Falling oil prices are causing a shake-up in the gas industry. The latest sign of this is Australian energy company Woodside’s indefinite deferral of its huge gas project off northwest Western Australia.

The A$40 billion project was to convert natural gas extracted from deepwater areas to liquid (LNG) on a floating barge-like structure for export – a world first on a commercial scale. Major oil companies Shell and BP are partners in the joint venture. Some have suggested the solution is for companies to work together to bring down costs .

The project is just the latest victim as companies adapt to lower oil prices. So how else is the sector dealing with the low prices?

Why have prices fallen?

Gas prices are linked to oil prices in their export contracts. Oil prices started their freefall from around US$110 a barrel in July 2014 to the current US$38 a barrel.

Shell has claimed that the project is not economic at an oil price of less than US$50 a barrel .

Essentially, the global oil and gas industry is facing an oil price shock, which is affecting local projects.

The price of oil has fallen as non-Western oil-producing countries (OPEC) seek to re-establish dominance over the United States. The recent US shale oil revolution uses new extraction techniques, so despite its higher costs requiring higher prices, shale oil was looking like it might make the United States self-sufficient in oil for the first time . But the OPEC competitors have flooded the market with oil (thus lowering the price) in a bid to drive US shale oil companies out of business.

Other oil states such as Nigeria, Iraq and Venezuela have compounded this oversupply by ramping up production for much-needed cash to shore up their weakening economies.

The ramifications of "low oil price shock" are being discussed in oil and gas professional journals, but academic journals haven't yet caught up.

To find out how companies are dealing with the price shock, I and other researchers have been interviewing senior executives from the oil and gas industry in Australia and Malaysia. We're starting to see some definite trends.

Cuts to exploration and new spending

After decades of exploration in Australia for oil and gas, industry is cutting its spending on exploration.

Several executives mentioned that spending on new projects has been curtailed in the design and development phase. One commented, "We've already had several rounds of capital budget cuts." The overall impression from the interviews is of a significant drop in the number of projects globally that are progressing to the development phase, which normally requires significant spending.

One oil executive called for Petronas (Malaysia's national oil company) to pull back on capital spending on overseas ventures, such as those in Australia, and spend on projects in Malaysia.

Retrenchments and asset sell-offs

In terms of the low oil price impact on employees, one comment was: "There is a blood bath going on."

An executive stated: "It is my view that non-critical and expatriate staff will not see their employment extended."

Another explained: "…in the short term, we have had a lot of job cuts and a lot of salary reductions." Thousands of jobs are being axed and the industry's professional journals are counselling those affected.

Roger Jenkins, chief executive of US Murphy Oil Corporation, recently reflected on his company's 2015 operations in Sarawak, Malaysia. He cited lower operating costs, such as savings on labour, and the "timely 30% selldown" of onshore plant assets in Malaysia. At the moment cash is sorely needed.

Maintain cash flow and preference onshore projects

Jenkins observed that Murphy Oil's capital expenditure will be cut to less than US$2 billion in 2016 and the company will reduce risk by getting out of deepwater operations, such as floating LNG facilities.

The plan is to survive the downturn in oil prices by maintaining current production projects (for cash flow) and keeping operations close to shore. Anything non-productive is being sold.

Another oil executive said cost savings have mainly been found through onshore technology, while deepwater offshore projects remain costly. His view was that as companies dispose of non-productive assets, there are going be "buying opportunities this year". He also predicted that this quarter in the US over 100 small oil and gas companies are going to file for bankruptcy.

The deferral of Woodside's major floating LNG project in the Browse Basin is part of the fallout from the low oil price shock. The next step is to figure out what this will cost the Australian economy.

Diane Kraal does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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