



# Oil and gas market and industry outlook

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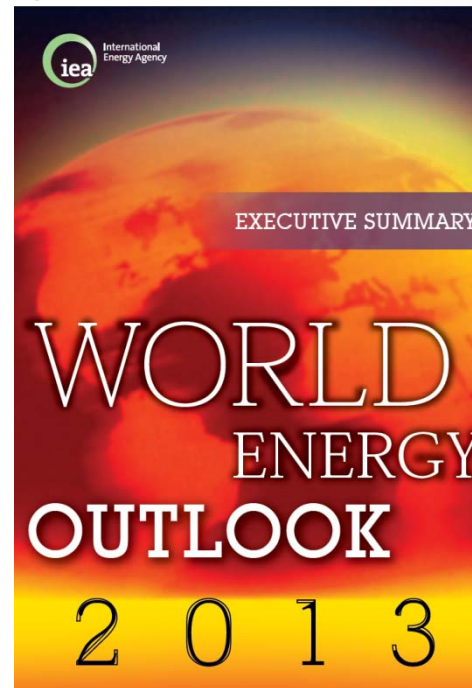


Presentation for Petoro  
Stavanger, 19 May 2014

# Global energy outlook

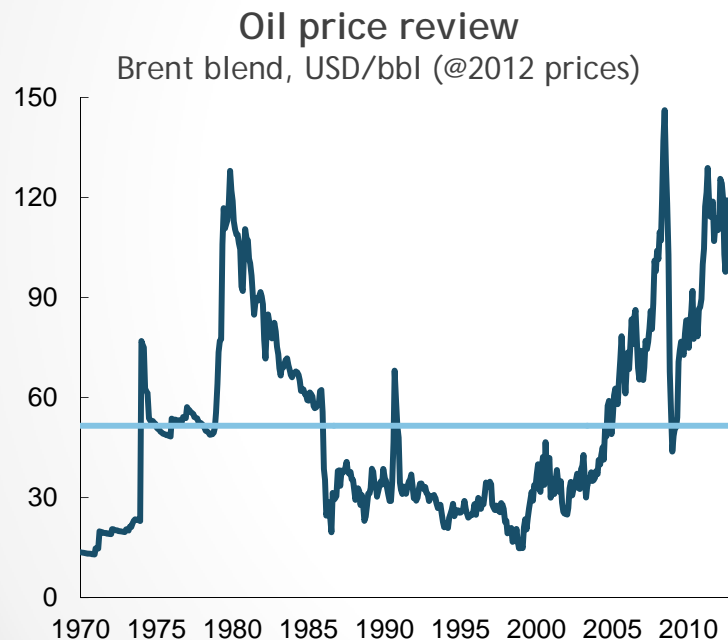
Pressures are building, no resolution in sight

- Record-high oil price...
  - Dampened activity and demand
  - Higher investment and production
- ... cause market change...
  - Unconventional oil and gas
  - Setback for nuclear energy
  - Focus on energy efficiency
- ...and instability challenge
  - Fossil fuels are heavily subsidised
  - GHG emissions are yet to peak
  - 1.3 bn people still lack electricity
  - Water is increasingly scarce



# The oil price matters...

... for demand, supply, and future price dynamics



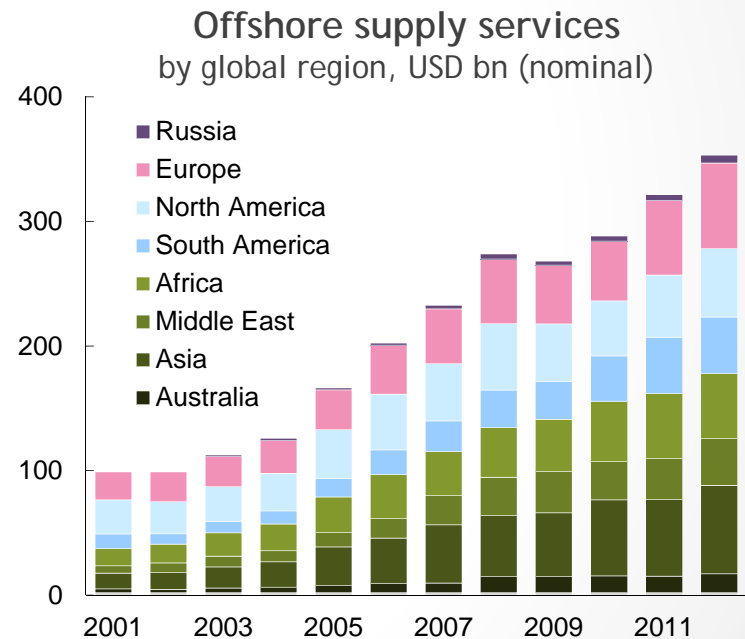
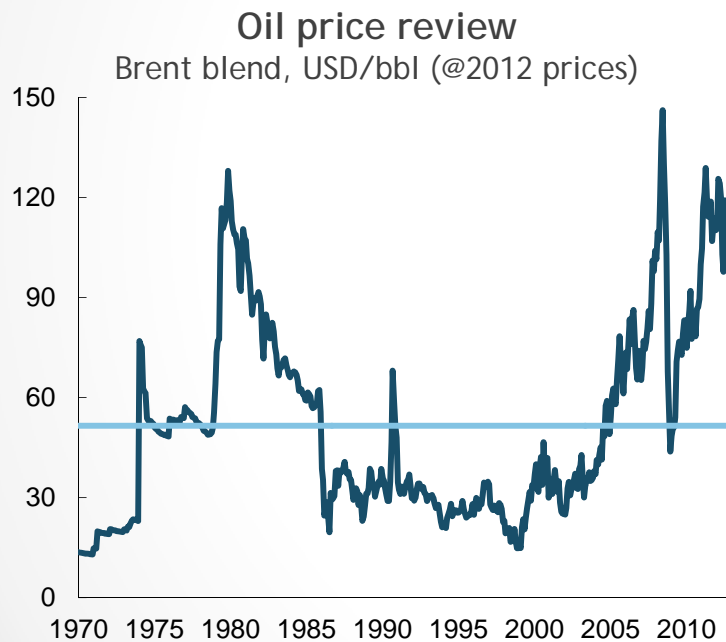
- 4-fold increase since 2000
- Impact on demand
  - Income effect
  - Substitution effect
  - Policy response
- Impact on supply
  - Conventionals
  - Unconventionals
- New technologies



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# The oil price matters...

... for demand, supply, and future price dynamics

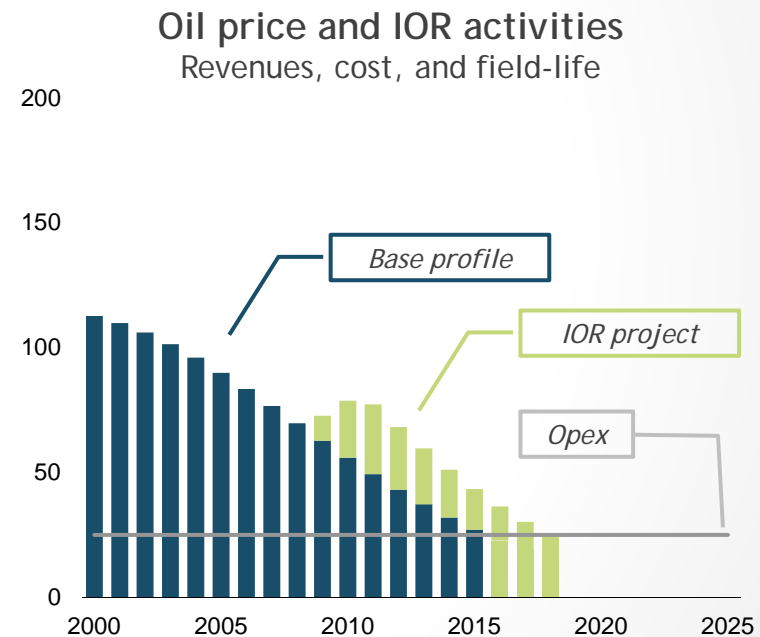
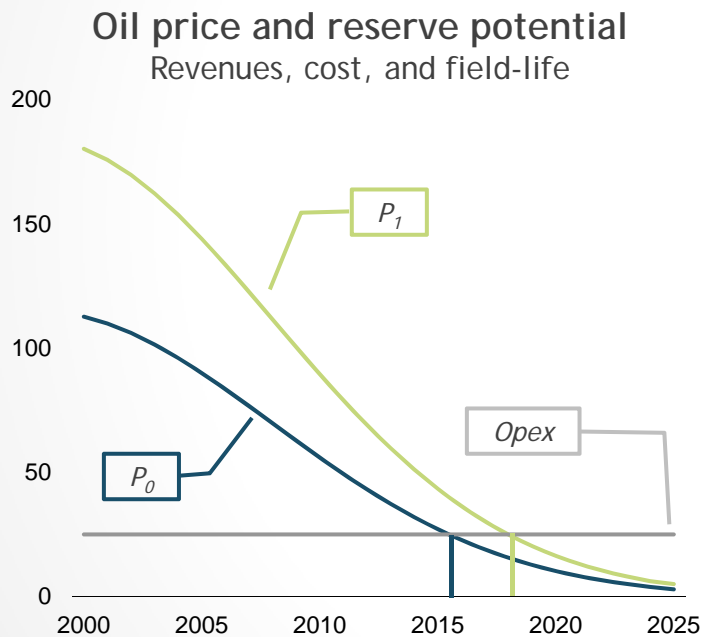


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Source: Norwegian Petroleum Directorate, Norges Bank Investment Management, author's calculations (GPF projections).

# The oil price matters...

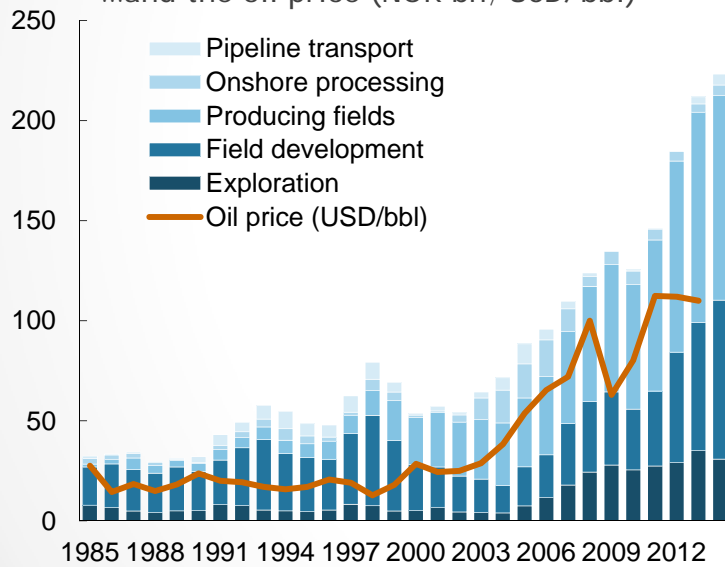
... for activity, production, and recoverable reserves



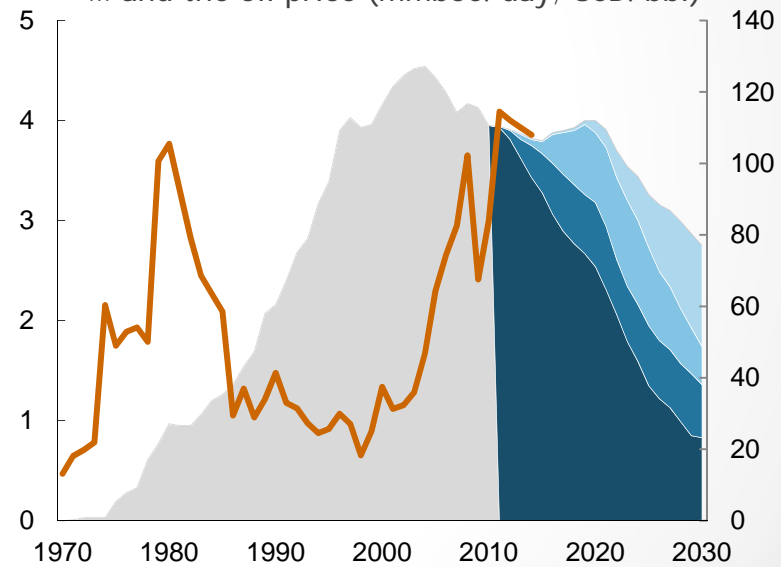
# The oil price matters...

... for NCS activity, production, revenues - and costs

NCS oil and gas investments...  
...and the oil price (NOK bn; USD/bbl)



NCS oil and gas production...  
... and the oil price (mmboe/day; USD/bbl)



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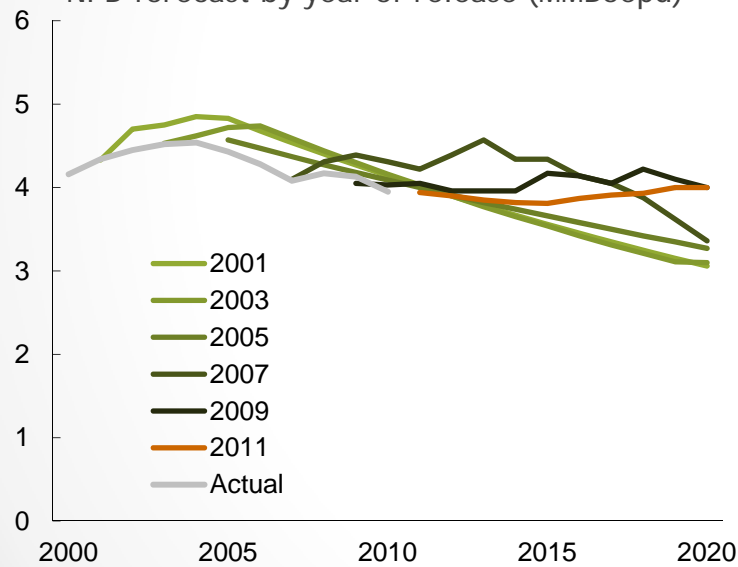
Source: Statistics Norway, Norwegian Petroleum Directorate, Reuters EcoWin.

# The oil price matters...

... for NPD expectations

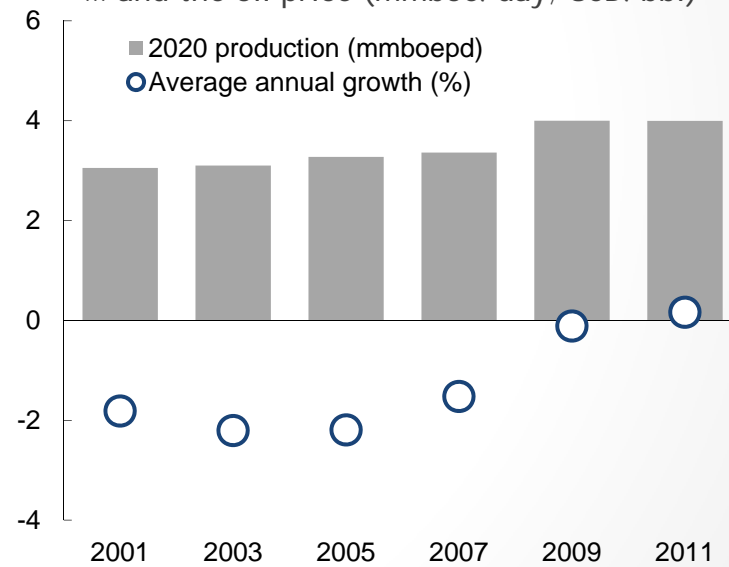
### Outlook for NCS oil and gas production

NPD forecast by year of release (MMBoepd)



### NCS oil and gas production...

... and the oil price (mmboe/day; USD/bbl)



# IOC returns fall short of expectations

Unimpressive share price developments



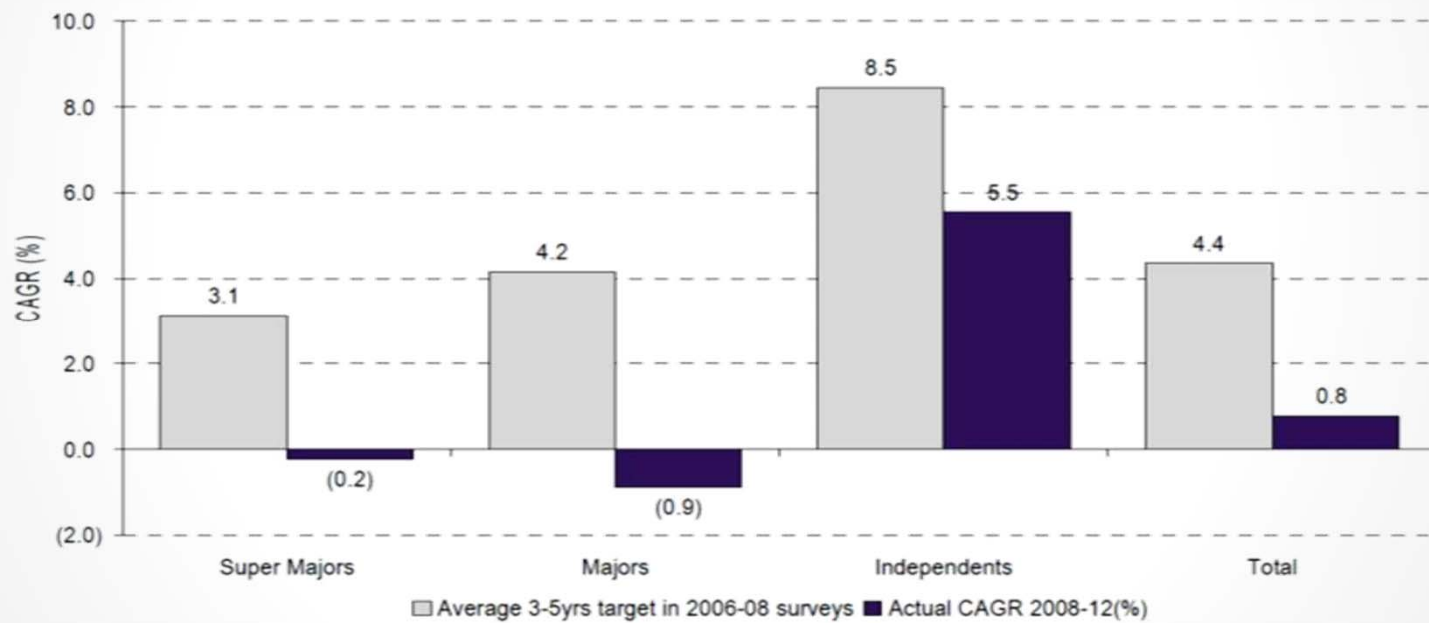
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Source: <http://www.statoil.com/IR>.



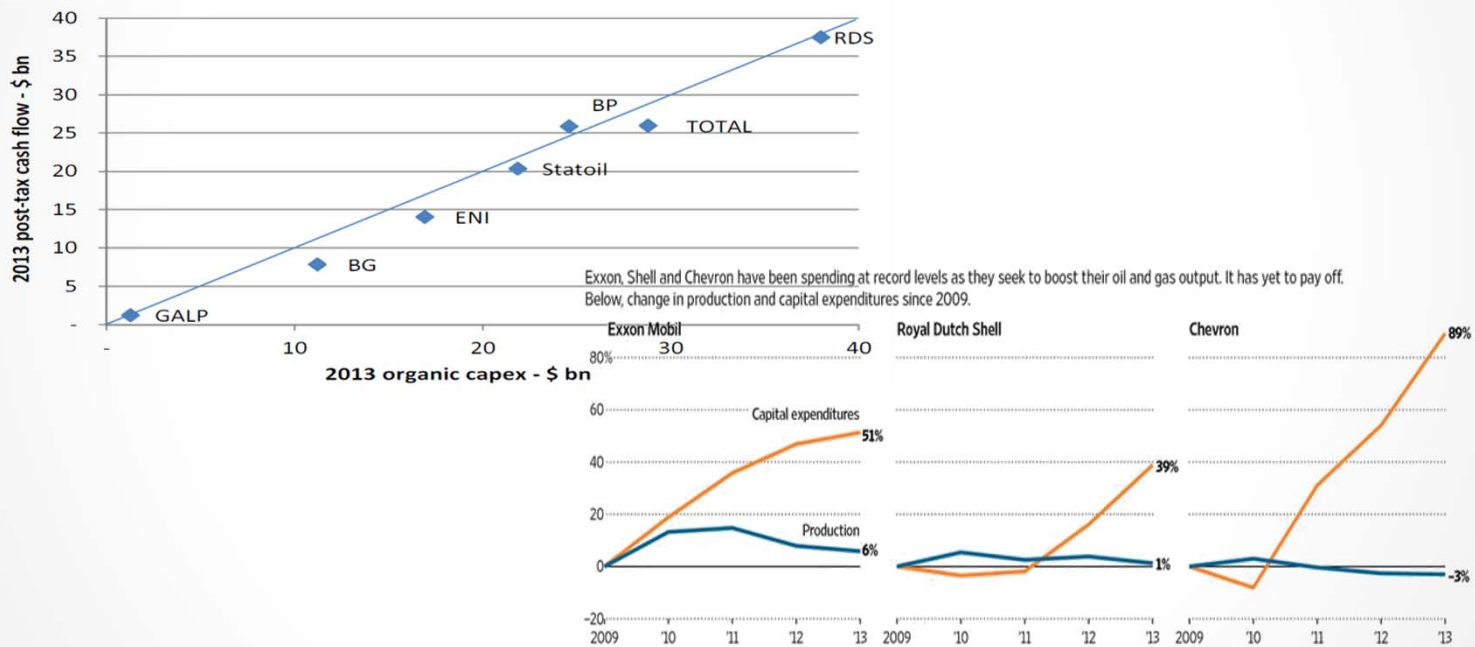
# IOC production falls short of promises

Production growth versus targeted growth last four years



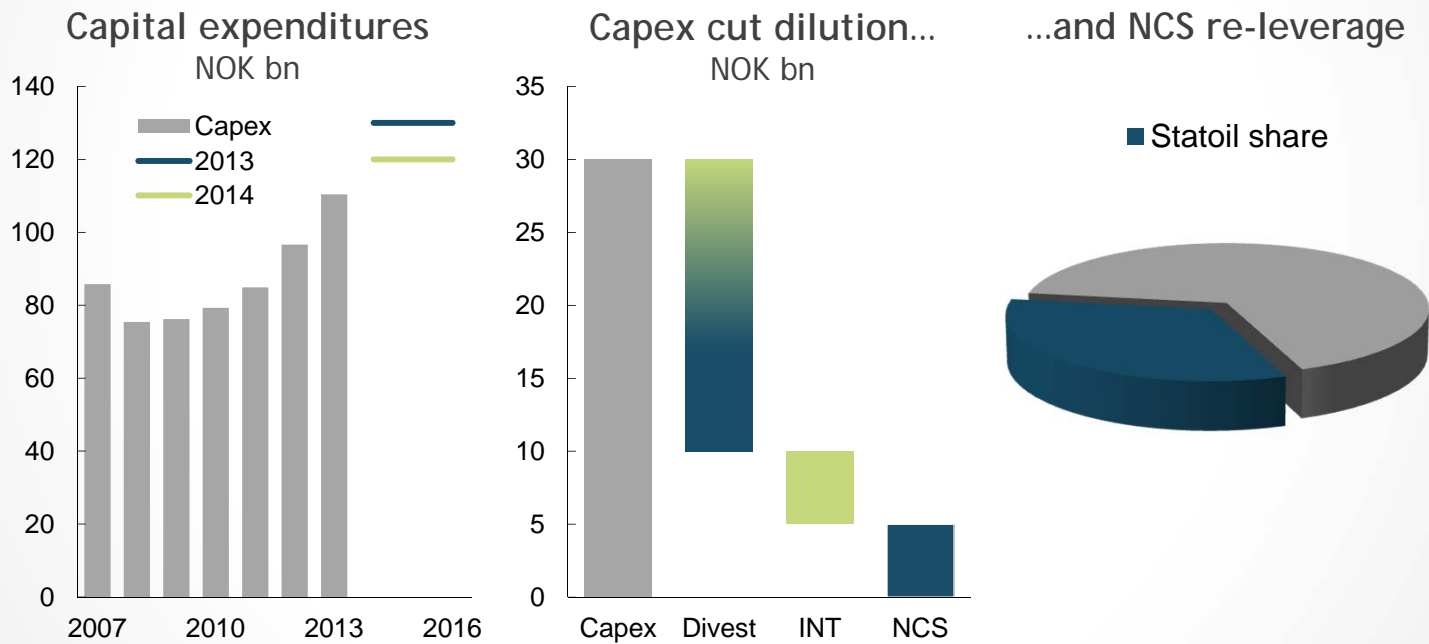
# IOC cash-flows fall short of investments

Only BP funded its capex with cash-flow in 2013



# Statoil's revised capex plans

Tracing the NCS activity impact: A thought experiment

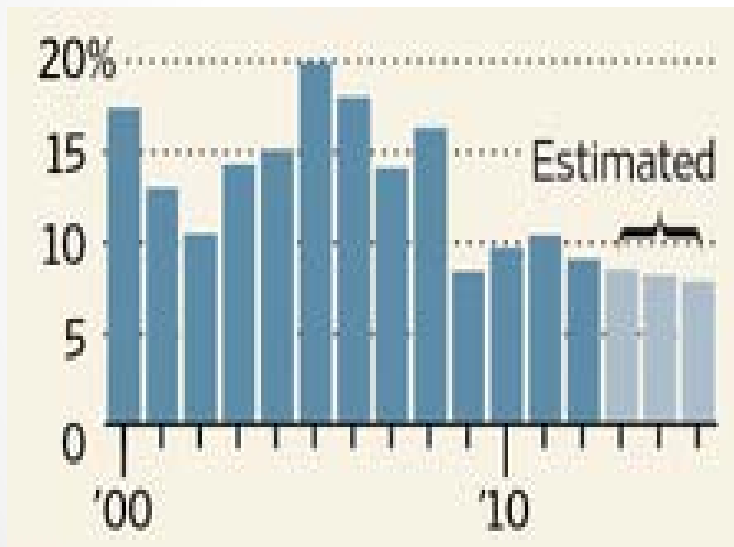


# IOC short-term challenge: Profitability

Increasing focus on cash-flow management and capital discipline

## “Leaking profits”

Return on capital employed for major oil companies



- Shareholder skepticism
  - Production short of targets
  - Sky-rocketing costs
  - Erosion of returns
- Worries over oil price outlook
  - Weak economic growth
  - New floods of supplies
  - Policy uncertainty looms
- Business model under pressure
  - Scarcity and access dilemmas
  - «Carbon bubble» challenge
- “Cash is King!”



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Source: Citibank (chart).

# IOC long-term challenge: Growth

Will the world turn its back on fossil fuels?



- Energy and climate policies
- Role of oil in transport
- Eastward bound energy
- Shale gale globalisation
- Emerging technologies
- Access, returns, and risk
- Changes in OPEC behaviour

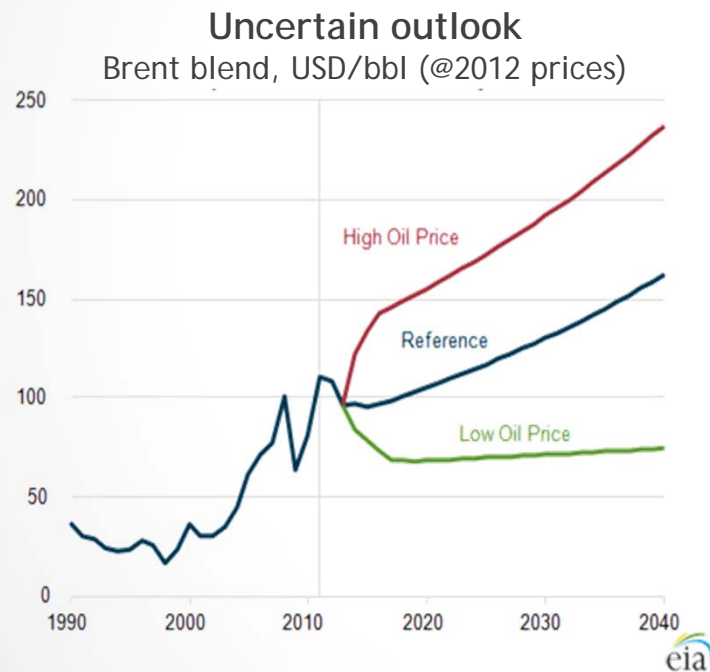


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Source: Mitchell, John, Marcel, Valerie and Beth Mitchell. 2012. «What next for the oil and gas industry?». Chatham House. October 2012.

# Concluding remarks

Build resilience, prepare for change



- Energy is getting more expensive
- Oil price outlook is very uncertain
- Oil price drives activity and cost
- Boom arrested by market concerns
- New shocks and cycles in the cards
- IOC business model under pressure



# Thank you for your attention!

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