

# Top 5 trends shaping upstream costs in 2026

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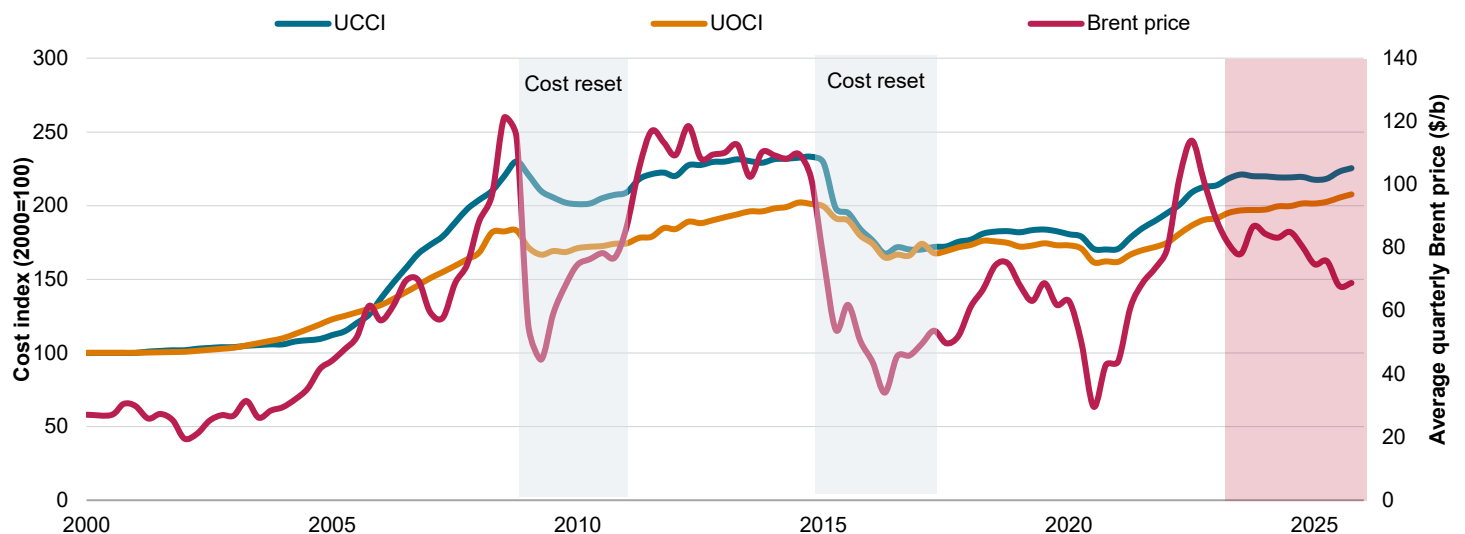
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The oil and gas industry remains inherently cyclical, especially when it comes to costs. Since S&P Global Energy CERA's Upstream Costs Service started, several of these cycles have occurred. The pattern typically starts with rising oil prices, which encourage greater investment and lead to production surpluses. This oversupply then causes oil prices to drop sharply. As prices fall, activity slows down because many projects become uneconomical. Oil and gas operators shift their focus to project costs and economic efficiency. Service companies and manufacturers respond to reduced demand by lowering their prices to protect profit margins. Project costs are thus recalibrated, allowing new break-even prices that make ventures feasible again — until oil prices rise once more, restarting the cycle (see Figure 1).

Figure 1

## Upstream capital and operating cost indexes vs. Brent



As of Nov. 11, 2025.

UCCI = Upstream Capital Cost Index; UOCI = Upstream Operating Cost Index.

Source: S&P Global Energy.

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The economic repercussions of the COVID-19 pandemic initiated another boom-bust cycle; however, unlike prior cycles, project costs have fallen. With the global economic recovery, demand for goods increased across all sectors, not limited to oil and gas. This surge in demand constrained supply chains, resulting in extended lead times and occasional shortages, which subsequently drove the cost of available goods higher. This was coupled with rising raw material costs. Inflationary pressures intensified worldwide. Prices remain persistently high, even as raw material costs have recently declined, most supply chains have stabilized, and inflation has eased. Since the second quarter of 2022, Brent crude prices have decreased by 40%, while the Upstream Capital Costs Index (UCCI) has risen by 8%.

Upstream project costs are expected to rise further, even as oil prices weaken. Unless a structured cost adjustment is implemented or there is a significant increase in oil prices, projects may face elevated risks.

## Top 5 themes shaping upstream costs

### 1. Stickiness of post-pandemic cost escalation

The falling demand for crude amid the COVID-19 pandemic caused oil prices to plummet to \$30/b in the second quarter of 2020. As economies recovered, supply chains were constrained, resulting in either long lead times or shortages of goods, pushing the costs of available goods higher. Inflationary pressure rose globally. The drivers exerting upward pressure on development costs were outside of the oil and gas industry. As a result, the UCCI increased by 30% since the second quarter of 2020.

Supply chain constraints began to ease, providing some relief. Project costs began to stabilize in the second half of 2023, and the average Brent price peaked in 2022, then settled at about \$80/b in 2023 and 2024. As the global oversupply of crude began to emerge in 2025, the Brent oil price started to fall, reaching the low \$60s. Surprisingly, project costs remained elevated.

Costs did not respond to the lower oil prices in 2025 as they had in previous cycles. As we enter 2026, CERA predicts that costs will continue to be elevated even as oil prices are expected to be in the \$55/b range. Inflationary cost pressure is lower but not retreating. The cost landscape for exploration and production operators has changed. They face demand competition from other industries, increased labor and overhead expenses, and a reduced number of service providers who are relying on substantial backlogs.

### 2. Structural changes in oil and gas industry

The current service market differs from that of the 2010s. There has been significant consolidation, and service companies are now focusing more on managing utilization and operating margins rather than sheer capacity. The “Big Four” oilfield service companies: SLB NV (formerly known as Schlumberger Ltd.), Halliburton Co., Baker Hughes Co. and Weatherford International PLC each offer a broad range of services across the oil and gas well lifecycle. This includes drilling services, well completions, production optimization, reservoir evaluation and more digital solutions.

The decrease in competition would allow the remaining providers to exert greater pricing power, leading to higher service costs. With fewer providers, the supply of services may become constrained, potentially leading to further price increases.

Additionally, offshore rig contractors have undergone significant transformation, driven by industry consolidation and a shift toward contractor specialization. Major companies, such as Transocean Ltd. and Seadrill Ltd., divested jackup fleets to focus on specialized markets. Meanwhile, firms like Borr Drilling Ltd. and jackup-focused contractors such as China Oilfield Services Ltd., ADES Holding Co. and Abu Dhabi National Oil Co. scooped up jackups, swelling their fleets. Most of the fleet expansion came from the acquisition of idle newbuild rigs.

### 3. Shifting capital allocation and project approaches

Constraints on credit and cash flow have driven changes in project development. Capital budgets are increasingly being allocated to smaller offshore discoveries. The development of smaller fields necessitates less infrastructure.

For the offshore sector, this means greater emphasis on subsea tiebacks rather than stand-alone facilities. While the total project cost for subsea tiebacks is generally lower compared with stand-alone facilities, subsea costs are rising. A recent poll in Offshore cited that 40% of respondents were concerned about high costs and supply chain issues. The increased demand for subsea equipment has resulted in estimated lead times of 18 to 24 months. Extended lead times, limited capacity and rising labor costs continue to push costs higher. Given the strength of existing backlogs, equipment and service providers have little incentive to reduce prices. Despite prolonged lead times, investment in additional manufacturing capacity is nonexistent. Combined with the limited number of service suppliers, prices are expected to keep rising.

To achieve project cost savings, E&P operators have increasingly adopted modular equipment. In addition to requiring less infrastructure, the modular nature of the facilities allows for fabrication across multiple yards, thereby reducing costs.

### 4. Offshore sector investment challenges

From an operator's perspective, rig availability remains an issue, particularly for higher-specification units and deepwater drillships. However, day rates are no longer rising as quickly as they had been over the last couple of years. Looking ahead, the fleet size for these rigs is anticipated to remain stable, as market hesitancy persists regarding new investments.

The cost of a newbuild rig, estimated to be nearly \$1 billion, is a key sticking point for new investments. Fabricating a new offshore rig is prohibitive for rig contractors without substantial capital investments from operators. Limited investment is expected to result in market tightness, particularly for high-specification units. Contractors may capitalize on the scarcity of supply by exerting upward pressure on rates. Similar market dynamics are anticipated in certain categories of the offshore vessel market. A lack of additions to the fleet will alter the supply-demand balance, ultimately benefiting contractors.

## 5. Geopolitical wildcards

Geopolitics remains a wildcard for 2026. The oil and gas industry continues to face geopolitical uncertainty with US military action in Venezuela, the seizure of shadow tankers in the Atlantic and ongoing statements by the Trump administration about the strategic importance of Greenland to US interests.

S&P Global Energy has not changed its oil price outlook; the dated Brent price is projected to average \$60/b in 2026. Yet near-term impacts on global crude production are uncertain for Venezuela. Oil prices remain soft, capital discipline is tight, and aboveground risks — including degraded infrastructure, a lack of skilled workers and unclear legal frameworks — make the return of Venezuelan production unclear. In the short term, the country would need billions of dollars to stabilize existing production and a multiyear, sustained level of investment to grow production.

Geopolitics is having an indirect effect on project economics. The US administration's focus on achieving a \$50/b oil price, while beneficial for consumers, would likely lead to less production. Again, project costs did not respond to the lower oil prices in 2025 as they had in previous cycles. If oil prices were to remain in the \$50 or lower range into 2027 or 2028, the lack of a reset in costs would mean that upstream projects may face elevated economic risks.

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