

News release

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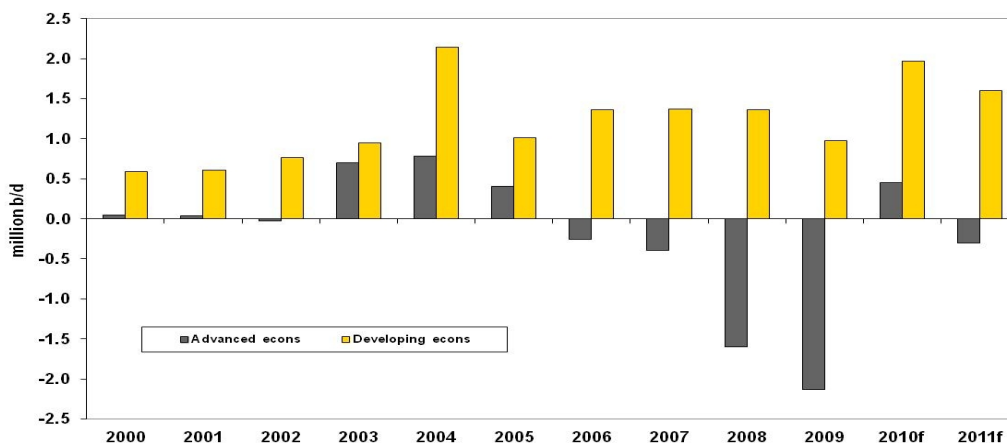
2010 closes with second biggest oil demand increase in 30 years

- Demand and prices expected to increase further in 2011
- Disconnect between oil and gas prices

LONDON (24 January 2011) — Strong global economic growth at the close of 2010 created the second biggest demand spike in the past 30 years, according to Ernst & Young’s Oil & Gas quarterly report. Demand is expected to continue to increase, though less dramatically, in 2011 and there is a possibility oil prices may top US\$100 per barrel in the first quarter of 2011.

Dale Nijoka, Ernst & Young’s Global Leader for Oil & Gas, says: “Spare production and new refining capacity should be ample to absorb short-term demand growth. However, if developed markets really start moving forward this year, there will be oil demand implications. With oil prices likely to tip over US\$100 per barrel, we’re continuing to see a big disconnect between oil and gas prices.”

Global oil demand growth



Oil

The last quarter of 2010 saw the greatest spike in demand the world has experienced since 2004, and the second greatest since 1980. While demand is anticipated to continue growing as the market improves, the rate of increase is not likely to be as dramatic as year-end 2010. Unknowns, including economic improvement in Europe and demand from China and India, will significantly impact the demand picture.

Continued increasing energy demand and higher oil prices would create an opportunity for alternatives to oil and thus a ripe environment for marked increases in natural gas use and the development of alternative and renewable energy sources.

Gas

Strong growth in shale gas production, oversupply in the market and low prices continue to plague natural gas producers. In order to capitalize on higher oil prices, there has been a marked shift in shale production from gas to liquids. This could somewhat ease the flood of natural gas in the market. Additionally, growth in demand could come if we see support build for natural gas as a transportation fuel or if carbon emissions are further regulated. And, until the price of gas goes up, alternative energy providers are not able to compete without significant subsidies.

Downstream

Following 2009, a year characterized by record-low margins, the first half of 2010 was a marked improvement for the downstream sector. However, margins fell very quickly for refiners in the summer, after the spring peak and by the third quarter, margins were making gains once again. The segment finished strong last year, indicating that it may have rebounded from the bottom. With ample capacity and more expansions and re-openings coming online in the near future, the downstream industry is well positioned to respond to demand increases.

Oilfield services

With spending increases pushing 20% in 2010, the oilfield services sector had a good year, and 2011 is shaping up to be even busier. Recent spending plans announced by major integrated companies, including ExxonMobil, Shell and Chevron, indicate the industry is eager to ramp up investment in an effort to meet demand. However, regulatory uncertainty surrounding offshore production in certain geographies and hydraulic fracturing in relation to shale gas will continue to impact operators' long-term planning abilities.

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