

Speech of
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At
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**“Producing countries: responding to the new
challenges of the oil sector”**

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Ladies and Gentlemen,

It gives me great pleasure to be with some of the most distinguished experts in the energy industry. Undoubtedly the International Oil Summit provides a valuable opportunity to exchange views with the highest levels of expertise and deliberate the issues and challenges being faced by the petroleum industry.

Until few months back we were dealing with challenges like increasing global demand on hydrocarbon energy, high oil prices, global shortages of raw materials and skilled labors, overheated economies, and many other associated issues.

The picture, however, has changed drastically during the last few months, we now have new set of challenges to deal with. Although these challenges may not be new to the industry, the root cause is different this time. Therefore our approach to overcome these challenges has to be carefully selected in order to avoid any superficial remedy.

As you know, the repercussions of the financial crisis have spilled over into the energy markets. What started as credit crunch in the U.S, led to the collapse of major financial institutions, and is becoming more of a

confidence crisis which has plunged the world economy into a major recession.

The effect of the global economic crisis on the energy industry has been severe and swift, it may differ in intensity and magnitude from one country to another but no one is immune. I would like to highlight some of the implications of the current crisis and the challenges resulting from it on both consuming and producing countries.

Firstly, investment throughout the entire energy value chain is diminishing due to credit scarcity and falling oil prices. Several energy companies have been forced to cut capital spending by deferring projects, either for lack of financing or they are trying to take advantage of an expected reduction in costs after the race to build production capacity pressured labor and materials costs upward.

Projects in the upstream sector however will suffer the most due to its capital-intensive nature, as well as the long lead time it requires. However, once demand growth re-emerges we will again face tight supply conditions. Deferring projects today will undermine future oil supply growth.

Investment decisions we make today will have an impact on how energy markets evolves over the next decades. Therefore, we need to think

carefully about the future while we try to overcome the challenges we face today.

The second point I would like to cover is the weakening global economy which is dragging down the demand for oil and other hydrocarbons. As a result, some estimates are expecting negative growth in OECD oil demand during 2009, whilst also downward forecasting reduced demand from developing economies, such as China and India.

During the last few years, emerging economies have managed to offset the effect of falling consumption in OECD countries. But as consumer spending falls in the U.S. and OECD economies, emerging economies can no longer sustain their export-led growth.

Demand reduction will increase pressure on the energy markets and further intensify the level of uncertainty of the future, consequently affecting price direction in mid and long term.

In summary, will the emerging economies that have been expected to drive energy demand be able to rebound from the current crisis, or will they experience difficulties in regaining the right momentum.

My third point is about oil prices, which have been exposed to external factors that have influenced market behavior and contributed to the rapid rise and fall of oil prices including institutional investors and hedge funds. These factors are now out of the picture, and supply and demand is regaining control of prices.

Market fundamentals however will not identify the desired fundamental level of oil prices yet, or lead to any upward pressure anytime soon. Prices are likely to stay low for the remainder of 2009, since the short-term price responsiveness to supply and demand is generally low.

However, if prices stay low for a long time, future supply growth will be impossible, leading to another price run-up in the future. In short, oil prices must reach levels that will help maintain economic growth through supporting investments in the energy industry in the longer term.

In this regard, the challenge we are facing here stems from the ability of market to achieve a sustainably high oil prices.

Another critical issue I would like to bring up is related to data, which has been around for quite sometime, nevertheless it becomes more sensitive during downturn periods.

The market often lacks timely comprehensive data on global supply and demand, and such data is frequently revised, while facts about global inventory are simply not available.

Insufficient information has often fueled speculation creating momentum for price overshooting on both the upside and the downside.

We should spare no efforts to neutralize undesired factors such as data availability, that would further cloud our vision through enhancing the level of transparency and share of information.

The more open and transparent producers and consumers are about their current operations and future plans, the less distorted our vision of the future is likely to be.

I would like to conclude my speech with a positive note by saying that sometimes special opportunities are born amidst crisis. At downturn times like these when everyone is afraid and reluctant to invest, courageous industry leaders with sharp insight will capture valuable opportunities.

I would like to thank you for your attention and hope that your deliberations on the important issues will lead to a better understanding of the challenges facing the petroleum industry.
