AFTER SEVERAL MONTHS of severe disconnect between oil and gas prices and drilling activities, a number of indicators point to a turnaround, both for the near and long terms. First, energy consumption is linked to national Gross Domestic Product. The US, Western Europe and the Middle East consume large amounts of energy and enjoy high standards of living, i.e., high per-capita GDP. So-called “developing” nations are at the other end of both scales. Yet many of these countries are the economic engines of tomorrow, with economic growth far outstripping that of the US and Europe. China, for instance, has all but cornered the market for scrap metal. In their stunning economic surge, they are likewise pressuring energy supply.

Oil and gas will meet most of this demand growth. Out through 2020, energy sources like biomass, nuclear, hydroelectric, wind and solar are expected to increase dramatically, compared to today. Still, those sources will meet only a fraction of demand.

Meanwhile, demand for natural gas is projected nearly double, while thirst for oil will grow by 25%, compared to 2000. At the same time that demand for these commodities is accelerating, production from existing fields is declining sharply. One study anticipates that world oil production must increase by 55 MM bbl/day by 2015—18 MM bbl/day to meet rising demand, and a whopping 37 MM bbl/day to compensate for depletion. The picture is similar for natural gas—119 B cu ft/day to meet new demand, and 128 B cu ft/day to replace dying fields.

That’s great for 5-10 years down the road, but how about today? There’s good news in the near term, as well. The era of major expansion through acquisitions among operators is flattening out, if not completely over. Raymond James, in a recent analysis, noted that opportunities for acquisitions are growing rarer. The analysts found, in a recent study, that E&D spending for this year could rise to $17.1 billion, 26% above 2003. This level of spending would constitute a 15% increase over the operators’ initial budgets.

As for rigs, ODS-Petrodata predicts that worldwide drilling demand for jackups, semisubmersibles and drillships will increase by 26 rig years in 2004. This would be the highest since 1997. The biggest gain will be in the jackup market, where rig demand is expected to grow to 329 rig years this year from 309 in 2003.

The upshot is that to meet surging energy demand, we must drill more wells. To do so means investments in people, HSE and technology. In turn, we need access to promising exploration arenas and non-adversarial regulation.