



Petroleum Policy Intelligence

# Middle East Oil and Gas: Opportunities and Challenges

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- Oil and Gas in the primary energy mix

Long-term forecasts suggest oil and gas will hold maintain their position within the primary energy mix

- The reserves picture: OPEC vs non-OPEC

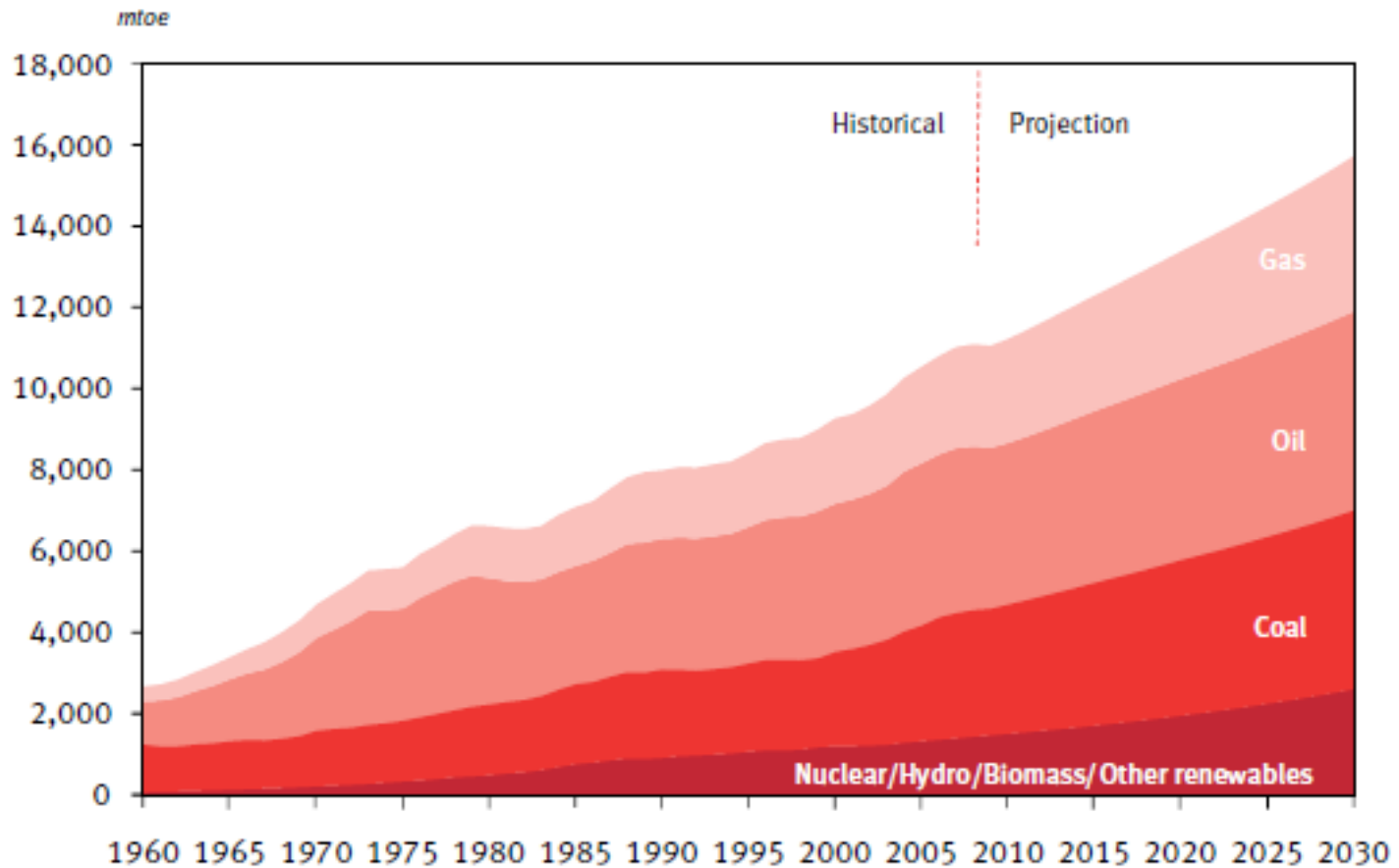
OPEC and the MENA region's dominant oil reserves position and low cost of production argues in favor of growing production share for these producers over time

- Spare Capacity As A Market Management Tool

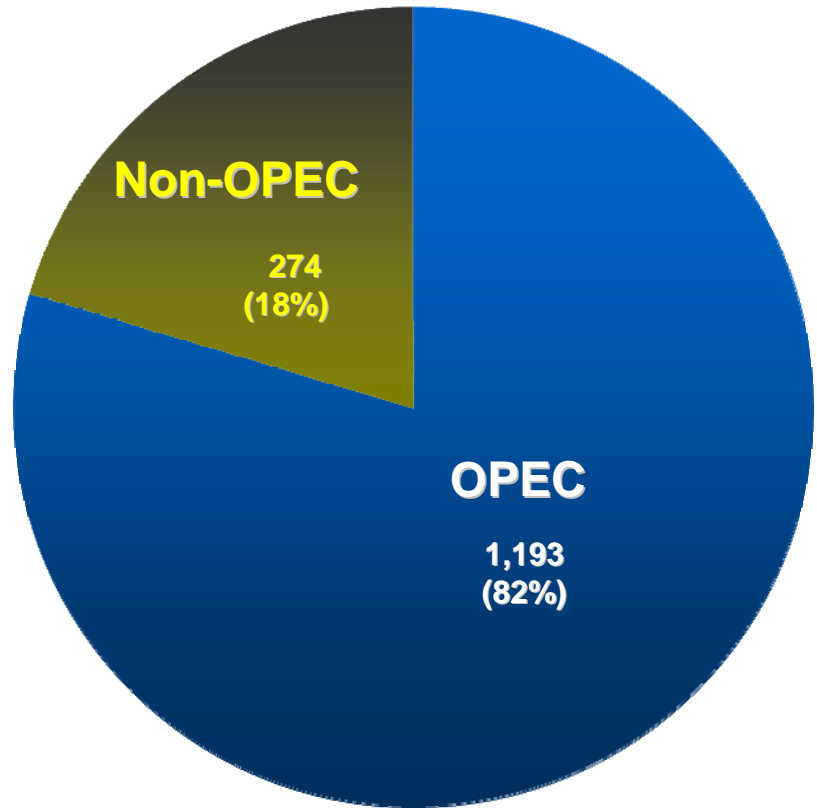
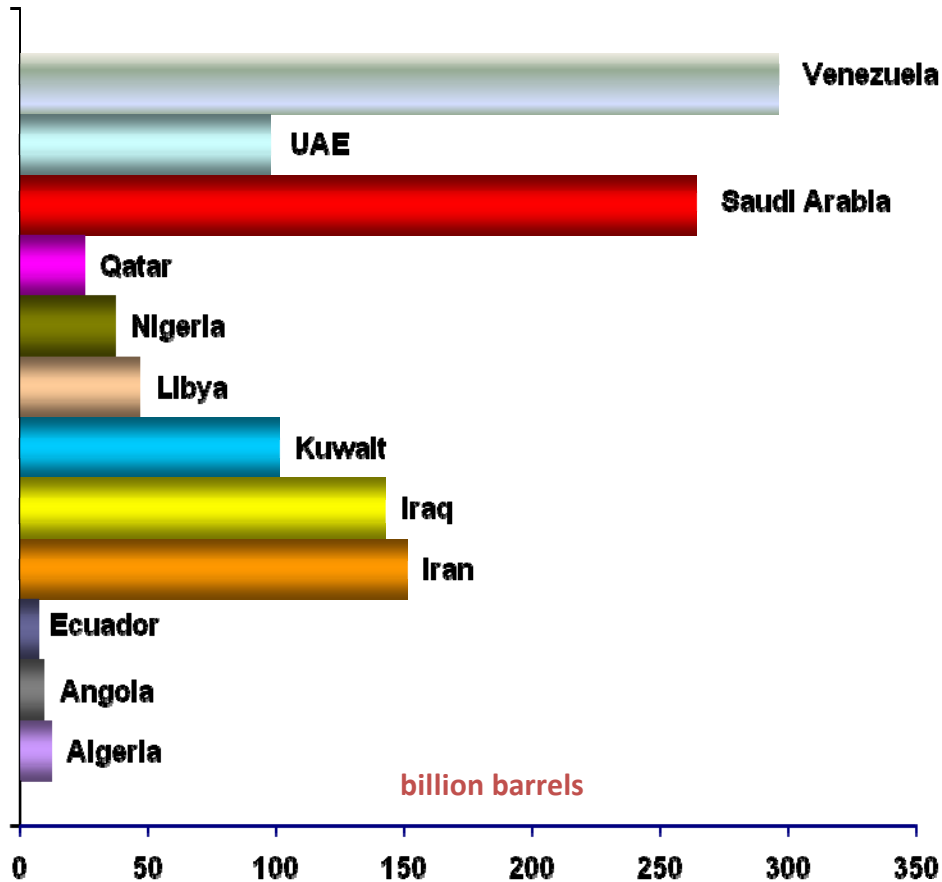
Gulf producers' strategy of maintaining spare oil production capacity through the economic cycle confers pricing power.

# Oil To Hold Its Own In Primary Energy Mix

World supply of primary energy by fuel type

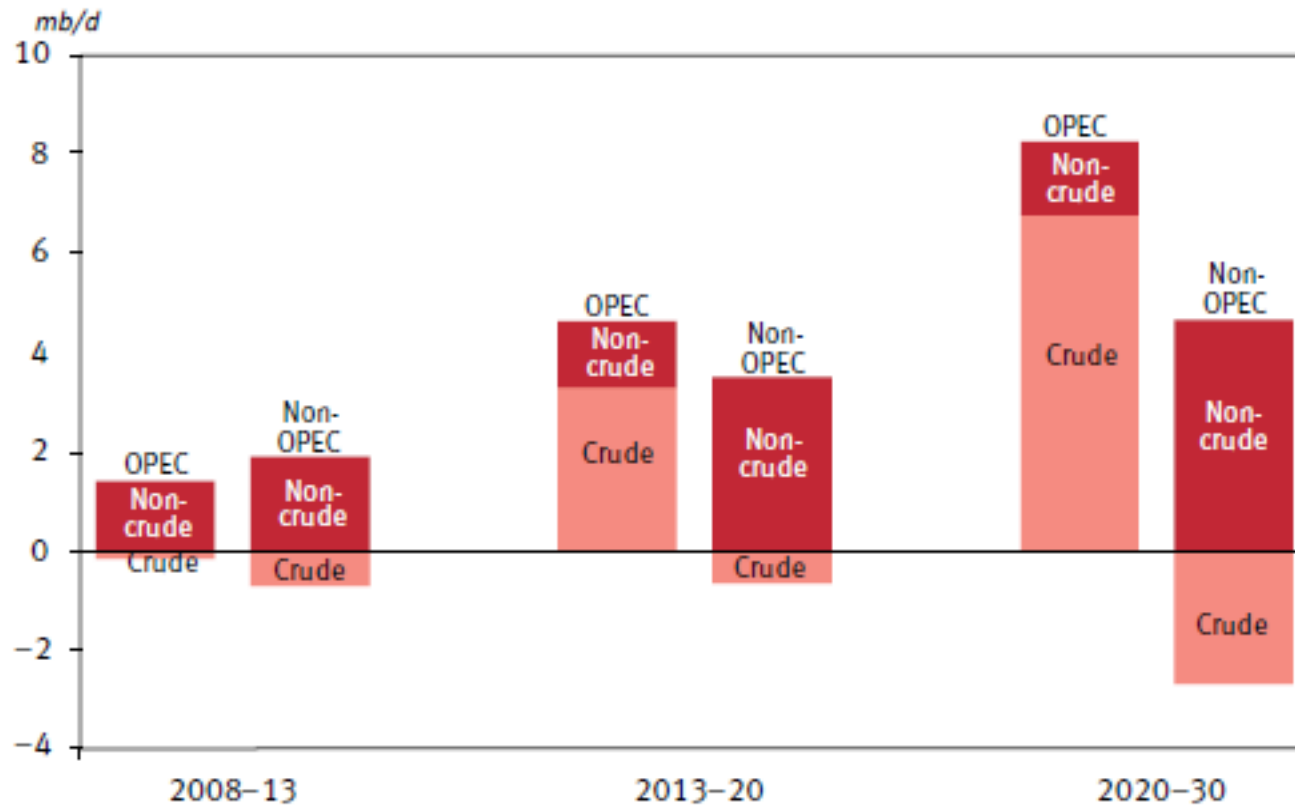


- OPEC crude oil reserves rose 129bn barrels to 1,193bn barrels in 2010



# Middle East Oil: A growing role in global supply

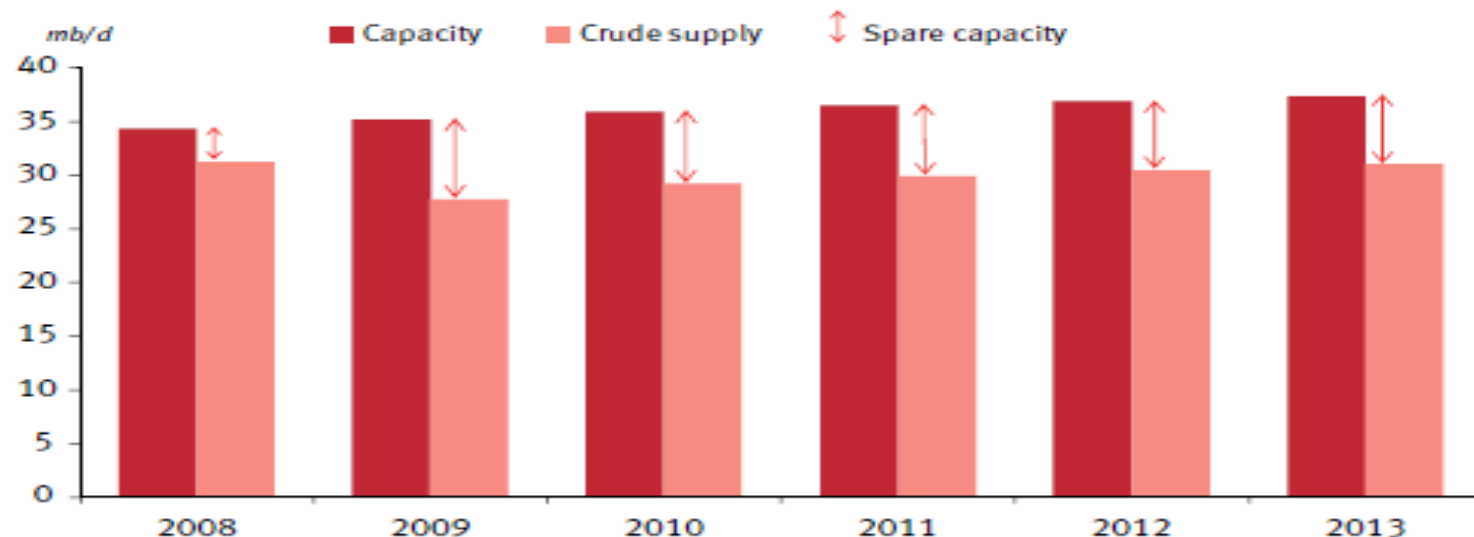
## Incremental OPEC and non-OPEC supply in the Reference Case



# Rising Call On OPEC Has Surprised

- OPEC's long-term strategy forecast the call on OPEC at sub-2008 levels until 2013, implying need for output discipline through medium term.
- The reality has been different: OPEC has had to raise production to meet steady demand amid Libya outage and sustained Asian demand

## OPEC crude capacity and crude supply in the medium-term



# Challenges to the Orthodox View

- The Arab Spring – Regional unrest
- Populist energy policy, gas deficits drive demand growth
- Rising oil price requirement as fiscal needs rise
- Slowing upstream investment: natural output declines
- Rising development and operating costs
- Prospects for real production capacity growth – Iraq, Saudi?
- Tighter global oil balances keep oil prices elevated despite economic stress.
- Can consumer country economies recover at \$100+ oil?

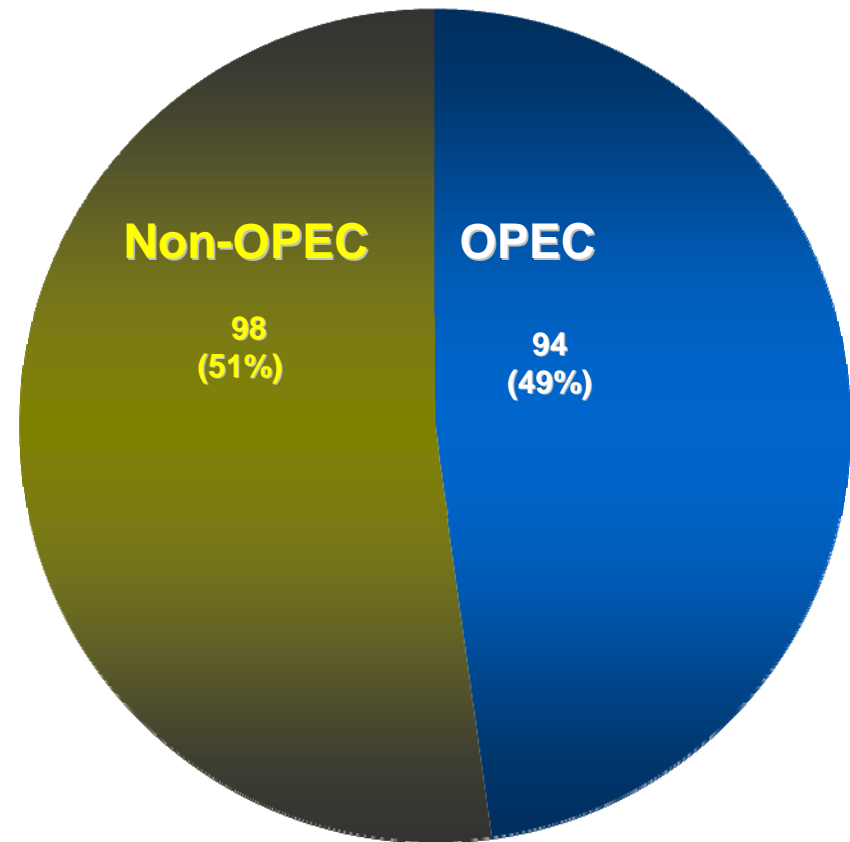
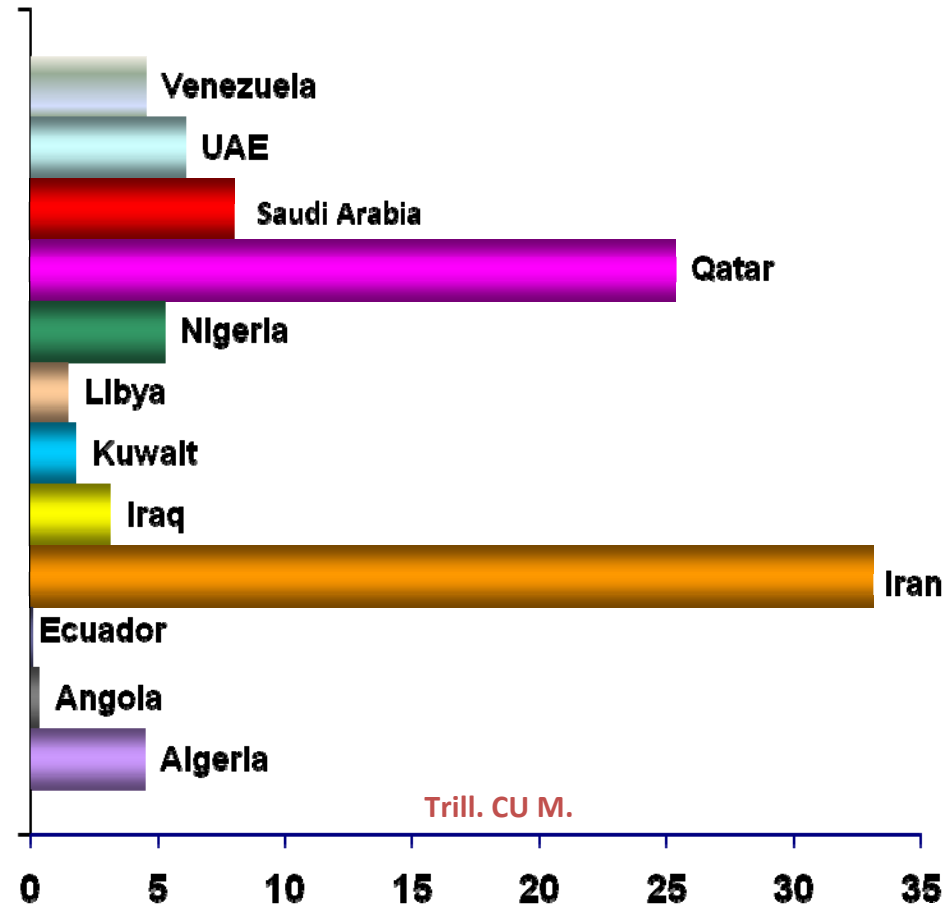
## Regional Oil Demand Growth – Squeezing Exports

- Middle East has shown second highest oil demand growth after China in recent years. Growth driven by population, strong GDP, low official fuel prices.
- Near-term prospects for price liberalization for gasoline and distillates are limited.
- The continued absence of sufficient power generation and transmission regionally has and will continue to support the use of diesel and crude-fired captive power.
- If regional product demand continues to rise at 5-7% annually, oil available for exports will eventually be squeezed, with regional export refineries switching to meet local demand.
- Regional gas squeeze also driving liquids for power, naphtha for petchems.



# Gas – A different story

- OPEC natural gas reserves rose by 4% in 2010



# Gas Challenges

- MENA cross-border gas trade has had limited success (AGP, Dolphin, Iran-Turkey all based on low gas prices)
- MENA LNG also fading as supply eroded, regional demand for LNG explodes
- Gas markets set to tighten regionally on surging power demand, need to release oil for export

- Potential new gas pipelines: Iran-Syria, Qatar-Jordan/Egypt
- Rising regional LNG demand: Kuwait, Dubai, Bahrain, Oman, Saudi Arabia, Israel, Lebanon, Syria
- Tight and shale gas could revolutionize regional balances and pricing
- Gas to benefit as Fukushima incident prompts review of nuclear policies in OECD countries.

# Conclusions

- Oil is set to hold its own in the long-term energy mix, with OPEC and Middle East producers set to grow their share.
- Challenges surround impact of regional unrest on energy policy, price requirements and slow investment.
- For gas, MENA countries are less dominant on reserves and LNG consumption will boom as cross-border pipeline deals remain elusive
- Desire to achieve oil parity gas prices will drive marketing efforts despite present soft demand
- No price convergence for gas as US shale, Europe hybrid spot-term pricing, and Asian oil indexation mean global benchmarking impossible.