

2016 Top Markets Report

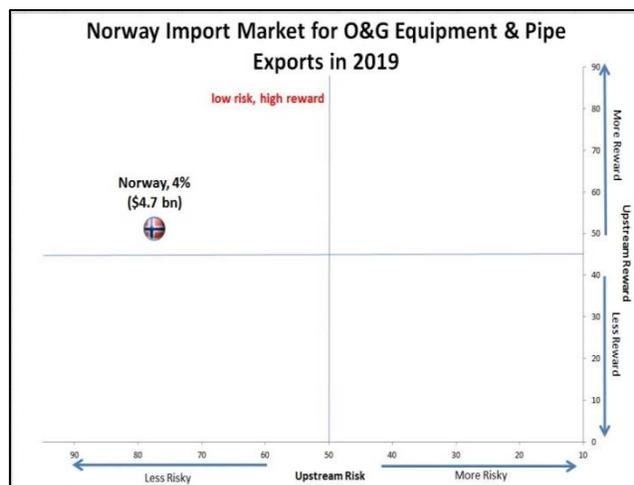
Upstream Oil and Gas Equipment

Country Case Study

Norway

Overall Rank: 8

Despite the low price of oil and overall declining production, Norway remains a predictable environment that is unlikely to be overly impacted by the current downturn. While Norway is projected to maintain relatively stable production in 2016, the low price of oil is likely to contribute to closures of small and underperforming fields. Bids for Norwegian contracts are competitive, and significant commercial opportunities exist for U.S. companies specializing in offshore well abandonment, shut-ins, harsh-environment oil rigs, natural gas transportation, and monitoring and processing. Operation costs in Norway are high, and low-cost high-quality producers can be competitive once established in the market.



Background

In 2014, Norway was the world’s 15th largest oil producer and fifth largest natural gas producer. It is Europe’s largest crude oil producer and the world’s third largest exporter of natural gas. Norway produced 1.9 mbpd and 3.8 Tcf of natural gas, all from offshore Norwegian continental shelf. Norway’s crude oil production peaked in 2001 at 3.4 mbpd, but has declined since with a slight uptick in 2014, while natural gas production has increased each year since 1993. Because of a significant project pipeline, Norway is adding production from new fields such as the giant Johan Sverdrup. In 2014, Norway exported 95 percent of its natural gas

production, mostly to France, Germany, Spain and the United Kingdom.

Market Analysis

Norway has remained a relatively small market for U.S. O&G equipment exports despite significant activity in its offshore sector and the competitiveness of U.S. companies. As of 2015, Norway ranked as number 18 of countries importing U.S. upstream O&G equipment with \$321 million in U.S. O&G equipment, or about 1.4 percent of all U.S. O&G equipment exports. Major products exported from the United States included floating production platforms (53 percent), machinery/mechanical

appliances (17 percent) and parts for boring or sinking machinery (15 percent).

In 2014, Norway was the world's 14th largest destination of upstream O&G imports, procuring \$3.6 billion of upstream O&G equipment. The largest source of O&G equipment imports came from South Korea, at \$800 million or 22 percent, followed by the United Kingdom, Japan and Germany, with 14, 13 and 10 percent, respectively. Of Norway's approximately \$3.6 billion in O&G equipment imports in 2014, the most imported equipment were floating production platforms followed by parts for boring and sinking machinery, drilling tube and pipe and parts for derricks.

Policy Context: Opportunities and Challenges

Norway's O&G sector is a favorable market for U.S. investment as the Norwegian government has maintained a stable policy environment with transparent framework conditions for companies to explore for and develop new resources. The straightforward tax regime, availability of new acreage in mature and frontier areas, stable fiscal and monetary climate and large amounts of capital spending contribute to the sector's stability. Norway's O&G tax policies are significant drivers for the offshore energy sector, as the government refunds 78 percent of exploration costs to companies and reduces taxes on exported LNG.

Despite its favorable policy environment, the Norwegian O&G sector is also defined by its high cost of entry, both in terms of conducting business and the high capital costs of operation. The low price of oil has made some O&G projects economically infeasible, as high cost, low production wells have become easy targets for shut-ins. The Norwegian government requires a 2-year warning before a well can be shut-in, and ITA anticipates heavier decline rates and closure at smaller fields in Norway. Despite this, Norway has a significant project pipeline that will be able to maintain current production levels, offsetting anticipated production declines from shut-ins.

Considering the significant amount of development in Norway's offshore O&G sector, new technology is crucial for increasing incremental demand and may provide new commercial opportunities for U.S. exporters. While many Norwegian companies already focus on the development of subsea

systems, there is still demand for seismic surveys, interpretation of seismic data, directional drilling, subsea processing, information technology and communication technology. Potential commercial opportunities exist for U.S. technology and service suppliers in these areas, as all of Norway's O&G production is offshore and new fields located in challenging environments requiring zero-surface, subsea and deepwater technology that can withstand ever-challenging environments in remote and isolated locations.

Since natural gas production and export will be an area of continued growth in Norway's O&G sector, U.S. companies in the LNG technology and natural gas value chain that focus on clean production and transportation of gas from remote locations are especially well positioned. IOCs such as ExxonMobil, ConocoPhillips, Total, Shell and ENI have a substantial presence in Norway, in partnership with Statoil. Gassco, the Norwegian state-owned gas company, is the operator of Norway's natural gas pipeline network, including for international pipelines and receiving terminals that export to the United Kingdom and continental Europe. In 2014, Europe received 60 percent of Norway's LNG exports with the majority going to Spain.ⁱ The Americas received 25 percent, and 15 percent went to Asia. Norway's first large scale liquefaction facility at Melkoya opened in 2007 and draws gas from the Snohvit natural gas field.

Norway's efforts to expand O&G exploration and development in the Arctic Circle present opportunities for U.S. manufacturers and service providers in coming years, with the potential for additional opportunities as O&G development in the Barents Sea continues. In May 2016, Norway held a licensing round that awarded 10 production licenses for 40 blocks in the Barents Sea. The licensing round marked the first time in 20 years that Norway had opened new acreage to O&G exploration, signaling the country's commitment to energy development in the Arctic. The Snohvit and Goliat projects are Norway's only O&G producing fields in the Barents Sea, with oil production from Goliat beginning in March 2016. The next field to be developed in the Barents Sea is the Johan Castberg field, located 100 km north of Snohvit, and Statoil has announced its intentions to make a final investment decision on the project in 2017.

ⁱ <http://www.eia.gov/beta/international/analysis.cfm?iso=NOR>