

Speech for HE Abdalla Salem El-Badri, OPEC Secretary General

For the session entitled: *What does the future hold for the oil industry?*
10th International Oil Summit, 2 April 2009, Paris

Excellencies, ladies and gentlemen,

I would like to thank the organizers of this important event for the opportunity to address such a distinguished audience. It gives me great pleasure to be here today.

The global financial and economic crisis continues to unfold – but not only in the rich, industrialized countries from where it originates. It is also severely affecting developing nations, a category into which many oil producing countries fall.

We are faced with ever more dismal economic indicators, despite continued news of stimulus packages and bailouts from industrialized countries. We look with high expectations to the leaders of the G20 who need to provide clear, coordinated and immediate actions in order to restore confidence. These actions should include the introduction of strict financial regulations, the absence of which is at the heart of today's problems.

Turning our attention to the oil industry in particular, we can see that the crisis has impacted demand significantly. In 2008, global oil demand growth was in decline for the first time since the early 1980s, while oil demand for 2009 is now forecast to fall by around 1 mb/d. These downward revisions show the continued deterioration of the world economy and contracting international trade.

At OPEC we are currently working on our *World Oil Outlook* for 2009, which will be released in the summer. Inevitably our forecast for 2009 will be different from that for 2008, illustrating just how much today's environment has affected oil supply and demand.

OPEC Member Countries are already shouldering a good deal of the responsibility for turning the global economy around. As most of you know, at our March meeting, we maintained oil output at existing levels, despite the current low price environment and the market's persisting crude oil stock overhang. OPEC's objective, as ever, is to bring about long lasting market stability.

When we consider what the future holds for the oil industry – the very title of this session – it is important to remember that the short-, medium- and long-terms are all interlinked. Concerning ourselves only with the immediate situation will lead to a potential impasse in just a few years. We must not lose sight of our medium- and long-term perspectives.

Extreme oil prices, whether too high or low, are damaging to producers and consumers alike. The extreme highs of last summer driven by poorly regulated future markets – even though the oil market remained very well supplied – were just as problematic for the long-term stability of the market as the low prices of today. Such volatility is devastating to an industry with long lead times and massive upfront costs.

We can all appreciate that the fall in oil prices since last summer has offered some short-term relief to consumers. According to some institutions, today's oil price is providing a stimulus of some \$1 trillion to the struggling global economy. However, we believe the figure is much, much larger. If we consider the last half of 2008 and 2009 together, the figure may reach \$2 trillion and OPEC's share accounts for

some \$800 billion of this. And at least some of this stimulus is already being felt by the whole world.

We all want to see the global economy back on its feet as quickly as possible, but we also need to appreciate that short-term relief does not always translate into long, or even medium-term, gain. At the recent 4th International OPEC Seminar, there was a convergence of views on this very point. The current oil price breaks the very momentum of investment in the oil industry – a momentum that is as vital for continued research and development and encouraging new human capital, as it is for capacity expansion to meet future demand.

Although OPEC Member Countries are continuing to invest, so far they have collectively postponed a number of projects earmarked for startup over the next decade. And many important conventional, non-conventional and marginal oil projects outside our Member Countries have already been delayed or abandoned altogether.

All this means that there is a potentially massive supply crunch waiting to happen. But calls for oil producers to continually invest amid deteriorating economics simply fly in the face of basic economic sense – as I am sure many of the business leaders in attendance today will attest. Reasonable and stable oil prices are necessary to encourage a broad range of investments across the energy spectrum.

We accept healthy debate within the industry concerning global energy supply, since we recognize the need to develop other forms of energy to meet the world's growing need for fuel in the coming decades. But we also ask for clearly-stated, non-discriminatory and realistic energy policies, so that we may make informed investment decisions. The future needs to be about enhancing the planet for the whole of

humankind – not about policies aimed at pushing specific political agendas.

Unclear policies increase volatility and add to uncertainty. This is evident in scenarios developed by the OPEC Secretariat. Last year, our *World Oil Outlook* showed that by 2020, the amount of crude oil required from OPEC could easily range between 29 mb/d and 38 mb/d. In monetary terms, the difference between the lower and higher upstream investment requirements from Member Countries collectively could be more than \$300 billion in real terms. The current economic climate is adding more uncertainty still.

Despite this uncertainty, there remains a broad consensus that fossil fuels will continue to provide most of the world's energy needs for the foreseeable future. And it is precisely because of oil's continued importance that we must look to technology for a way forward.

Many of our Member Countries are already working hard to increase the efficiency and environmental credentials of fossil fuels. Carbon capture and storage (CCS) has enormous potential in this respect and offers a real win-win solution. OPEC is proud to be at the heart of the new way forward, but we cannot, nor should we, act alone. CCS needs to be commercialized quickly – developed countries should take the lead in this respect and in the greenhouse gas mitigation effort generally, given their historical responsibility and technological and financial capabilities.

I would like to conclude by reiterating three main points:

First, make no mistake fossil fuels will be at the heart of meeting global energy needs for the foreseeable future.

Second, there are converging views that a stable, realistic and 'fair' price for oil is vital to prevent recurring volatility that will derail the global economy's recovery and also encourage producers to invest in new capacity, new technologies and above all attract and retain much-needed manpower.

Third, protecting the environment should be about enhancing the future for generations to come, not promoting specific political agendas. So we need clear, transparent and non-discriminatory policy agendas.

Thank you for your kind attention.