10th International Oil Summit

Paris, April 2, 2009

◆ ◆ ◆

Introductory Remarks

by

Nordine Ait-Laoussine

Good morning everyone, and welcome to the 10th Paris International Oil Summit!

I am very honored to have been asked to chair again this distinguished gathering which has become, over the years, a well attended spring event for the oil industry. I look forward to a stimulating debate on issues of common concern at a time when energy markets are firmly caught in the eye of a global financial and economic storm.

We are indeed meeting today at a moment of dramatic global turmoil. The world has been struggling, for some time now, to deal with an unprecedented economic crisis, perhaps the worst recession in our lifetime, and our apprehension is exacerbated by the fact that we still do not have the answers to some critical questions.

The severity of the crisis has prompted governments around the world to rescue banks, to loosen credit markets, to support growth, with massive stimulus packages and tax relief programs, but these measures have so far had little impact. There is still great fragility in the world financial system and a high level of uncertainty over whether the announced rescue measures will work. Meanwhile economic news continues to be largely negative, and growth expectations for this year and next are constantly being downgraded. Even the brightest minds do not know what will happen in the next few years, making it hard for everyone to plan ahead. And although some believe that the global business cycle appears to be bottoming out, much of the available evidence thus far points to a tough road ahead and suggests that the recession will likely be much deeper and more protracted than most experts thought just a few months ago. Needless to say that we are all looking forward to a positive outcome of the crucial G20 meeting being held in London today.

But while we can only speculate today on the pace and timing of the expected recovery, it is clear that the oil industry is facing one of the sharpest downturns in the history of the oil business. I trust that our distinguished speakers will not only shed some light on the implications for the energy sector of the ongoing turmoil, but also bring us some relief, or at least some reassurance that the consequences of the crisis on our industry will not be all negative.

As was the case in previous meetings, and as you can see in the proposed agenda, the organizers are inviting us to discuss throughout the day some of the critical drivers of the prevailing market environment as well as some key issues likely to affect the industry outlook.

- During the first session, we will examine the impact of the ongoing economic recession and financial crisis on the world energy and oil markets. This issue will likely permeate our debate throughout the day, so it is appropriate that a panel of distinguished speakers set the background for our discussions. This will give us the occasion to hear the views of the main international energy organizations -- OPEC, the IEA and the International Energy Forum -- on the outlook for oil demand, supply and price trends.

  Questions: In view of the collapse in world economic growth, what will be the extent of global demand destruction, and when and how fast will oil demand recover with the eventual economic recovery? What will be the shape of the demand structure in view of the evolving consumer countries' emphasis on lower carbon emissions? With growing scarcity of capital to fund current and planned supply projects, what are the broad expectations for non-OPEC production potential over the short to medium term? Will OPEC countries continue to make good on their production pledge in spite of dramatically lower export revenues? Will the oil industry survive and prosper in a $ 50/bl world without a substantial decline in E&P costs?

- In the second session, a panel of producing countries' ministers will present their respective views on how they are responding to the new challenges ahead, and how their governments are adapting their strategies to the new environment.

  Questions: Will producing countries go forward with their capacity expansion plans, in view of the projected decline -- or at best stability -- in the demand for their oil in the short to medium term? Will they be able to maintain expensive idle capacity? Are they making any progress in reducing upstream costs? Will they continue to support their NOC budget and investment plans in an environment of much reduced oil and gas export revenues and growing potential deficits?

- The third session this afternoon will focus on the investment strategies of some of the most important oil companies. The evolving NOC-IOC relationship is a topic which has always been featured on our agenda. In recent years, some of the so-called IOCs have complained that they lack access to the resources controlled by the so-called NOCs. As a result of the exceptional market conditions experienced in the recent past, the NOCs have indeed acquired a new political and economic strength which has contributed to a new wave of resource nationalism. The end result was that, in spite of the dramatic increase in their capital outlays worldwide and their record profits, the IOCs have been unable to achieve their growth targets, either in terms of reserves replacement, or in terms of overall output.

Questions: Will the return to a low price environment shift the balance of power between NOCs and IOCs? Will the dramatic swings of fortune improve IOCs' competitive positions? Are we about to witness, as a growing number of analysts already suggest, a taming or even a softening of the resource nationalism phenomenon which IOCs have had to contend with over the past few years? Is there any concrete evidence that would indicate that the phenomenon is receding? Is it true that there are signs of a less confrontational approach towards IOCs on the part of some countries? Will the new environment improve IOCs' access to NOCs' hydrocarbon reserves, and on what terms?

- The final session will be devoted to the service companies who will present their case, particularly in relation to the manner in which they intend to cope with the market downturn and the constraints they are facing under the pressure of their clients' insistence on reducing the cost of their valuable services. The concern here is whether the major engineering and constructions firms will maintain sufficient capacity to service the industry when the time comes, or whether economic pressures will force them to lay off staff and/or discourage new hiring, thus creating the conditions of the next cost escalation.

Questions: What are the prospects for their business growth in a contracting market? Will they be able to cut cost and remain competitive? Will they be in a position, under adverse market conditions, to continue to invest heavily in R&D which is a crucial requirement to ensure their long-term viability? And will their shareholders allow them to do so? Are we going to see a new wave of consolidations as in the 1980s? In brief, will the service companies be able to cope in the short term, to be present and prosper in the medium to long term?

Before I give the floor to our first speaker, allow me to make a few more comments as we celebrate the tenth anniversary of this annual event. It may be, indeed, appropriate to recall that when the idea of holding this summit was first discussed ten years or so ago, world economic prospects were bleak in the aftermath of the Russian, East Asian and Brazilian financial crises. Oil prices were stagnating at around $ 10/barrel in spite of a series of production cuts involving almost all the exporting countries. There was, then, an intense scepticism about OPEC's ability to raise prices, and the general feeling was that very low oil prices would prevail over the mid to long term.

In such a gloomy environment, the themes and topics on the agenda of the first summit revolved around the same questions that are being asked today, namely:

- Will demand rebound in the face of the economic slowdown and the environmental constraints?
- Will OPEC succeed in shoring up prices?
- Will the industry survive in a low price environment?
- How far down can production costs go, etc.?

As we all know, the last ten years were a period of unprecedented change during which we have witnessed a profound restructuring of the oil industry of a scale never seen before, with:

- A record demand growth in developing countries, particularly in China, India and the Middle East;
- A stagnation of non-OPEC crude supply, with continuing decline in OECD output, broadly offset by increases elsewhere;
- A substantial increase in OPEC production capacity, particularly in Saudi Arabia;
- The growing role and the internationalization of NOCs, including the emergence of large importing countries' NOCs;
- The declining performance of IOCs, as I said, in terms of reserve replacement and production targets, in spite of record profits;
- The politicization of the NOC-IOC's relationship and the use of oil as an instrument of foreign policy;
- The rise of the climate change challenge, which the industry first resisted before finally embracing it;

- The emergence of oil as a financial investment asset which encouraged speculation and, which, at times, eclipsed OPEC's market power; and last, but not least;
- An unprecedented level of price volatility.

Since our first summit, the industry has thus gone through a full cycle ending right back where we started ten years ago:

- We have moved from "market surplus" to "market tightness" and back to "surplus" again.
- In the process, the so-called "fear factor" changed camps as we moved from "peak production" concerns for the consumers a few years ago to "peak demand" concerns for the producers now.
- The much heralded golden age for the refining industry was short-lived as we moved from tightness and bottlenecks to an abundance of projects, some of which are now fraught with questionable economics.
- From one year to the next, we moved from a critical shortage of skills in the industry to massive layoffs in the service companies.
- And, in real terms, oil prices fluctuated between their lowest and highest levels ever.

These dramatic changes highlight the need for all industry stakeholders, not only to understand the various factors which led to the current predicament, but also to consider steps to counteract further sources of instability. The good thing about crises, like the one we are going through today, is that they help focus on what went wrong, concentrate our minds on what needs to be done, and create an environment conducive to renewed collective and coordinated efforts to shape a better world. Clearly, the current exceptional market conditions and their potential risk to the global economy and the oil industry underscore the importance of closer dialogue and cooperation at all levels, which is one of the fundamental objectives pursued from the beginning by the organizers of this summit.

This concludes my introductory remarks. Let us now pay attention to our guest speakers' comments. The organizers have certainly assembled here some of the most qualified executives to wrestle with the critical issues at hand. I hope that the debate will benefit, as usual, from your active participation in the discussion which will follow the statements of our distinguished guests.

* - * - * - *