Global Offshore Prospects

London & South of England Lunch & Learn

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Presentations were given by Westwood Global Energy covering three broad topics: (i) the macroeconomic energy outlook, (ii) forecasts for specific offshore sectors and (iii) a geographic focus. These topics were presented by, respectively, Boris Adokou, Kathryn Symes and Mark Adeosun with introductory and concluding remarks by Arindam Das. The event was chaired by Richard Binks of Business Waze.

The following is a summary of the issues that emerged during the presentation. Please note in this context that, at the time of this event, the outbreak of COVID-19 had only very recently been declared by the WHO as a global health emergency.

Macroeconomic energy outlook

- Regardless of when peak oil occurs, investment in hydrocarbons are needed to meet global demand.
- Geopolitical tailwinds have been the primary driver for oil prices, e.g. the attack on the Abqaiq oil refinery in Saud Arabia and the disruption to tankers passing through the Strait of Hormuz (one of the world's most important oil trading waterways).
- At present, operators are generating good cashflow but with modest upstream capex, while industry costs are still at a discount to where they were pre-June 2014.
- There is an expectation that global capex will increase over the next 5 years albeit the North Sea landscape is anticipated to be more uncertain. In this context, we are likely to see increased expenditure on deepwater developments. Opex will grow very marginally, which is in line with the ongoing fiscal discipline of operators.

Forecasts for specific offshore sectors

- There is unlikely to be significant growth in drilling activities – surface wells account for the majority of forecast drilling in the next 5 years.
- Expenditure on fixed platforms is likely to peak in 2022 then decline as operators seek to reduce costs.
- The market for MODUs and subsea vessels remains plagued by oversupply. Over the short term, new MODU orders will only be made on a replacement basis for retiring units. For the time being, there will continue to be a lull in new orders for subsea vessels.
- Expenditure on subsea hardware will be driven by the anticipated recovery in deepwater developments – however this is a sector where operators will seek to control capex through phased developments and by reducing complexity through use of standardised/simple designs

- Wind is likely to see the biggest growth, particularly in the key markets of the UK and Western Europe but also in the PRC. This is a sector where developing technology will lead to larger wind farms (both in terms of overall size and the size of individual turbines) and where we are likely to see more deepwater projects creating challenges for the infrastructure (specifically the inter-array and export cables).

Geographic focus

- Africa: there is likely to be significant investment over the course of the next five years with new frontiers offsetting near-term decline in investment in historical hotspots.
- Latin America: near and long-term investment will increase over the next five years. Brazil will continue to be the main player, however projects will continue to be delayed in light of low oil prices and the Petrobras corruption scandal.
- GOM: a very unique market where investment is likely to focus on fast track developments.
- Northwest Europe: with balanced investment over the near term, there are some upsides based on new discoveries in Norway as a result of aggressive exploration by Equinor. Rosebank and Cambo developments likely to be key to capex in the UKCS, albeit there are also many independents developing satellite fields.
- Rest of world: after a dearth of project sanctions in recent years, there will be a resurgence in Australian project FIDs in the short to medium term. While there is likely to be a loss of investment in the Middle East, the Aphrodite development will drive the Eastern Mediterranean market.

Concluding remarks

- In the short term, 2020 will see a sector specific ramp up in activity.
- Oil prices will continue to be subdued in the near term, possibly around USD60-65 in 2020.
- While there are many moving pieces with the potential to affect pricing, including the COVID-19 outbreak and cracks in the production of US shale, the discipline of OPEC (in stockpiling) means that reserves exist to deal with crisis situations.
- Increases in the price of oil will also be limited by competition from other sources, in particular wind.