Energy Perspectives from the GCC

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Middle East and North Africa Energy 2012
Investing for the Future in Turbulent Times
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THE CONTEXT: CONVENTIONAL WISDOM ...

ENERGY OUTLOOKS TO 2030 (MTOE)
Conventional views of future oil demand?

The key point: The MICs account for the bulk of the growth = 68% in Non-OECD growth 2009-35

THREATS TO THE CONVENTIONAL WISDOM?

- UNDERESTIMATES THE ROLE OF PRICES IN THE MICs POST SUBSIDIES
- THE END OF OIL’S HEGEMONY IN THE TRANSPORT SECTOR?
- AND IEA PROJECTIONS TEND TO BE SIMPLE ARITHMETIC. “WILLINGNESS” AND “ABILITY” IS ASSUMED
WHERE IS THE OIL COMING FROM?
- APOLOGIES FOR THE “FUEL DEPOT FOR THE WEST” APPROACH

WHERE IS THE OIL COMING FROM?

• BUT THIS IGNORES THE ABILITY AND WILLINGNESS OF THE “SIX BROTHERS” TO PRODUCE

The “six brothers” account For 91.2% of the growth
THE ABILITY TO PRODUCE?

- Explains the variation in NOC performance and strategy
- In terms of the “Six Brothers”, apart from Saudi Aramco and (perhaps) ADNOC and QNPC the performance is poor
- INOC, NIOC AND KPC are facing “difficulties” = 50+ per cent of the increase...

ABILITY TO PRODUCE?

- BEFORE 2011 IN MANY CASES THERE WERE ATTEMPTS TO REFORM THE OIL SECTOR
- ASSUMING “THE ARAB UPRISINGS” LEAD TO GREATER “DEMOCRACY” I.E. GREATER TRANSPARENCY, ACCOUNTABILITY AND RULE OF LAW WHAT IMPACTS IN TERMS OF
  - ATTITUDES TO PRIVATE SECTOR ROLE IN THE SECTOR?
  - ATTITUDES TO INTERNATIONAL OIL COMPANIES?
  - ATTITUDES TO NATIONAL OIL COMPANIES IF GREATER EMPHASIS ON PRIVATE ENTERPRISE?
THE WILLINGNESS TO PRODUCE

- RESERVES = QUESTION MARKS OVER THE RELIABILITY OF ESTIMATES

- DOMESTIC OIL CONSUMPTION IS A MAJOR ISSUE BECAUSE OF LOW PRICES WHICH FOLLOWING THE “ARAB UPRISINGS” ARE LIKELY TO BE AROUND FOR SOME TIME

Saudi Arabia becoming a net oil importer by 2037

- Crude oil and NGL production rises to 13.1mb/d by 2017 and remains flat until beginning a decline in 2042

- Around 2037, oil exports end

- Oil consumption grows at 90% of non-hydrocarbon GDP which is projected at 6.3% to 2014 and 5% thereafter

Glada Lahn & Paul Stevens: Burning oil to keep cool: The hidden energy crisis in Saudi Arabia
Chatham House Briefing Paper December 2011
HOWEVER Budgetary crunches are likely to emerge a long time before oil exports end – fiscal balance

Scenarios suggest the government would have to start borrowing in around 10 years from now…

THE WILLINGNESS TO PRODUCE

- RESERVES = QUESTION MARKS OVER ESTIMATES
- DOMESTIC OIL CONSUMPTION IS A MAJOR ISSUE
- IF THE “ARAB UPRISINGS” LEAD TO GREATER “DEMOCRACY” - IMPLICATIONS FOR DEPLETION POLICY? PREVIOUSLY, “OIL IN THE GROUND IS WORTH MORE THAN MONEY IN THE BANK …
THEN WE HAVE THE “CATCH 22” STORY

• “ARAB UPRISINGS” = NEED MORE REVENUES = SIGNIFICANT INCREASE IN THE SUPPLY PRICE
  – ADBULLAH OCTOBER 2008 $75 PER BARREL IS “FAIR”.
  – ALI NAIMI JANUARY 2012 TALKS OF $100 PER BARREL -

• BUT HIGHER OIL PRICES CAUSE
  – DEMAND DESTRUCTION
  – ENCOURAGE ALTERNATIVES AND NEW TECHNOLOGY

• THEREFORE EVENTUALLY REVENUES FALL…

• MEANWHILE CAN PRODUCERS MAKE EFFECTIVE USE OF THE REVENUES? OIL REVENUE IS NOT INCOME ….

OTHER ENERGY ISSUES FOR THE GCC?

• GAS –CURRENTLY REGIONAL SHORTAGES

• OPEC RELATIONS AND A SUNNI-SHI‘A DIVIDE

• POWER SECTOR REFORM

• ENERGY EFFICIENCY IN THE REGION = VERY POOR

• CLIMATE CHANGE/ENVIRONMENTAL ISSUES

• VULNERABILITY OF OIL AND GAS SUPPLIES – 15% OF UK GAS CONSUMPTION IS VIA HORMUZ
THANK YOU FOR YOUR ATTENTION

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