

## NEWS RELEASE

Houston, 10 January 2008

### **Surging demand forecast for offshore energy services**

“The offshore oilfield services sector is facing unprecedented levels of business; some companies that might normally have a six-month backlog are now booking work for 2011. Recent \$100 oil has only served to add to the already massive demand for the products and services of firms that supply the offshore oil & gas companies. Suppliers are virtually beating off the customers, but demand continues to grow.

In his annual address to some 150 oil industry executives at the Society of Underwater Technology in Houston today, John Westwood, of energy business analysts Douglas-Westwood, delivered a portfolio of forecasts of future prospects for offshore energy industry business sectors.

#### **Deepwater**

He particularly highlighted deepwater oil & gas exploration and production (E&P). “Virtually the only place where giant fields will be found in future years is in deepwater, with Brazil’s recent Tupi elephant find is testament to that. Douglas-Westwood expects world deepwater production to grow from 6 million barrels of oil equivalent per day in 2007 to 11 mm boe/day in 2011.”

Quoting from *‘The World Deepwater Report’* he said that nearly \$25 billion will be spent annually in deepwater capital expenditure by 2012. This represents a 30% growth for the 2008-2012 period in comparison to the previous five years. “This will drive demand for deepwater drilling rigs, floating production systems, subsea production hardware and more,” said Westwood.

“This drive to produce, what is very high cost oil, from deepwater is the oil companies’ response to declining production in offshore continental shelf areas such as the North Sea and Gulf of Mexico and the increasingly onerous terms being sought by the biggest holders of on-shore oil reserves; the National Oil Companies (NOCs).

#### **Big oil’s future?**

“In the early 1970s some 80% of world oil reserves were controlled by the International Oil Companies (IOCs), but now the position has completely reversed with the NOCs holding the remaining 80%.

“On top of all this, even in shallow waters, the oil companies now face much higher costs. For example, per barrel lifting costs in the UK sector of the North Sea in 2005 was \$15, but by 2007 it had increased by 67% to \$25.

“There are literally hundreds of small undeveloped offshore fields worldwide but ‘big oil’ needs big fields. The remaining ‘easy oil’ and indeed gas is in hard places and is being strongly competed for by countries such as China, India and Russia. A recent example is Gazprom’s move to gain access to Nigerian gas reserves.

#### **Hard places**

“Another ‘hard place’ is Arctic waters where the prospects of massive reserves (estimates range from 160 – 300 billion barrels of oil equivalent) have resulted in a ‘great subsea land claim’ being played out by Russia, Canada and the US, against a spring 2009 deadline imposed by the United Nations Convention on Law of the Sea (UNCLOS).

“But even high oil prices bring problems. In the case of the integrated majors, the high oil prices that generate massive profits for their upstream operations are hurting their downstream refining margins.

“Times are due to get even more interesting – for some years Douglas-Westwood has been publishing forecasts suggesting that oil production could peak within the next few years – a view recently supported by the International Energy Agency.

# Douglas – Westwood

“In my view, big oil now needs a new business model and nothing demonstrates that more than oil company stock buybacks – this is paramount to saying investors can find a better return for the money than oil companies can. So the key question that remains is ‘where can big oil profitably re-invest’?”

## **Service sector success**

Oilfield services companies (OFS) have become an investor favourite. Douglas-Westwood’s index of 10 leading deepwater OFS companies has since November 2006 risen by 69%, whilst in comparison the FT oil & gas companies’ index has grown by 11%. Individual deepwater sector stars include drilling rig operator Transocean; up 105% and subsea flexible pipe manufacturer Wellstream; up 207%.

## **An exciting future**

“Offshore energy offers exciting growth prospects. Although presently focussed on oil & gas, the developing new sector of offshore renewable energy is now set for strong growth. In the past five-years a total of some \$2 billion has been spent installing offshore wind turbines. However, Douglas-Westwood’s forecast *The World Offshore Wind Report* states that that over the period 2008-2012, \$16 billion will be spent installing over 1,300 turbines with a power output of 4.5 GW.

“The real issue the offshore supply chain companies face is trying to keep pace with ever-increasing demand” said Westwood.

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## **Information for Editors:**

Douglas-Westwood Limited is renowned for its forecasting work in the energy industries, having served investment banks, energy industry players and contractors the world over. With over 500 assignments completed since formation in 1990 it has clients in 37 countries. In the past three years Douglas-Westwood has completed market due diligence on M&A and financing deals totalling \$7.5 billion.

John Westwood’s 60 slide SUT presentation can be downloaded from: [www.dw-1.com](http://www.dw-1.com)

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