

Global Oil and Gas Capital Expenditure Outlook – 2010: National Oil Companies (NOCs) to Drive Investment

GlobalData's new report "***Global Oil and Gas Capital Expenditure Outlook – 2010: National Oil Companies (NOCs) to Drive Investment***" provides in-depth analysis and insights into oil and gas sector capital expenditure outlook for 2010. The report provides a detailed analysis of the current and future capital expenditure position of national oil companies, and integrated, and independent oil and gas companies. It presents detailed information and analysis of capital expenditure in oil and gas segments; Upstream and Midstream. It also provides detailed information on capital expenditure across various regions; North America, South and Central America, Europe, Middle East & Africa and Asia-Pacific. The report also covers the planned oil and gas projects in upstream, refining, pipeline, LNG and petrochemical projects. A drop of over \$100 per barrel in oil prices late last year bringing it to around \$32 per barrel prompted many national oil companies, which depend on oil for most of their revenue, to cut spending, delay and cancel oil and gas projects. However, most NOCs have the necessary financial strength to fund their capital-intensive projects and they continued to spend during the ongoing economic downturn. The capital expenditure of oil and gas companies witnessed a significant decrease in 2009 after the surge in 2007–08. However, in 2010, capex activity is expected to rise, driven mainly by large National Oil Companies (NOCs). GlobalData forecasts a 12% growth in the oil and gas sector capital expenditure in 2010 and expects the total capex of the leading listed oil and gas companies to exceed \$798 billion, driven mainly by the investments of NOCs. The total capital expenditure by the listed NOCs (for which data is publicly available) is expected to register a 16% growth to around \$375 billion in 2010.

Lack of Cash and Access to Capital Drive Capex Down by 18% in 2009

Volatile commodity prices, larger stocking of oil and unstable demand made companies cautious with their investment plans in 2009. We estimate global oil and gas spending will be down around 18% in 2009 versus 2008 after rising around 26% in 2008 versus 2007. The capital expenditure plans for 2009 are noticeably different in terms of the scope and strategy adopted by the large companies. Even the ambitious investment plans are accompanied with cost-cutting measures. Also, uncommitted investment plans are being reviewed and revised in expectation of a better deal in terms of lower raw material prices and service rates. Furthermore, the companies are reluctant to invest; in mature basins which typically have higher costs, in regions with high geo-political risk and in countries with unstable fiscal regimes.

Many Integrated Companies are Still Adopting a Wait and Watch Approach Towards Their Future Investment Plans

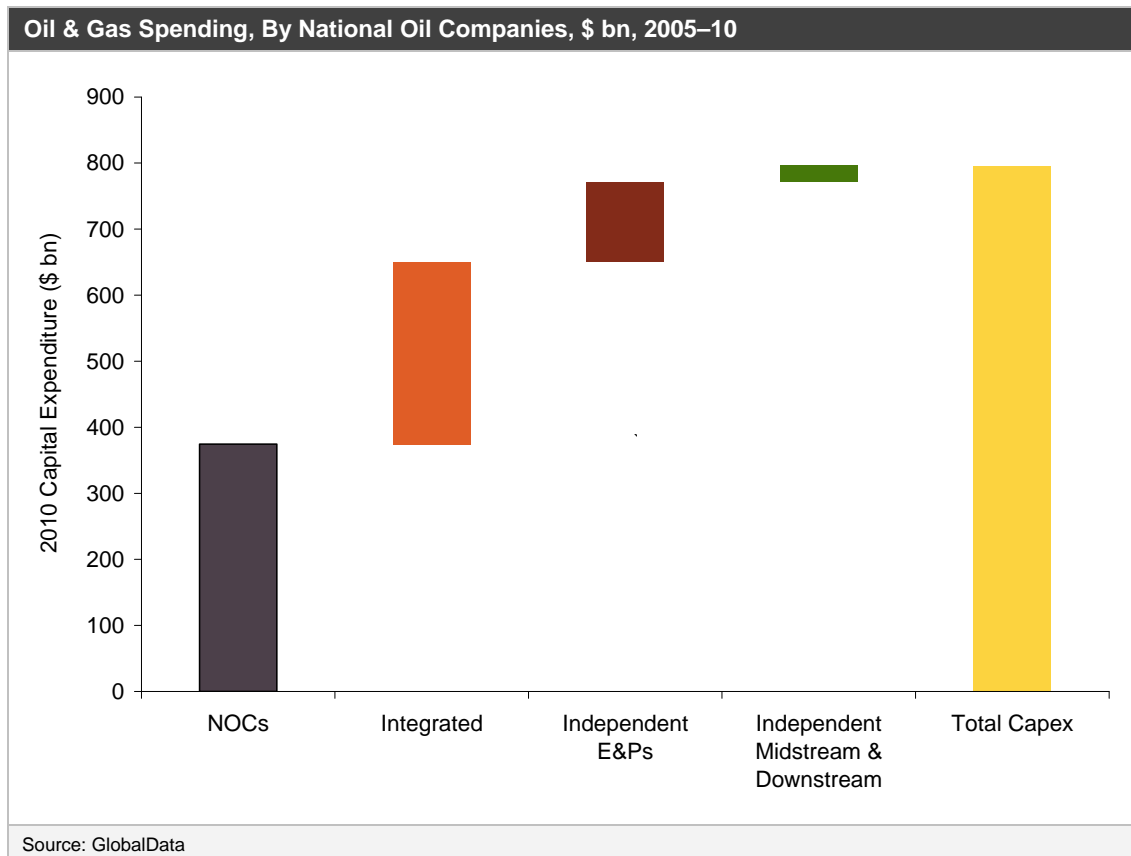
Making the right investment decisions in a volatile price environment is one of the greatest challenges faced by the leading oil and gas companies and many companies have not finalized their investment plans for the coming year. The global refining industry is witnessing a slump following the global economic downturn after a high return period in the past few years. Uncertain product demand, decreasing refinery margins and a surplus refining capacity are having a combined negative effect on the profitability of refining operations. This will continue to cast a shadow of uncertainty over the future of refinery margins thereby compelling integrated companies to divest their non-profitable assets to fund other businesses.

Economic Recovery and Rising Oil Price are Improving the Overall Investment Climate

The crude oil price has recovered by 57% to around \$75 per barrel from \$45 per barrel in January 2009. Currently crude oil and natural gas are trading at around \$82 per barrel and \$5.7 per Mcf. The global economic environment and the short and long term outlook for commodity prices play a vital role in the capital expenditure plans of exploration and production companies. With the major economies showing some signs of recovery in the second half of 2009, global economic conditions are expected to improve in 2010. Emerging economies such as India and China will be the key growth drivers for the global resurgence.

Overall Oil & Gas Capex Will Increase in 2010 Driven by NOCs' Investments

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Brazil Emerging as Powerhouse

Brazil's energy sector underwent major reforms during the latter half of the last decade. Market liberalization and the adoption of the Petroleum investment law made the domestic energy industry perform better in terms of exploration and production. Brazil has quickly emerged as one of the important regions for offshore crude oil production in the world. With new fields, mostly offshore, and huge reserves being discovered in recent years, Brazil is fast emerging as the top crude oil producer in the world along with Saudi Arabia and Venezuela. Huge reserves in the Santos and the Rio de Janeiro areas have propelled Brazil's crude oil production with output from offshore areas expected to continue to increase in the forecast period. Brazil is set to become a major producer following pre-salt discoveries by Petrobras who plan to invest around \$28 billion as part of its \$174 billion business plan to 2013. Petrobras plans to increase total oil and gas production from 1,855 Mbbl/d in 2008, to 2,680 Mbbl/d and 3,920 Mbbl/d in 2013 and 2020 respectively. The biggest contribution in the domestic production growth of 1,240 Mbbl/d between 2013 and 2020 will come from production from pre-salt discoveries.

Increase in Development Activities in Offshore Will Drive Global Drilling Spend

Global offshore drilling spends has increased in recent years especially during the period from 2004 to 2008. However, the global economic slowdown, decreasing demand for oil and gas and a drop in the prices of crude oil and natural gas is expected to have a negative effect on offshore drilling activity in 2009. Nonetheless, with the global economy expected to recover during 2010, the global exploration and

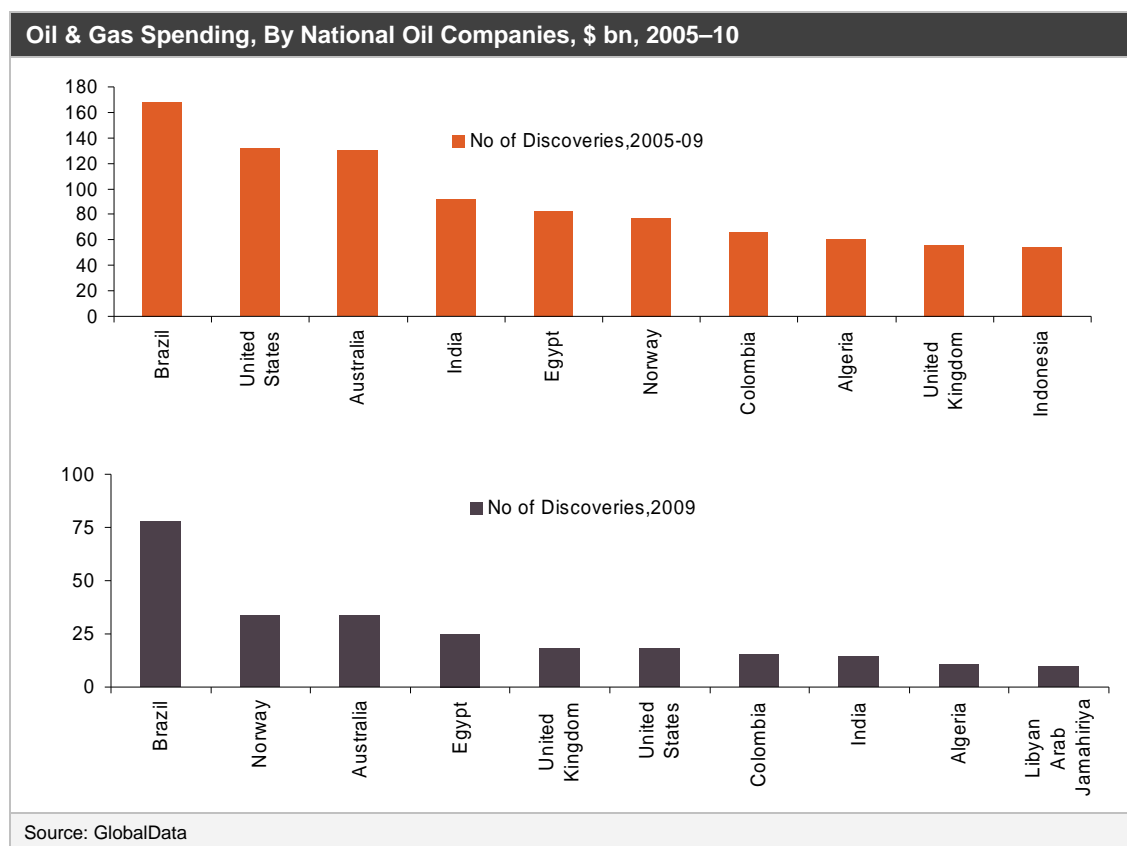
development activity is expected to increase. The global drilling spend is estimated to grow at an annual average growth rate of about 6.6 percent in the forecast period of 2009 to 2020.

Revival of Canadian Oil Sands Industry

Global energy investments are being affected by a combination of major issues in the global oil and gas markets. Most of the companies throughout the oil and gas supply chain are scaling back on their planned projects and investments. In particular, projects that are considered to have high risk and which require huge credits are the first to be delayed or shelved altogether. The financial crisis and the oil price collapse adversely affected many unconventional oil and gas projects by making production uneconomical. Consequently, a lot of the exploration and expansion projects in the Canadian oil and gas sector were delayed or suspended. However, falling construction and operating costs and a recovery of the oil price in recent months is a positive sign for the oil and gas industry especially in Canada. The recovery in prices, especially for crude oil, has encouraged some companies to restart their stalled projects. However, sustained levels of crude oil and natural gas prices, a positive recovery of the global economy and thereby energy demand will be critical factors for a sustained recovery.

Development of Recent Oil & Gas Discoveries Will Drive E&P Investment in Coming Years

In 2009, over 350 oil and gas discoveries were announced worldwide. The majority of discoveries were in Asia-Pacific (35%), followed by Africa (20%), South and Central America (17%), Europe (17%), Former Soviet Union (FSU) (6%), Middle East (4%) and North America (1%). Petrobras was the leading company with 50 discoveries. To capitalize on the new discoveries, companies will be required to increase their capital budgets for 2010 and beyond. Some of the discoveries in Angola, Brazil and Nigeria require significant development and lifting costs, which require a long-term oil price in excess of \$70 per barrel.



The Unconventional Natural Gas Industry Will Attract Huge Investments in the Next Decade

The shale plays have also played a key role in increasing the overall natural gas resources in the US. The growing importance of shale gas is substantiated by the fact that of the 1,836 trillion cubic feet of total potential resources, shale gas accounts for 616 Tcf (33%). The most rapidly developing shale plays in the US are Barnett (East Texas, around Fort Worth), Fayetteville (Northern Arkansas), Haynesville (Northern Louisiana, around Shreveport), Woodford (Eastern Oklahoma), Antrim (Upper Michigan) and Bakken (North Dakota, spans border into Canada). Another rapidly developing shale play in the US is the Marcellus (stretching into Western Pennsylvania, Western New York, and West Virginia). There have been huge investments in the unconventional natural gas industry in the US and in 2008 alone, companies spent over \$28 billion in asset transactions, acquisitions and joint venture deals to acquire shale acreage. After major production increases in recent years by Chesapeake Energy, XTO Energy, Southwestern Energy and other major independent players in the unconventional gas industry, the novel extraction technology has proven to be free from significant technical risks. The success of these companies has attracted oil and gas companies that are looking to enter into these lucrative plays and can only do so through corporate mergers or asset acquisitions. With large companies from Europe and Asia eyeing the huge unconventional gas industry in North America, the overall level of investment in the industry is expected to increase as the world energy market starts to stabilize.

Corporate M&A Deals Will Drive Investment in 2010

The second half of 2008 was a highly volatile period for the global oil and gas industry. Following the high deal activity in 2007, global mergers, acquisitions and asset transactions started to fall in 2008. The fall in the commodity prices, the credit crisis which led to the financial crisis and the global economic recession decreased the appetite for deal activity by the end of 2008. Deteriorating asset values caused more financial difficulties leading to a decrease in the ability of the financial institutions to continue lending which is hindering the required investments across industries. The global economic slowdown resulted in reduced demand for oil and gas. As a natural response to the falling demand, the appetite for risk decreased leading to a low deal activity from the fourth quarter of 2008.

With crude oil prices stabilizing above \$75 a barrel, M&A activities are expected to increase in 2010 with the Chinese and Indian NOCs expected to be the major players. These companies will look to acquire overseas assets to expand their footprint and secure future energy supplies. The unconventional resource deposits will offer significant growth prospects and attract huge investments from both International Oil Companies (IOCs) and NOCs.

For further details, visit: www.globaldata.com

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[http://www.global-market-research-data.com/Report.aspx?ID=Global-Oil--Gas-Capital-Expenditure-Outlook--2010-National-Oil-Companies-\(NOCs\)-to-Drive-Investment](http://www.global-market-research-data.com/Report.aspx?ID=Global-Oil--Gas-Capital-Expenditure-Outlook--2010-National-Oil-Companies-(NOCs)-to-Drive-Investment)

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