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Burning Oil to Keep Cool: The Hidden Energy Crisis in Saudi Arabia

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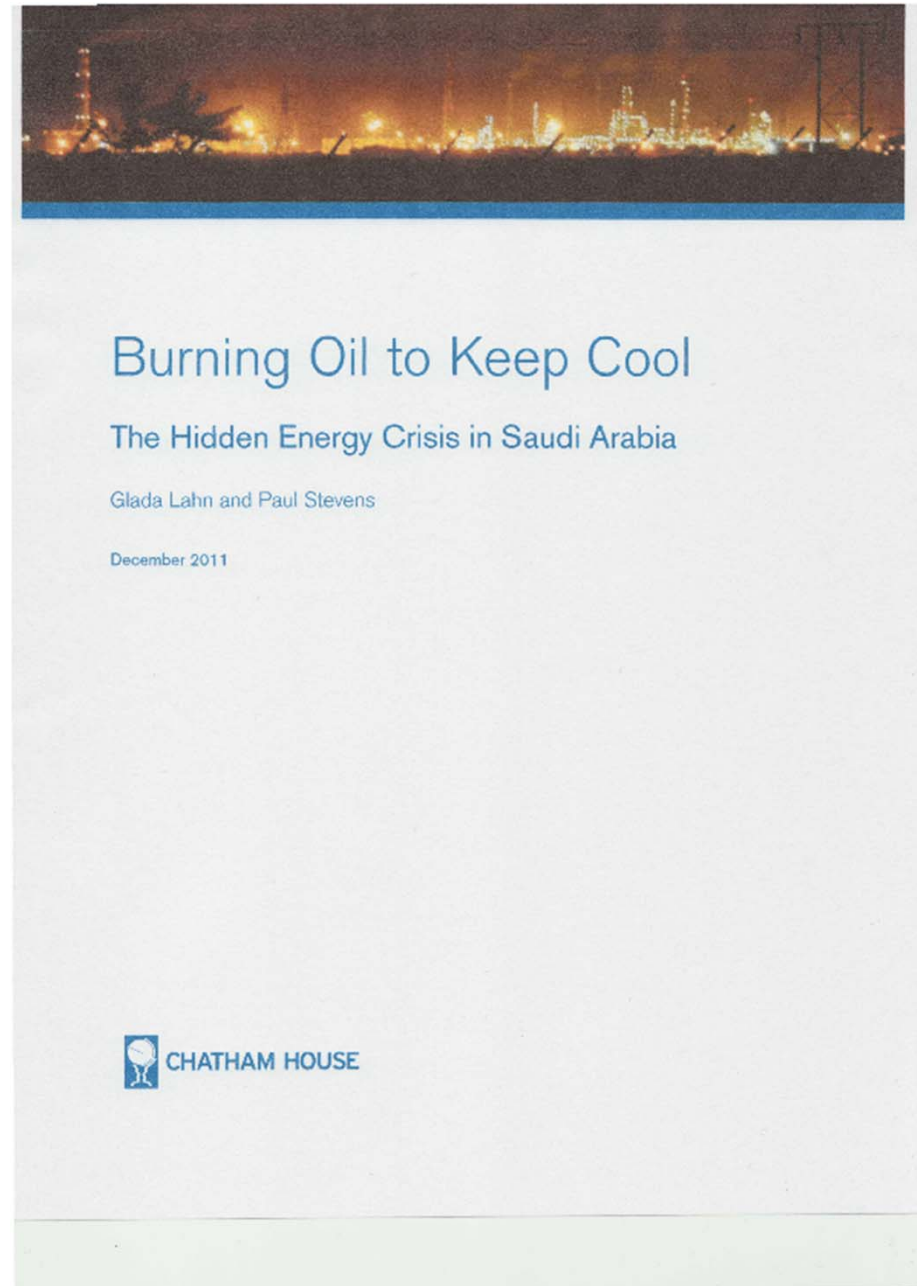
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London 28th June 2012

Outline

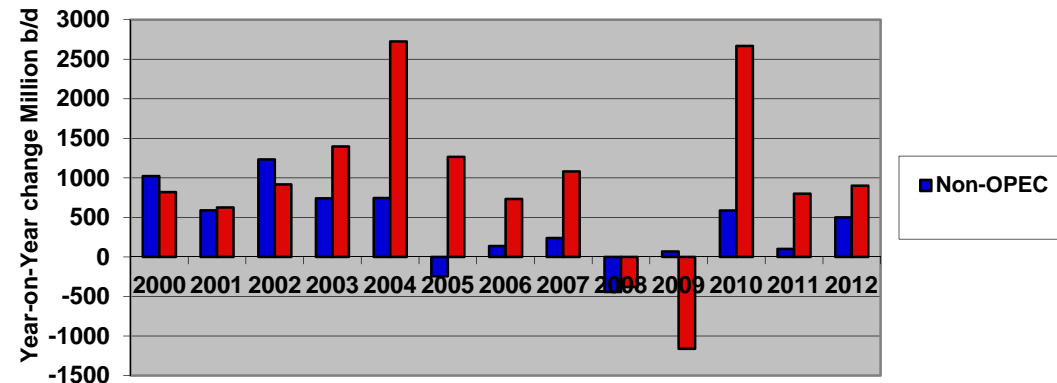
- Saudi Arabia's role in global oil markets
- Current domestic oil consumption in Saudi Arabia
- Why might this be a problem?
- Solutions?



Saudi Arabia's role in global oil markets

- Maintain spare capacity (2–2.5 mn b/d)
- Use this to try and balance the market

World oil Demand and Non-OPEC supply 2000-2012

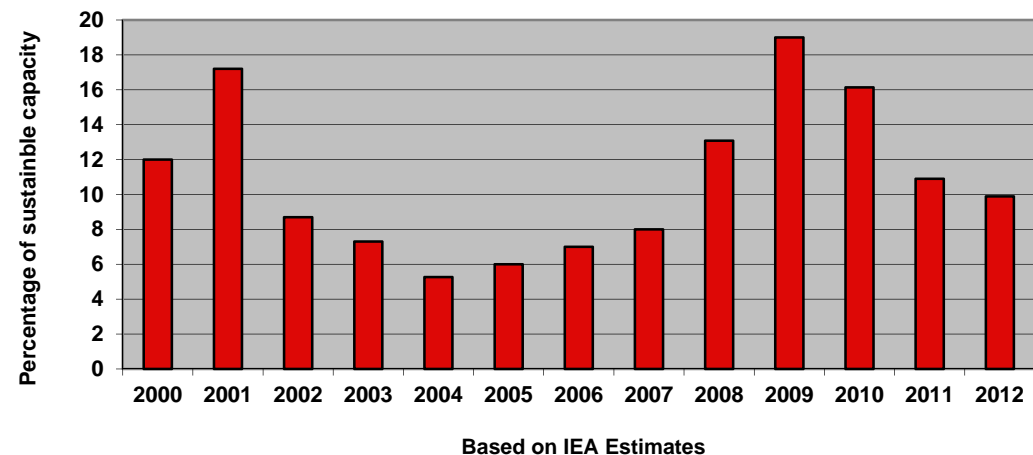


2000-10 BP Statistical Review of World Energy
2011-12 Consensus Forecast

Spare capacity in OPEC-11



Estimates of OPEC-11 Spare Capacity to Produce Crude Oil

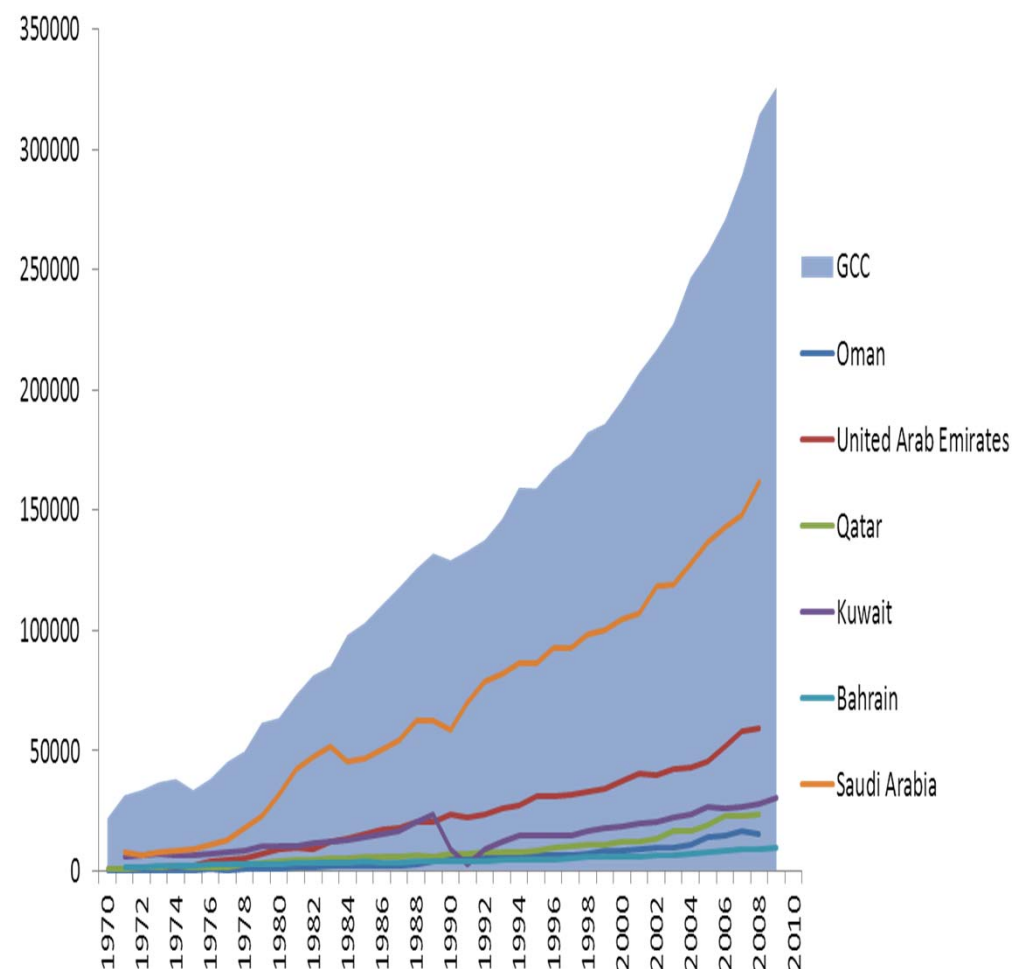


Based on IEA Estimates

Current domestic oil consumption in Saudi Arabia

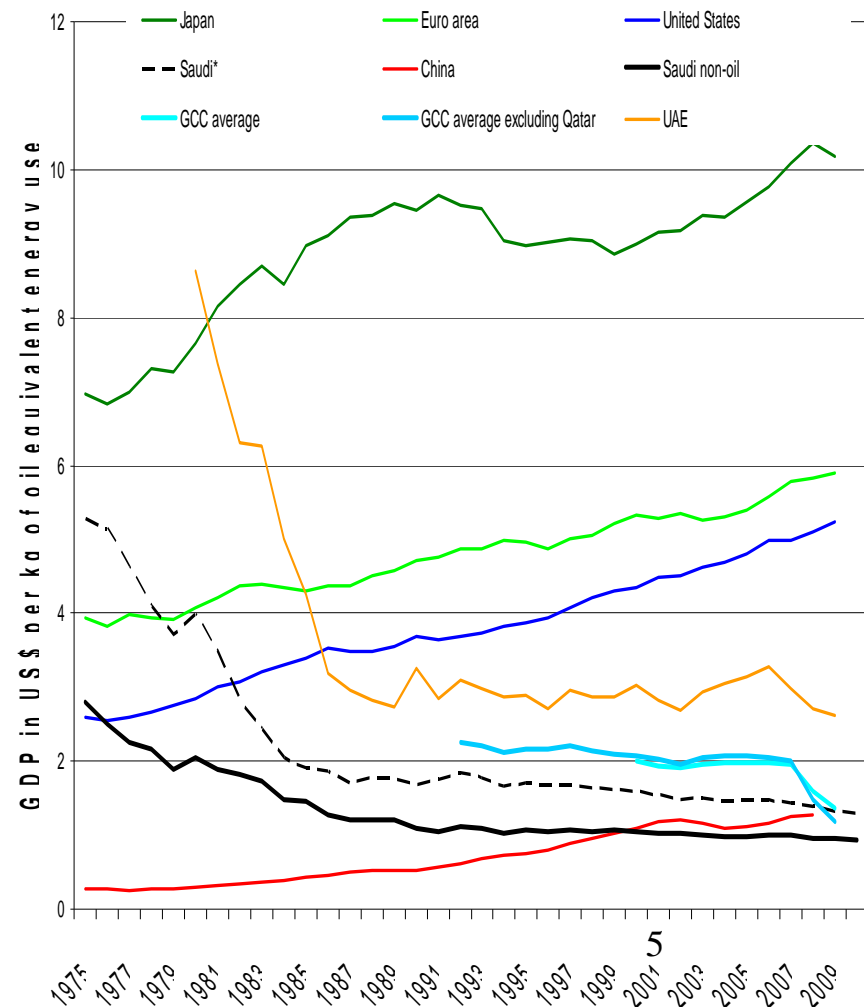
- Has been rising rapidly
- This might be viewed as a good thing
 - Energy as a factor input
 - Energy as a key input into standards of life

Energy consumption in the GCC (ktoe)



Current domestic oil consumption in Saudi Arabia

- BUT energy intensity is rising while elsewhere it is falling
- Energy use is extremely inefficient – Brzeen Hotel Case Study

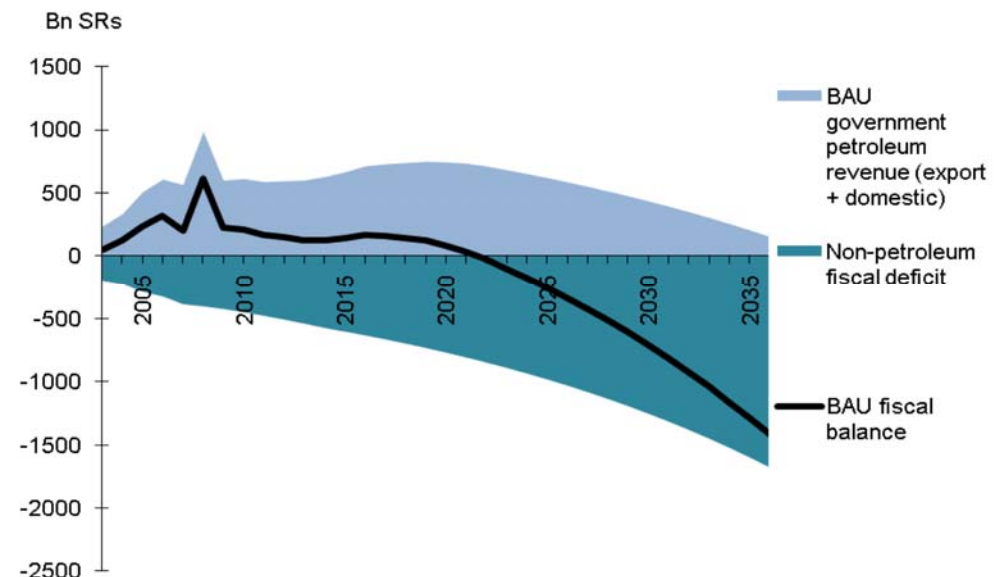
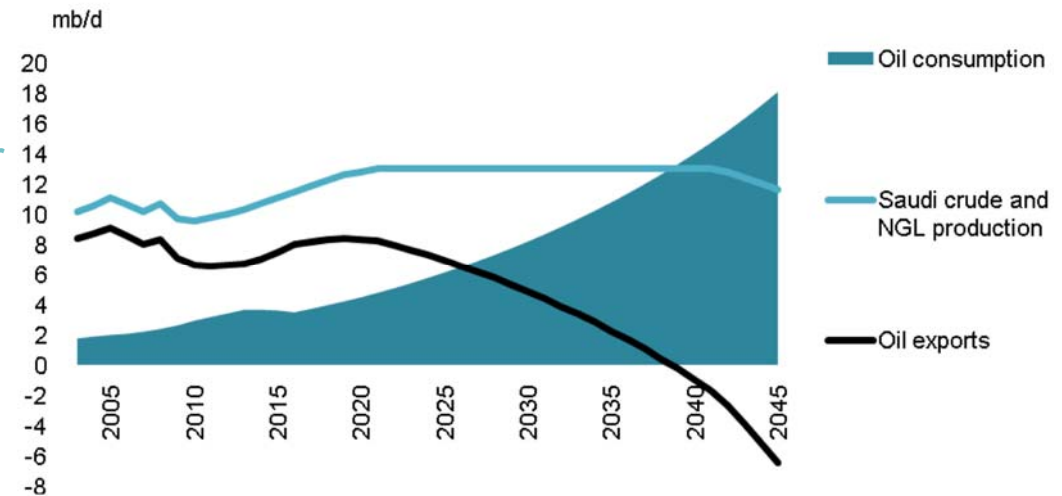


Why might this be a problem?

- It is a waste
- Environmental impact including air pollution and high transactions costs from congestion
- Low prices benefit the rich and lead to smuggling

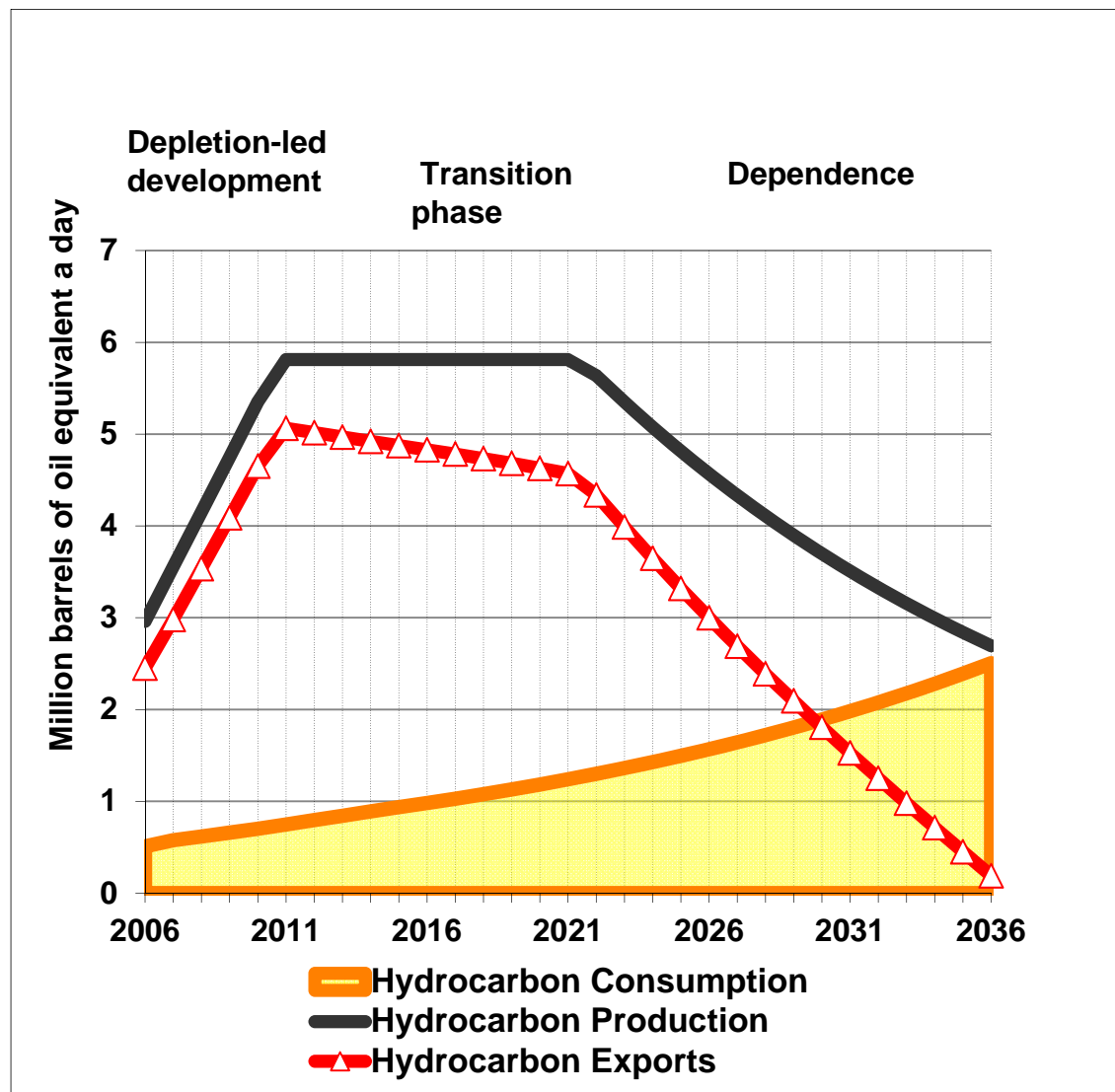
Why might this be a problem?

- It is a waste
- Environmental impact including air pollution and high transactions costs from congestion
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- It might eat into Saudi Arabia's role in the world oil market
- It shortens the period of transition for Saudi when the non-oil economy must be developed



Transition issues

- Oil revenue is not income
- Simply re-shuffling the country's asset portfolio
- The key is to remove the non-hydrocarbon fiscal (and current account) deficit



John V Mitchell and Paul Stevens Ending Dependence: Hard Choices for Oil-Exporting States. July 2008

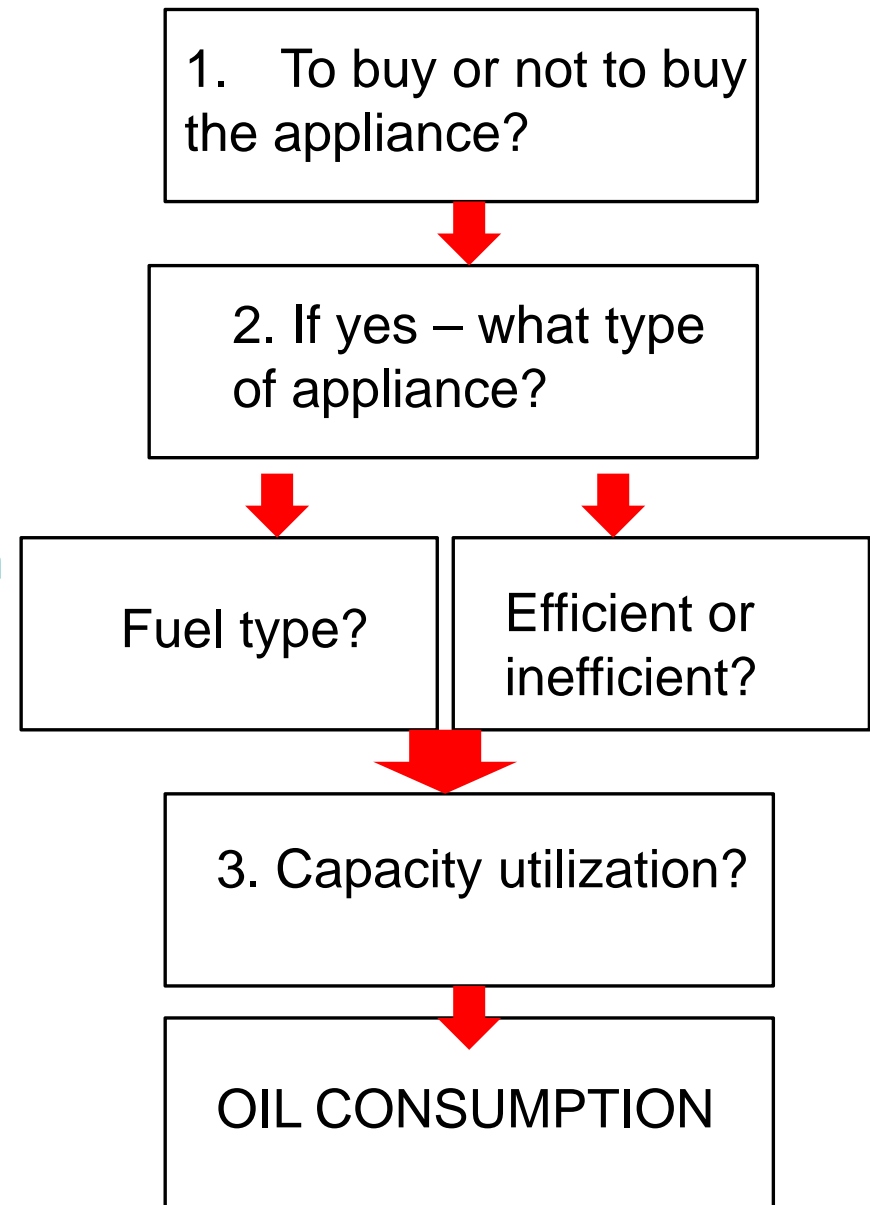
Solutions?

- Need to realize there is a problem
- Identify causes
 - Industrial strategy
 - Increasing living standards in a harsh climate

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 - Industrial strategy
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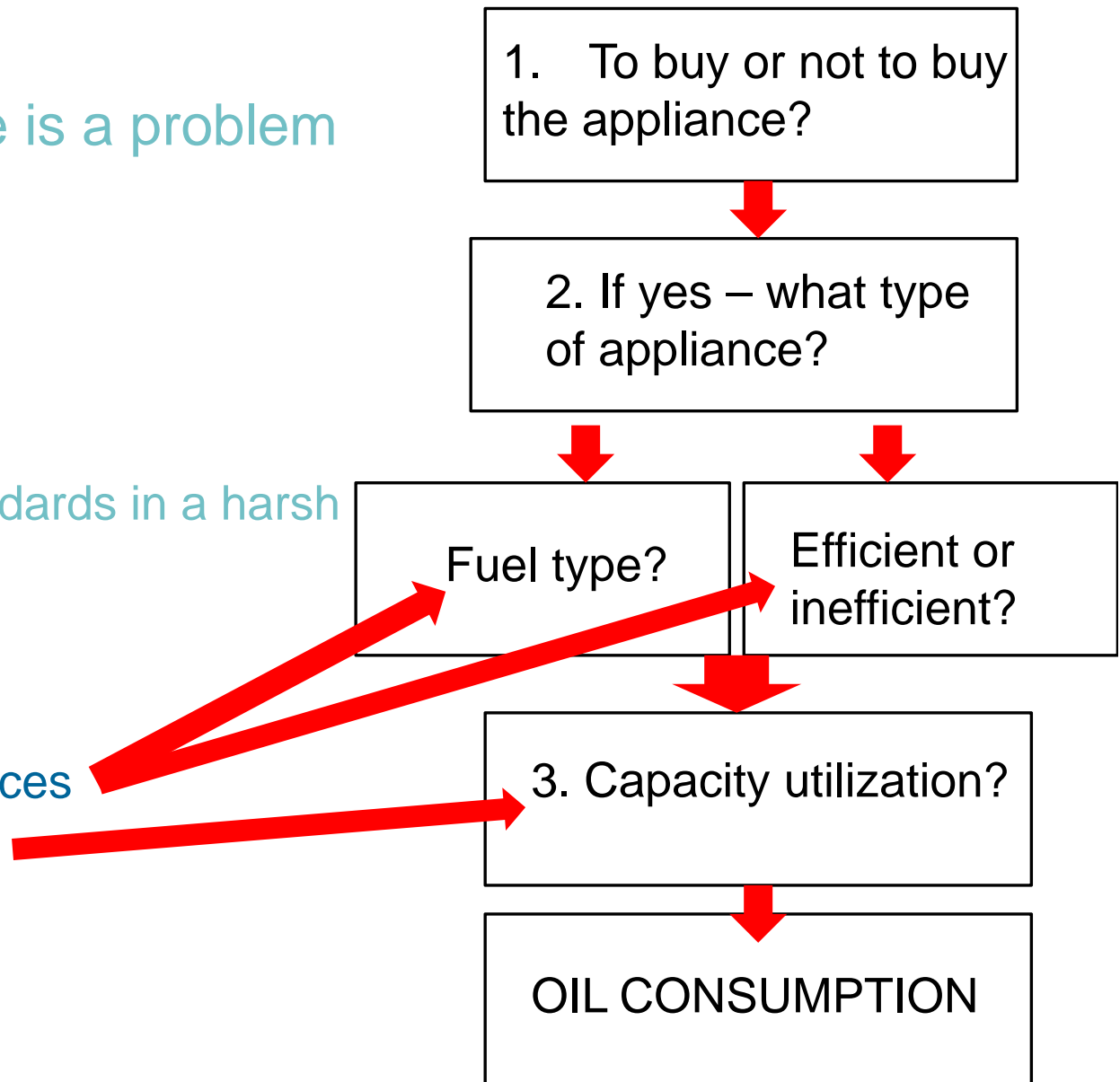
Oil demand = derived demand



Solutions?

- Need to realize there is a problem
- Identify causes
 - Industrial strategy
 - Increasing living standards in a harsh climate
 - Low fuel prices
 - Inefficient appliances
 - Culture of waste

Oil demand = derived demand



Solutions

- Low prices
 - Problem of the social contract
 - Lifeline rates – electricity – smart cards for gasoline
 - Possibilities for price discrimination against expatriates
- Inefficient appliances
 - Appliance standards
 - Imposing maintenance requirements –e.g. Abu Dhabi and aircon.
- Culture of waste
 - Islamic dimension