Pearl Meyer

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



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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.

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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 is a consulting team leader who brings 20+ years advising on executive and board pay, including benchmarking, retirement plan design, and tax/accounting and governance considerations.

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