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### Oil Industry Cranks Up Spending

### Big Jump in Capital-Expenditure Budgets for 2011 Signals Rising Demand, Rebound in Fuel Prices

By [RUSSELL GOLD](#)

The global oil industry—far from chastened by the catastrophic U.S. Gulf of Mexico spill—is planning record spending next year, including a large amount for deep-water development.

From giants Saudi Aramco and [Exxon Mobil](#) Corp. to five-person wildcat outfits, the industry plans to spend nearly a half-trillion dollars next year to find and extract oil and natural gas, according to a new survey by investment bank Barclays Capital.

For the first time in several years, large Western oil companies are leading the industry's charge, increasing their budgets faster than the state-run national oil companies that have dominated spending in recent years.

"This is being driven by the appetite to find more oil, comfort that today's oil prices will be sustained and companies getting out of a hunker-down, recession mode," said James West, an energy analyst with Barclays, who co-authored the survey, which has been produced every year since 1982.

Barclays estimates spending on new wells, producing platforms and other energy infrastructure will total \$490 billion next year, up 11% from 2010. The figure is based on a survey of 402 companies. In part, the planned spending increases reflect the higher costs for finding and extracting oil in harder-to-access areas.

The price of crude oil closed above \$90 per barrel on the New York Mercantile Exchange last Wednesday for the first since October 2008 and has held above that mark in the days after the Christmas holiday break.

The largest producers, a club that includes Exxon, [Royal Dutch Shell](#) PLC, [Chevron](#) Corp. and [BP](#) PLC, are expected to increase spending by 16% to \$108.6 billion, according to Barclays. A decade ago, these companies were slow to ramp up spending after an oil-price slump and ended up paying more for drilling rigs and other services. This time, they appear committed to not making the same mistake.

Chevron, which announced a 29% increase in spending earlier this month, cited a desire to develop several large, offshore projects in Western Australia, the South China Sea and the Gulf of Mexico, despite a slowed regulatory-permitting process in the U.S. after the April 20 explosion of the Deepwater Horizon drilling rig. Some other large producers have yet to disclose 2011 spending plans.



The gulf oil spill—from a well operated by BP—hasn't dented Chevron's belief it can drill deep-water wells safely. "It doesn't slow us down because the demand is there and we need to harness

the resources available to us," said spokesman Kurt Glaubitz.

*European Pressphoto Agency*

Petrobras's capital spending will top all others. A platform off Brazil in October.

Deep-water drilling is expected to swallow an ever greater portion of oil companies' spending. A couple years ago, as oil prices soared above \$100 a barrel, the industry was emboldened to order many new drilling rigs capable of operating in thousands of feet of water.

Twenty five new deep-water rigs came out of shipyards this year—and another 35 are expected in 2011. A moratorium stopped deep-water drilling in the Gulf of Mexico for five months and new drilling is still slow to get approved. But activity in other parts of the globe continues largely unabated.

Rio de Janeiro-based [Petroleo Brasileiro SA](#) is expected to budget \$28.2 billion for capital costs—the most of any company, according to Barclays. The lion's share is slated for development of its recently discovered deep-water oil fields off Brazil's Atlantic coast.

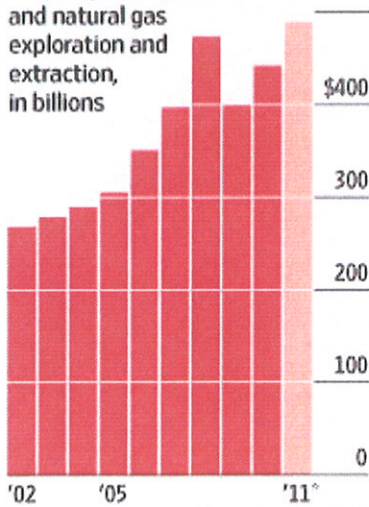
Oil companies are emboldened by the



slowly rising crude prices. The Organization for Petroleum Exporting Countries, meeting earlier this month in Ecuador, showed no desire to increase production, a move the group would typically consider if it felt that high oil prices could stymie economic growth.

## Big Oil, Big Checkbook

Global spending on oil and natural gas exploration and extraction, in billions



And a recent survey of oil companies indicated an increasing confidence that prices in 2011 will be robust. Many analysts now expect crude prices to move above \$100 a barrel next year.

As the global appetite for energy rises, led by Asian economies, the increased spending for new supplies is being seen as a good sign.

"Higher investment now will mean lower prices than they would otherwise be in the future," said Michael Levi, a senior fellow for energy and the environment at the Council on Foreign Relations. "I am more worried about low capital investment than high capital investment."

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