Pearl Meyer

ADVISOR BLOG | JUN 2025

Falling Oil Prices and Tariffs Are Undermining Short-Term Incentive Plans

Mark Rosen

MANAGING DIRECTOR

The recent, unexpected sharp decline in oil prices—more severe than many previously forecasted —has placed current short-term incentive (STI) plans under pressure. When many companies were finalizing their 2025 budgets in late 2024, projections from the US Energy Information Administration forecast Brent crude prices would fall to $74 per barrel in 2025 and $66 by 2026, with West Texas Intermediate (WTI) expected to follow a similar trend. Many oil and gas (O&G) firms likely set STI performance targets based on those average price assumptions, resulting in goals that are now misaligned with current market conditions. As a result, plan participants may see payouts fall short of expectations or fail to materialize at all, despite strong operational execution in other areas of the business.

> "From a strategic pay perspective, this environment calls for reevaluation of plan flexibility."

Adding to pricing volatility is the disruptive impact of tariffs, which are pressuring performance metrics through multiple channels. Tariffs have increased costs for essential oilfield services and imported equipment, disrupted supply chains, and hurt refining margins. These headwinds further strain companies' abilities to meet STI performance targets. From a strategic pay perspective, this environment calls for reevaluation of plan flexibility. The integration of discretionary levers (despite proxy advisors' aversion to committees exercising judgement), relative performance metrics, or contingency clauses tied to external factors such as tariffs may become critical tools for compensation committees to consider.

In May 2025, Pearl Meyer surveyed several oil field services companies to understand how they are preparing. Responses revealed a consistent theme of caution. The majority of oil and gas firms (73%) are taking a "wait and see" approach, regardless of whether they perceive the potential impact as moderate, unknown, or none at all.

In our experience, boards have limited tolerance for exercising discretion in response to oil price volatility but may be more forgiving for unanticipated political headwinds. And in today's boardrooms, even among those companies that are taking a "wait and see" approach, most are actively monitoring and isolating the impacts of tariffs from the effects of volatile oil prices.

Only a small number of companies—primarily those expecting moderate to high impacts from falling oil prices and new tariffs—are taking proactive steps with their compensation committees to address how ongoing uncertainty may affect their STI plans. The cautious posture reflects both the uncertainty surrounding future tariff developments and the challenges of modifying incentive structures mid-cycle. For boards and management teams, the takeaway is clear: building more dynamic STI frameworks—such as revaluating the mix of financial and non-financial metrics—will be essential in a market environment increasingly shaped by geopolitical forces and regulatory interventions.

About the Author

Mark Rosen is a managing director and consulting team leader at Pearl Meyer. In his management role, he oversees a team of senior compensation consultants in the execution of the firm's growth strategy and in the development of consultants at various stages in their careers. Mark has consulted on executive and board compensation issues for more than 20 years for a broad range of public companies, as well as tax-exempt organizations and academic institutions. He has extensive experience with benchmarking, retirement plan design, governance issues, and tax and accounting considerations.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.