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Transcript

Middle East and North Africa Energy 2013: The Gulf Economies

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HE Abdalla S El-Badri:

Excellency's, ladies and gentlemen: Good morning.

It gives me great pleasure to speak again at this prestigious conference. I would like to thank the organizers Chatham House for the invitation.

[Slide 2] When looking at the overall theme of this year's conference - 'Adapting to new resource realities' - a number of central issues quickly came to mind.

The first is that we appear to have moved on from the peak oil debate the industry was having only a few years ago. There are plenty of available resources, both conventional and non-conventional. Of course, peak oil will come one day, but not for the foreseeable future.

Second is the growing role of unconventional oil and gas, particularly tight oil and shale gas in the US. It is evidently changing the US energy landscape, although questions remain as to how sustainable this growth will be in the long-term. And we need to recognize that shale developments outside of the US remain in the very early development stages. The general consensus is that it will be difficult for others to replicate how the US has developed its shale resources.

Third is the continuing and expanding nature of our energy interdependence. In the recent past, some have talked about a decoupling of countries or regions, but this is a myth. We are all inter-linked - what happens from an energy perspective in one place, can have knock-on implications elsewhere.

And fourth - although for many this may not be viewed as a 'new reality' - is the fact that despite there being much talk of alternatives, it is fossil fuels that will remain central to the world's energy mix for the coming decades.

[Slide 3] This last point can be viewed in OPEC's latest World Oil Outlook, published in November last year. In it energy demand increases by 54 per cent over the period 2010-to-2035, and fossil fuels, which currently account for 87 per cent of energy demand, will still make up 82 per cent of the global total by 2035. While oil does see a percentage fall over this period, from 35 per cent in 2010 to 27 per cent in 2035, demand still increases by more than 20 million barrels a day. It reaches over 107 million barrels a day by 2035.

However, while resource availability to meet this demand increase is clearly not an issue - as a number of the new realities I have outlined emphasize - we need to remember that availability is nothing without deliverability. And for deliverability we need stability. It is essential that all stakeholders work to ensure market stability.

[Slide 4] Of course, when talking about stability, one of the key elements of this is the price, which brings me to a question posed for this session: what factors lie behind the fear of oil price weakness?

I am sure we all have a number of thoughts about this: a slowdown in the global economy; supply outstripping demand; expanding oil inventories; and increasing spare capacity. We can, however, also look in the other direction and ask what factors might lead to possible price rises. Geopolitics may come to mind, a stronger than expected global economic recovery, as well as investments and supply not materializing as fast as expected.

At present, we believe the market is well-balanced, and as such these 'fears' should not be over blown.

This is an important point. And leads me to ask a follow up question: how are these 'fears' perceived by some in the market?

[Slide 5] These 'fears' are a driving force behind speculative investment flows and price volatility that remain a significant part of the market, as they have been since 2005.

Excessive speculation is one of the major challenges facing the oil industry. Over the past six or seven years, extreme price fluctuations have been accompanied by massive inflows and outflows of investments.

For example, last year saw a significant increase in the number of open interest contracts on NYMEX and the ICE. Towards the end of last year, it exceeded 4 million contracts, or 4 billion barrels. This is more than forty times greater than actual daily oil demand!

It is important to stress, however, that the 20-to-30 per cent change in prices we saw in 2012 occurred despite the market being well-supplied, with OECD crude stocks above their five-year average, and with OPEC spare capacity at healthy levels. And looking ahead to 2013, the market is expected to remain well-supplied to meet the expected demand growth.

It all points to a balanced market for supply and demand. Yet significant price volatility has been apparent.

Speculative investment flows can distort the price of crude. Let me add, however, that the challenge is not about eliminating speculation and expectation altogether. The underlying issue is excessive speculation and extreme volatility. This is what needs to be tackled.

This is not only about safeguarding OPEC's interests and revenues, but also about safeguarding the future oil market. Uncertainty breeds indecision.

[Slide 6] Looking ahead, at OPEC we do not envisage a price collapse, but it is important we understand some of the potential effects of falling prices.

Of course, OPEC Member Countries will receive less revenue. The possible implications of this are a question posed for this session.

It is important to note that petroleum revenue plays a central role in the economic and social development of our Member Countries. In fact, over 75 per cent of OPEC's total export revenue came from this source in 2011 and they remain central to the provision of healthcare, education and basic economic infrastructure for their young and expanding populations.

In recent years we have also seen the budgetary requirements of many oil producing countries expand, as domestic needs increase. And, of course, any reduction in petroleum revenues will have an impact on some of these countries. Just as any government and country would be impacted by a reduction in their revenues or tax take.

I should add that some OPEC Member Countries recognize the importance of reducing their dependency on oil exports. I believe it is becoming increasingly crucial for oil producers who still depend heavily on oil revenues to look to other sources of income. Diversity, in this regard, is vital.

When talking about OPEC's petroleum revenues, I feel it is important to put these into context. There have been a number of sources that have cited recent revenue figures as some kind of 'extreme'. Overall, OPEC Member Countries saw petroleum export revenues of close to $1.1 trillion in 2011.

However, the fact is that oil consuming countries have been making more money from the sale of oil products than have oil producing countries.

For example, over the 2007-11 period OPEC Member Countries received close to $4.2 trillion in revenues generated from crude oil sales. But over the same timeframe, OECD countries received over $5.5 trillion from oil taxes.

In fact, here in the UK, the government earned on average about 1.8 times more from oil taxes in 2011 than what OPEC Member Countries themselves obtained from the sale of their oil.

Additionally, it is worth pointing out that the money earned by OECD countries from oil taxes is pure income for their national governments. The revenues earned by OPEC Member Countries from crude oil sales, on the other hand, must also be used in part to cover the high costs of exploration, production and transportation.

For example, according to the latest list of upstream projects in the OPEC Secretariat's database, Member Countries are undertaking or planning around 116 development projects during the five-year period 2012-2016. It is estimated, that total OPEC liquids capacity will rise by 5 million barrels a day over this period. And these developments correspond to an estimated investment of about $270 billion.

Investment decisions and plans, however, will obviously be influenced by the price of oil, as well as such factors as the global economic situation and policies.

[Slide 7] Here, I should stress that low prices and reduced revenues will not only impact OPEC Member Countries.

It will mean less recycling of OPEC Member Country income globally.

And it has the potential to impact the entire oil market if low prices lead to investments across the world being put on hold or cancelled altogether. In fact, this is true for all energies.

Every energy, and every investment project, has a break-even cost associated with it. Whether producing Canadian oil sands, US tight oil or ultra-deep offshore, there is an associated marginal cost. If prices fall below a certain level, then the industry will find some of these developments are no longer viable. And it is clear that lower oil prices would also impact the development of other projects such as renewables.

Such outcomes have the potential to sow the seeds for extreme high oil prices in the future, if a lack of investment leads to supply failing to keep up with future demand increases. This has happened in the past.

It underscores the importance of a stable and fair price for all - one that is satisfactory for both producers and consumers and allows our industry and the global economy to grow. This is what OPEC continually strives for.

This is a highly significant issue. How oil prices may evolve in the future is an extremely important question for the world economy, for the oil industry and, of course OPEC Member Countries, whose economies, as I mentioned, are still highly dependent on oil export revenues. In truth, it matters to every one of us.

Extreme prices - either too high or too low - not only affect producers, but also consumers, and the global economy as a whole.

[Slide 8] Excellency's, ladies and gentlemen,

Energy resources are sufficient. Fossil fuels remain the main source of our energy future. And we live in an ever more interdependent world. Three simple realities.

And in looking at these, if I had to leave one simple word each for OPEC producers, in fact all oil producers, for consumers and for the market as a whole, it would be 'stability', 'stability', 'stability'.

Stability for producers to allow them to earn a fair return from the exploitation of their exhaustible natural resources;

Stability for economies around the world so that they may grow; and

Stability for investments and expansion to flourish.

It is the best means of safeguarding all of our interests.

Thank you for your attention.