

## Big Spenders

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The upstream boom may one day come to an end, but it doesn't look like that will happen this year. Forecasts for E&P spending predict another bullish year, with global demand continuing to drive efforts to increase supply, but access to resources and deciding exactly how to spend the money remain challenges. The industry's technical-staffing shortages also may be constraining efforts to increase output.

Global E&P expenditures should show another year of double-digit growth this year, according to a Lehman Brothers survey, one of the oldest and most widely followed annual upstream spending reports. The survey of 344 companies found that collective spending will rise 11% to USD 369 billion, the sixth consecutive year of double-digit increases. Excluding North America, spending will increase 16% to USD 267 billion.

Some of the big spenders this year will be Total (a 25% increase in upstream spending), BP (up 21%), Shell and Hess (up 15%), and Chevron (up 7%). Other big spenders are predicted to be companies from Russia, the Middle East, and Africa, along with North American independents, which are increasingly looking outside North America for reserves.

Similarly, a December survey by Citi Investment Research predicts a 9.3% increase in capital and exploration spending to USD 354 billion. Other upstream sectors also look bright. The offshore oilfield services sector is facing unprecedented levels of business, says Douglas-Westwood, an industry research firm. Companies that normally might have a 6-month backlog are now booking work for 2011, the firm says in its annual forecast.

"Virtually the only place where giant fields will be found in future years is in deep water, with Brazil's recent Tupi elephant find testament to that. Douglas-Westwood expects world deepwater production to grow from 6 million BOE/D in 2007 to 11 million BOE/D in 2011," the *The World Deepwater Report* says.

Almost USD 25 billion will be spent annually in deepwater capital expenditure by 2012, representing 30% growth for the 2008–2012 period in comparison with the previous 5 years. That is particularly driving demand for deepwater rigs, floating production systems, and subsea production hardware. "This drive to produce, what is very high-cost oil, from deep water is the oil companies' response to declining production in offshore continental shelf areas such as the North Sea and Gulf of Mexico" as well as the lack of access to onshore reserves controlled by national oil companies, the report said. The promise of Arctic waters, with estimates of up to 300 billion BOE, has resulted in a "great subsea land claim" involving Russia, Canada, and the US, the report says.

Companies may soon be struggling to keep up with global demand growth, fueled by the rapidly growing economies of China and India. Energy growth in those two countries seems to have led to the rise in worldwide energy consumption the past few years and the resultant rise in oil prices to near USD 100/bbl.

Several other challenges appear on the horizon beyond the unprecedented demand growth in Asia. The issue of climate change will almost certainly affect government energy policies over the next several years. And the relationship between international oil companies and national oil companies and what that means for access to reserves and speed of project development will certainly come into play. Perhaps the most critical issue to address is the looming retirements of industry staff in the coming years and the industry's ability to find, train, and retain talent.

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