

**Target renewables: how Russian well service market will recover after COVID-19**

**On September 22, CREON Conferences held the 9th international conference "Well Service and Oilfield Chemicals 2020". Top managers from oilfield service and engineering companies assessed the market prospects in the new post-pandemic realities.**

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Assessing the first six months of 2020, most major oil and gas operators note a reduction in upstream funding by 20-50% compared to the previous year. The overall decrease in global expenditures for exploration and production with associated oilfield services will amount to about \$100-115 billion, dropping to the level of 2016. In particular, the Russian market in dollar terms will miss about 31% of budgets, of which 21% is the minimization of costs by companies, and 10% is the effect of the exchange rate.

Analysts believe that the exploration market will continue to decline in 2021 as operators' exploration programs adapt to oil prices, which are unlikely to rise above \$45 per barrel. At the same time, the oilfield services market can win back up to 5% if restrictions on production are relaxed this year.

In May, the Russian Ministry of Energy planned to allocate about 400 billion rubles (\$5 billion) from the federal budget for concessional lending to Russian oil companies that were forced to reduce the volume of drilling and the number of low-debit wells. Now, in order to keep the industry afloat and restore the rate of oil production after the OPEC+ deal, which ends in 2022, it is proposed to create special purpose companies (SPVs) for each specific project. The SPV is to be formed by a vertically integrated oil company and a bank with participation shares of 2% and 98% respectively.

SPV will finance drilling and maintenance of new wells, part of the loans will be provided by commercial banks under the guarantee of Vneshekonombank (VEB.RF). However, wells for commissioning by vertically integrated oil companies will be purchased only in case of a positive market situation. This support mechanism will allow the construction of about 2,700 new wells during the period of the program, and the total amount of additional budget revenues will amount to about 1.15 trillion rubles (\$15 billion), experts say.

Another anti-crisis strategy for exploration and oil service companies may be a revision of the product portfolio and diversification of the oil and gas industry against the backdrop of a global change in the energy balance in favor of renewable energy sources (RES). For example, the largest Dutch engineering holding Fugro reduced the share of orders from oilfield service companies from 75% in 2015 to 50% in 2019, reorienting its business strategy to fulfill orders from the renewable energy industry.