Bullish in the US

The oil majors are generally more confident about the investment outlook than their smaller rivals. Over the next two years the US firm ConocoPhillips plans to execute a US$28bn capital programme, almost 90% of which has been allocated to exploration and production (E&P) supporting the company's 100%-plus reserve replacement target.

In geographical terms, the US is absorbing the largest amounts of capital in the current market. According to Barclays Capital, it pulled in 21% of US$529bn in global E&P spend in 2011, with the capital commitment of US$110.7bn representing an 18% increase over 2010 spending levels.

Companies with large international portfolios are in the midst of ambitious capital expenditure (capex) programmes. Occidental Petroleum, the fourth-largest US oil and gas company, revealed a 56% increase in 2011 capital spending to US$6.1bn, which will increase further as the company proceeds with its extremely capital-intensive Shah sour gas development in the UAE offshore with Abu Dhabi National Oil Co (Adnoc).

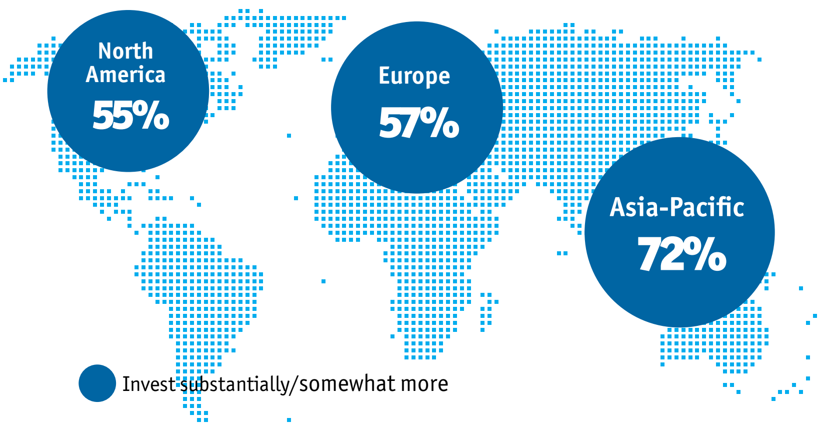
Big spending from NOCs

Meanwhile, many national oil companies (NOCs) also look likely to go on spending in 2012. In Europe, Norway's giant Statoil will continue to invest at a high level, "to mature our attractive portfolio and realise our strategy for growth towards 2020", according to the company's CEO, Helge Lund. And in Russia, Rosneft has said that it will boost its investment programme for the year by 35% to approximately US$15bn as part of its push to upgrade refineries.

Figure 8

Q Does your company plan to make more or less capital investment in dollar terms over the next 12 months?

(% respondents)



Source: Economist Intelligence Unit

In South America, Brazil's market-leading giant Petrobras is planning a 24% increase in spending, much of it focused on its deepwater reserves in the Atlantic, and Mexico's state-owned oil company Pemex is also lavishing large sums on an expanded offshore drilling programme.

There is, however, evidence of a more cautious approach in the Middle East. For example, Carl Sheldon, the CEO of Abu Dhabi National Energy Company (TAQA), sees the company spending US$2bn in 2012, a small increase on the previous year: "Essentially we have a capital spending programme that started in 2010 and goes up to 2013. For each of those years we'll spend roughly US$2bn each year in five major programmes – drilling in Western Canada, drilling in the North Sea, the Bergermeer gas storage project in the Netherlands and two power projects in Morocco and Ghana."

Like other companies, TAQA is prepared to cut spending should the price climate become less inviting. "If prices went south in a big way it is pretty easy for us to toggle our Canadian expenditure down, because we drill a lot of wells in the onshore. We drill 70-100 wells a season in Canada, whereas in the North Sea we might drill just 8-12," says Mr Sheldon.

The threat of another major downturn in the global economy could see this happening, warns Hamid Gayibov, the managing director of Xenon Capital Partners, which advises on Russian energy merger and acquisition (M&A) deals. "I do see there being some increase in capex, and the momentum is there. However, there is big uncertainty regarding the global oil market, and if there is a major dislocation in the global economy, we could see the oil price collapsing and fundamentals continuing to weaken. In that event there will be little incentive for Russian oil companies to increase investment."

This sense of caution contrasts with the generally positive view of industry fundamentals outlined by the international majors. Statoil's Mr Lund, for example, argues that the industry remains fundamentally attractive, with energy demand growing.

The overall message is that for those plays where the economics are supportive, oil companies will continue to spend big in 2012. There remains a big caveat, however: if global economic conditions were to foment, oil and gas companies, whether big or small, would have to scale back their spending commitments in those areas where they can do so without creating damage to their wider portfolio.