Oil industry revives quest for deepwater reserves

Oil price, low service cost boost offshore exploration

HOUSTON: Deepwater oil drilling can be expensive, time-consuming and a hard sell to investors. But the world's top energy firms are restarting their search for giant oilfields under the ocean after a two-year lull. A recovery in oil prices to about $50 a barrel from a 12-year low in 2016 is reviving oil majors' appetite for risk.

Reductions in offshore production costs mean that some projects may be able to compete with North American shale fields, executives said at an energy conference in Houston this week.

The recovery in the industry has so far been focused on onshore shale output from the largest US oilfield, the Permian Basin. "Our competition over the past years has evolved from 'we want to be the best in deepwater' to 'we want to compete with shale' to 'we want to beat the Permian'," Wael Sawan, Royal Dutch Shell's executive vice president for deepwater, said in an interview.

Shell is the largest deepwater producer among the world's top publicly traded oil companies and is set to pump 900,000 barrels per day (bpd) from such projects by the end of the decade.

Firms such as Shell and Exxon Mobil, who specialize in complex offshore exploration, slashed budgets after oil prices collapsed in 2014. Spending cuts were so drastic that the Paris-based International Energy Agency warned this week of a looming supply crunch beyond 2020.

Shell has cut well costs by at least 50 percent, reduced logistics cost by three quarters and cut staff by nearly a third to make developments in areas such as the Gulf of Mexico and Nigeria profitable at oil prices below $40 a barrel, on par with the most profitable shale wells, Sawan said. Other companies such as France's Total have seen similar cost cuts.

Sniper focus

After cutting the cost of deepwater development, companies are also reviving the search for new resources. They are focusing exploration efforts on areas close to existing fields to maximize the chances of discovery and minimize costs. Many such areas are in Brazil, the Gulf of Mexico and Southeast Asia. "It is a very selective, sniper focus," Sawan said.

Some firms are poised to benefit from decreased competition, lower costs of marine seismic studies and drilling rigs, and cheaper opportunities to acquire exploration licences from governments eager to attract investment. "Right now, we've entered the best time in the last decade to be in the exploration business," Gregory Hebertson, who heads Murphy's western hemisphere exploration, said at the CERAWeek conference in Houston.

"There is probably a two- or three-year window that we can capture the cost efficiency in the market."

Discovering new resources is essential for oil firms to grow and to offset natural decline of fields. But deepwater exploration requires money, time, expertise - and luck. Some shareholders would prefer that oil firms stick to other, less risky growth options, said Federico Arisi Rota, executive vice president Americas for Italy's Eni, which operates major offshore drilling projects.

"We must compete with alternative growth options that might be considered more attractive," such as growth through mergers and acquisitions or investing in shale oil production, Rota said.

Pressure to limit company spending amid a slow recovery in oil prices is also putting a break on big exploration campaigns. "We know exploration spending is not always appreciated by investors," Kevin McLachlan, head of exploration for Total said.

Riskier plans

Eni is considered one of the most successful explorers after the discovery of giant gas fields in Egypt in recent years. It aims at discovering 2 to 3 billion barrels of oil and gas this year through drilling 115 offshore wells near Africa, Mexico, Norway and Asia, Rota said. A "more aggressive" exploration program is planned to start in 2018 in riskier and more expensive regions such as the Arctic, which offer the potential big discoveries, he said.

Deepwater resources will be required to keep up with the growing demand, regardless of output growth in shale oil fields, Total's McLachlan said. Such projects are "key to our long-term plan, and we believe it is the same for the industry no matter the near-term focus on the Permian," McLachlan said, referring to the largest US oilfield in west Texas.

Hess Corp Chief Executive John Hess said the company's Liza development, off the coast of Guyana, was crucial to his company's growth potential and estimated to have as much as 2 billion barrels of oil. "This is one of the largest oil discoveries in the last 10 years," Hess said in an interview.— Reuters

Spanish GDP taking a hit from Brexit

MADRID: Britain's exit from the European Union will trim 0.2-0.4 percentage points off Spain's gross domestic product growth, according to a government report published yesterday by daily newspaper El Pais.

Spain's top priority in Brexit talks will be to keep workers moving freely between both countries, the report, prepared by Madrid's representation to the EU, added. Britain and Spain have strong trade and investment links and the report said the Spanish economy would "suffer negative consequences" from Brexit.

It said Spanish exports to Britain would fall by 464 million euros ($490 million) per year under the best-case scenario which the report defined as Madrid reaching a bilateral trade agreement with London after Brexit. But the report said the fall in exports could reach as much as one billion euros per year, with the food and auto sectors especially hard-hit.

Brexit could cause Spain's economic output to fall by two and four billion euros per year, the equivalent of a fall of between 0.2 and 0.4 percentage points in its gross domestic product, it added.

Britain is the biggest destination for Spanish investment abroad and is Spain's main source of foreign visitors. Spanish banks such as Santander play leading roles in British finance while Spanish service providers like Telefonica and construction firm FCC have significant holdings in the country.

Santander generates 12 percent of its revenues in Britain and the country accounts for 30 percent of Telefonica's earnings, according to the report. It said there are 102,498 Spanish nationals living in Britain and 391,000 Britons living in Spain, including 105,000 pensioners who cost Spain's public health system around 250 million euros per year. — AFP

China's debt 'too high,' must be controlled: CB

BEIJING: China's central bank governor said yesterday the country needs to get soaring corporate debt under control but its economy and currency are stable and the decline in its foreign exchange reserves is no cause for concern.

Zhou Xiaochuan's comments at a news conference held during China's national legislature follows warnings a rapid rise in debt could lead to financial trouble. Beijing is trying to reduce reliance on credit and to clear away debts of state companies but private sector analysts say it needs to move faster.

"The leverage of non-financial enterprises in the whole society is too high," said Zhou. "First of all, (debt levels of) every business, especially those with leverage that already is too high, have to be controlled." Zhou gave no indication he foresaw a financial crisis. But his chief deputy, sitting beside Zhou, echoed warnings by private sector analysts that debt could drag on economic growth or threaten financial stability.

"The continued increase of leverage is not conducive to the sustainable development of the economy and accumulates certain risks," said Yi Gang. China has relied on repeated infusions of credit to support growth in the world's second-largest economy since the 2008 financial crisis. That has boosted its total debt from the equivalent of about 150 percent of annual economic output pre-crisis to more than 260 percent today. The country's top economic official,

This photo taken on Thursday shows a Chinese vendor selling sweet potatoes at a street market in Shenyang, northeast China's Liaoning province. —AFP

Premier Li Keqiang, called for attention to debt in a speech to the legislature Sunday but said the financial system is healthy.

Zhou also tried to quiet financial market concerns about the outlook for China's currency, the yuan. Expectations the yuan would be allowed to weaken against the dollar prompted an outflow of money starting in late 2015, which led Beijing to tighten controls on capital movement. That has prompted concern Chinese acquisitions abroad might be hampered if buyers cannot move money out of the country.

"We believe this year the Chinese economy will be relatively stable," Zhou said. "Under such circumstances, this year's exchange rate should be relatively stable." The central bank plans no major policy changes but regulation will be "more meticulous," said Zhou. Zhou also tried to dispel concern about the decline in China's multitrillion-dollar foreign reserves to just over $3 trillion in February from a peak of nearly $4 trillion in 2014. The central bank spent reserves to prop up the yuan's exchange rate.

"The decline in the foreign exchange reserves is also a normal phenomenon, because we did not originally want so much," said Zhou. "So an appropriate decline is not something bad." Zhou defended the investment controls as a curb on purchases of assets that are "unsuited to the industrial policy needs of the country." He cited sports, entertainment and other areas where Chinese investors have been spending heavily. "These have not much benefit to China," he said. "So we consider a certain degree of policy guidance necessary and effective." — AP