increased exports. With steel being a key input cost in this industry, this volatility has impacted manufacturers operating costs.

Oil & Gas Field Support Service Providers

While declines in the price of oil and gas have slowed production activity, demand for support services is less susceptible to short term changes in production. Maintenance and support of oil and gas infrastructure is required regardless of the volume of production, driving low risk. Some employers have been more flexible with allowing employees to remain home if feeling ill, reducing efficiency among some firms.
The volatility in fuel prices as a result of disturbances throughout the upstream supply chain has led to uncertainty in costs for airline companies. Furthermore, the coronavirus has significantly impacted airline travel, as people have cancelled travel plans to minimize the risk of contracting and spreading the virus.

Due to the outbreak, demand in China for steel and other metals has declined, given the decrease in production as manufacturing employees are unable to work. Additionally, China is leading producer and exporter of steel, but steel production has all but nearly shutdown in the country due to virus concerns. As such, China has been experiencing atypically high inventory levels, pulling steel prices down and causing high price volatility.

Equipment manufacturers in this sector present a moderate risk to the supply chain given the current situation with the virus outbreak. Most of the risk stems from the increased volatility in input costs, such as steel and other metals, that upstream suppliers are facing. However, downstream markets typically do not purchase heavy machinery and equipment frequent enough to be impacted by this volatility significantly.

Aside from the risk presented to the sector surrounding volatile input costs, extraction firms are facing increased risk due to falling oil and gas prices. The decline in hydrocarbon prices is due to a pull-back in demand, which has occurred due to weaker manufacturing activity, airline travel and marine shipments. Declining oil and gas prices harm profitability, increasing risk.

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Increased volatility in the price of oil and gas makes it more difficult for fuel retailers to make accurate cost estimations and can harm profitability as a result.
Mitigating Supply Chain Risk

Best Practices for Oil, Gas, & Mining

Businesses throughout the sector should have contingency plans in place for the case that an employee is exposed to the virus. Contingency plans should take into account employees that have been exposed to the virus outside of work, such as allowing them to remain at home to limit their exposure to others, and a plan in place if the employee is believed to have been exposed at or has exposed others at the work site. Such plans may include work site quarantines. Businesses can educate their staff on best practices to minimize exposure to the virus and help reduce the spread of it.

Vendors that rely on critical inputs for production, such as steel, should thoroughly assess their upstream supply chain for any issues that may arise as a result of price volatility and supply fluctuations. Outside of obvious links in the supply chain, this process should be conducted for suppliers several supply chain tiers out to better understand any potential disruptions.

While oil and gas prices are incredibly difficult to predict without the coronavirus having an influence on the trend, operators throughout the sector should keep up-to-date with global trends in supply and demand to gain better insight into how prices might adjust further. Operators should also keep track of any updates regarding the trade negotiations between the US and China.

Related Market News

The EIA anticipates global demand for petroleum and liquid fuels to be 0.8% lower per day than its initial forecast at the early stages of the outbreak.

Lower demand for steel and reduced materials transports out of China has contributed to China experiencing stockpiles of steel, forcing prices downward and creating volatile input costs for oil, gas and mining equipment manufacturers.

Airlines have cut approximately 200,000 flights due to travel restrictions surrounding the spread of coronavirus, weakening demand for fuel.
Vendor
Risk Mitigation

**Best Practices Checklist**

**Company-Wide Best Practices**

- **Designate a company director as the coronavirus “point person”:** In an effort to mitigate risk across an organization, companies should consider selecting a single person (ideally a human resource professional, someone in the legal department or a workplace health professional) to be involved in all personnel decisions related to the coronavirus.

- **Develop risk-appropriate contingency plans:** Companies should ask themselves: “How do we quantify our direct and indirect risk exposure to market disruptions stemming from the escalation of the coronavirus outbreak?” Companies should map out what inputs are core to their business and also have a high-risk exposure to economic disruptions stemming from further outbreak of COVID-19 and develop subsequent contingency plans based around these high-risk inputs.

- **Ensure contingency plans are consistent with existing employment and health laws:** In the United States, employers may consider sharing the Equal Employment Opportunity Commission’s (EEOC) Pandemic Preparedness in the Workplace amongst their employees. These guidelines specifically warn that testing an employee’s temperature may be unlawful and considered a medical examination under the Americans with Disabilities Act (ADA) unless such action is clearly advised by proper health authorities or where the employer can show the employee poses a direct threat to the health and safety of other employees.

- **Develop contingency plans to manage technology risk:** These risks include, but are not limited to, the capacity to enable a large number of employees to work remotely, an increase in online traffic to web-powered platforms and a rise in cybersecurity threats/attacks.

- **Clear and consistent internal and external messaging:** Communication and messaging is one of the most important considerations for organizations to consider. As evidenced by the subsequent backlash to the Chinese government’s response to the outbreak and their mixed messaging on the evolving severity of the outbreak, companies too have their personal brands and reputations on the line as they draft contingency plans.
Vendor
Risk Mitigation

Best Practices Checklist

Day-to-Day Best Practices

- **Implement more frequent and stricter office cleanliness requirements:** Employers can provide N-95 face masks, sanitizers, increase the rate of office cleaning and publish informational reminders for washing their hands and best practices for preventing the spread of germs.

- **Consider shifting employee responsibilities in a defined business continuity plan:** Management teams should consider the reallocation of responsibilities between employees and/or establish new procedures for remote employees in the event travel restrictions are implemented.

- **Develop policies for clear communication with customers:** It is important to develop procedures for communication with customers and understand the overall impact on the firm’s ability to service customers. Firms should determine how customers will be notified about any restrictions to market services.

- **Consider implementing split team arrangements:** Split team arrangements refer to when personnel and employees are split into two or more teams (e.g. Team 1 and Team 2) that are deployed with different work schedules or at different work sites to prevent the spread of the virus.

- **Implement flexible working arrangements:** Organizations should consider allowing employees to work from home in order to prevent contamination.

- **Carry out testing measures in “high-risk” work environments:** The EEOC’s Pandemic Preparedness in the Workplace warns that testing an employee’s temperature may be considered a medical examination under the Americans with Disabilities Act of 1990 (ADA) unless clearly advised by proper health authorities or where the employer demonstrates the employee poses a direct threat to other employees based on objective medical evidence.

- **Implement internal controls to prevent human-to-human transmission:** Companies should consider catering lunches and meals to minimize employee's exposure to crowded areas like the food centers, supermarkets and restaurants.

- **Restrict employees from returning to work if they have recently visited a high-risk area:** Many employers have adopted a 14-day or longer work-from-home policy for any employee that has recently returned from China or another country with high risk of contracting the virus.