

Producing Countries : Meeting the New Challenges of the Oil Sector

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Excellencies, ladies and gentlemen,

The financial and economic crisis that we currently face needs no explanation. The uncertainties in which we now find ourselves present far-reaching challenges for the global community as a whole, as well as specific challenges for the energy industry.

Oil demand has been falling significantly, particularly in the OECD region. Overall, world oil demand in 2008 shows a decline – the first year of negative growth in a quarter of a century. For 2009, negative demand growth is also expected, and figures are being revised down, month after month. In addition, commercial oil stocks have remained at very high levels.

For a brief period last summer, oil prices rose to almost \$150 a barrel. These excessively high oil prices were not caused by a shortage of oil. They were driven by excessive speculation in the poorly regulated financial sector. There was complete schism between physical and futures market , price and fundamentals. Such poor regulation needs to be addressed urgently to prevent future extreme spikes that are unsupportive of economic growth.

Since last summer, as the economic crisis intensified , oil prices have fallen dramatically. This excessive volatility is very problematic. Extreme price levels, both high and low, benefit no-one. For the oil industry – which has high upfront costs and long lead times – uncertainty can be devastating.

M.DAlhamli/MOENR

Because of the drop in demand for oil, a number of oil producers have adjusted downward their output in order to restore market stability. As a result, many of these countries now have idle capacity . Production cuts , combined with the current low price, have massively reduced the export incomes vital to the economic advancement of these developing countries .

Another challenge of today's low price environment concerns investment. Today`s low oil prices have been welcomed in some quarters as an economic stimulus. However, if this environment persists, short-term relief will not translate into long-term gain. Many conventional and non-conventional oil projects have already been shelved or scrapped because of deteriorating economics despite the fact that lower engineering, commodity and construction costs do offer an opportunity to investors. Similarly, low energy prices are not conducive to investment in alternative energies.

Oil prices need to be at levels that help sustain economic growth, by supporting longer-term energy industry investments. We must remember that the short-, medium-, and long-term timeframes are all interlinked. A failure by the industry to invest will result in a supply crunch in the near future.

M.D.Alhamli/MOENR

In the face of these challenges, my country, like many others, is also working hard to adjust to an increasingly carbon-constrained world. Oil producers welcome diversity in the energy mix. We believe that renewable energy has its part to play and other sources of energy – such as nuclear power – are also expected to be part of our future.

The UAE has ambitious plans to play a leading role in promoting renewable energy and fostering environmentally-friendly economic growth. Abu Dhabi Future Fuels Company recently launched the Masdar initiative which plans to build the world's first carbon-neutral, zero-waste city for 90,000 inhabitants – to be called Masdar City - as well as turning Abu Dhabi into a global centre for research and development of renewable and clean energy.

In the international arena, the UAE strongly supports the formation of the International Renewable Energy Agency (IRENA) recently created at a founding conference in Bonn in January. Indeed, our commitment is such that we have offered to host the IRENA secretariat in Masdar City.

We believe that the promotion of renewable energy goes hand-in-hand with our role as a leading producer of oil and gas. Realistically, fossil fuels will continue to dominate the world's energy needs, especially for transportation fuels, for the foreseeable future. This being the case, we are confident that technology has the potential to help meet ever more stringent environmental demands and I am confident that over the coming years we will see an increasing number of new technologies being developed in the UAE..

M.D.Alhamli/MOENR

Ladies and Gentlemen

The UAE believes that we can achieve a stable and balanced energy market if producers were informed of anticipated demand levels. This knowledge would enable them to make realistic supply plans and eliminate the wide gaps that are often associated with demand projections.

As a member of OPEC, we fully subscribe to the Organization's call for non-discriminatory energy policy objectives from consuming nations. These objectives will go along way to stabilize the oil market and will be factored into our investment decisions. We must therefore be sure that they are transparent and realistic.

Despite the enormous challenges of our time , we remain committed to ensuring stable, secure, reasonably-priced supplies of crude oil, to support a return to sustainable economic growth . Meanwhile, OPEC Member Countries have committed to significant investments to increase capacity. With such costly and lengthy undertakings in mind, security of demand needs to be clear , and reasonable prices should prevail.

Thank you for your kind attention...

M.D.Alhamli/MOENR

