OIL

Drillers expected to come back 'very picky,' less risky

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HOUSTON — The end of this decade is shaping up to be a very promising one for international oil and gas companies.

That's the view of executives and experts gathered here this week for an annual meeting of the Association of International Petroleum Negotiators.

The oil price bust has been a mean one, they all agree, but the survivors are poised to thrive in the buyer's market for drilling prospects that's coming.

This wasn't evident when companies were busy slashing payrolls and struggling to avoid bankruptcy. But those with a longer view realize that, while oil prices may not rise much higher than $60 per barrel for the foreseeable future, new technologies and the streamlining of processes in horizontal drilling and hydraulic fracturing in the U.S. make the business of drilling profitable at even current prices. The technology curve is expected to only bend more favorably for companies moving forward to 2020.

Meanwhile, advances in seismic surveying, shale oil extraction and deepwater offshore drilling open up a vast number of new areas for exploration, and companies will have their pick. They are likely to direct their investments to areas with stable, friendly governments and transparent rules and regulations, analysts predict. When crude was at $100 per barrel, governments could set the terms, but not anymore.

Efforts by Mexico, Brazil, Iraq and other oil provinces to sweeten the terms for foreign oil interests is no accident, said Robert Johnston, president of the Eurasia Group, a global risk management and consulting firm.

The change is a common one seen during the oscillations of the crude oil price, he said. When the price is high, governments can be more demanding and extract more of the wealth from drilling. When prices are low, governments wishing to entice drillers must deliver the sunshine instead.

This favorable bargaining position is poised to linger for some time and will become obvious when oil companies are ready to invest overseas in a big way again, Johnston said. By 2020, demand will outstrip supply, his company estimates, creating an even more favorable environment for companies negotiating terms with governments.

"We're going to see a comeback in the long-cycle investments in the deepwater and in the oil sands and in higher-cost onshore projects," he said. "But capital, industry capital, is going to be very picky about where they invest.

"What we see our clients looking for, both on the Wall Street side and industry side, is looking for upstream opportunities in low-political-risk markets, countries where technology can be put to work and innovations can be put to work, and where there are brownfield opportunities," Johnston added. "We see a lot less interest in mega-greenfield exploration plays in politically unstable markets."

Drillers' dollars, including the U.S., will probably flow most generously to the Western Hemisphere, Johnston predicts, with the exception of Venezuela. His company sees Brazil and Colombia as particularly poised to benefit. It is widely believed that oil and gas foreign direct investment is poised to boom in Mexico, but the Eurasia Group fears a shift in Mexican politics to the left as a consequence of the election victory of President Trump and what that may mean for future North American energy integration.

Mexico experts generally disagree, seeing any new government proceeding with Mexico's historic energy reforms without discriminating against foreign companies.

Still, the Eurasia Group's forecast has North and South America largely winning out in the race to attracting oil and gas cash. Countries suffering internal instability will be largely shunned. And sanctions on Russian energy investment will remain in place, which could lead to falling oil production in Russia during the coming decade, Johnston warned.

On his larger point, some top executives are in agreement.

Al Walker, CEO of Anadarko Petroleum Corp., said the industry has much greater bargaining power than before. He sees this condition lingering, arguing that oil prices are unlikely to return to new heights anytime soon, and governments seeking energy investment will come to understand this.

"I don't see it kind of moving past $60 for the next decade," said Walker. "If they want to attract foreign capital, then the economic impetus has got to change.

"The leverage is moving back to those that want to do things internationally," Walker added.

The price of a barrel of oil doesn't matter for companies as much as their profit margins, and new technology will allow companies to be plenty profitable with $60 crude, he said. Meanwhile, the recent oil price crash has left Anadarko and its peer companies wary of expensive, long-cycle investments, Walker noted, so the industry will likely gravitate to areas of more favorable geology and with existing energy infrastructure to tie into.

Good times ahead for Americas

Johnston's presentation centered on the future of the industry boding best in the U.S. and Latin America. He said the recent "Canadianization" of the oil sands — properties coming to be concentrated in the hands of Canadian oil companies — is a good thing, as it will see those companies most familiar with oil sands assets bringing technology to bear in order to make projects work at lower oil prices.

Africa may lose out, he conceded, though he cautioned that some African nations may perform better than others in efforts to attract foreign investment. Nations of the former Soviet Union may also experience complications with attracting capital investments, Johnston predicts, particularly for the mega-projects that supermajor oil companies once were keen on in that region.

Governments are already getting the message.

"I think Brazil is in a post-resource nationalist model," Johnston explained.

João Vieira, director of exploration and production at Brazil's Ministry of Mines and Energy, said his government's fevered efforts to make the math work for international oil companies will continue. Those terms may become even more favorable as internal discussion and reform moves ahead, he said. Brazil holds enormous hydrocarbon potential, especially in its offshore presalt province.

A hard pendulum swing from resource nationalism to a more open market approach "is exactly what happened to Brazil," Vieira said. "We need foreign investment."

Industry knows this.

"Economic trends are coming our way," said Anadarko CEO Walker. "I think we are just at the forefront of that development."

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