Remarks by HE Khalid A. Al-Falih
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Salutations

Your Excellencies and distinguished ladies and gentlemen: good morning. I'm delighted that the JMMC is meeting in Azerbaijan, which in the words of my good friend His Excellency Parviz Shahbazov, the Minister of Energy of Azerbaijan, is one of the birthplaces of the modern oil industry—and I could not agree more.

In fact, the world's very first oil well was drilled here in the 1840s, and by 1901 this country accounted for more than half of the world's oil production. Just two decades ago, the immense oil deposits of the Caspian were hailed as spelling the end of OPEC—and here we are today working hand-in-hand with three principal Caspian producers to promote market stability, while also celebrating the success of Azerbaijan's petroleum industry.

I want to express our appreciation to His Excellency President Ilham Aliyev for his global statesmanship and visionary leadership in demonstrating over the years the value of cooperation between OPEC and non-OPEC producers. I also want to thank the Government of Azerbaijan, as well as our host His Excellency Parviz Shahbazov, for their warm welcome, their gracious hospitality, and the fantastic organization of these meetings. Although my Co-Chair, His Excellency Alexander Novak of the Russian Federation, is not present today, we are supported here by his able deputy. I want to take a moment to thank the minister for continuing as co-chair, and for his ongoing personal efforts in support of the vital work the JMMC is performing.

I would also like to thank the President of the OPEC Conference, His Excellency Manuel Salvador Quevedo Fernandez, the People's Minister of Petroleum of Venezuela; and His Excellency Mohammed Barkindo for their presence here today. I am also delighted to welcome His Excellency Thamir Abbas Al-Ghadhban, Deputy Prime Minister for Energy Affairs and Minister of Oil for Iraq.

JMMC stabilizing oil markets

Ladies and gentlemen, over the last year we have weathered a variety of serious challenges that could have derailed the global oil market, creating turmoil for all.

The nature of the various drivers of the oil market and their interactions makes it difficult to predict the extent of their impact, thus rendering our task even more complex and challenging.

But even though markets came under substantial downward pressure on numerous occasions over the last year, we were able to return to stability by taking timely and collective action. Dealing with these challenges, with supply-demand balances switching 180 degrees from shortfalls to surpluses, was no minor achievement.

Our partners in the Declaration of Cooperation and the JMMC have done an outstanding job navigating these testing times. So, I want to thank both the JMMC members and the broader membership of the OPEC Conference and our non-OPEC colleagues, led by Russia, for their cooperation, without which the fairly steady market performance we have achieved would have been impossible.

Fundamentals have been slowly improving

Looking at the current situation, market fundamentals have been slowly improving since the latter part of last year, but I would hasten to add that much more work still needs to be done.

Let me elaborate.

Inventories in the OECD and the US continue to fluctuate, and our goal is to bring global inventory levels down to more normal levels—and even more importantly, to proactively protect against a glut. Those inventory levels would be an important barometer of the effectiveness of our actions.

Another important metric is the state of oil investments. Two aspects give us a vivid look into the current weakness in this area.

First, prior to the last downturn in 2014, global oil and gas investments were growing at a rapid pace of between five and fifteen percent per annum, depending on the year. They peaked at roughly 900 billion dollars in 2014, but continued to fall until 2016, dropping to as low as a little over 500 billion dollars.

As we have recently seen, the investment recovery has been quite modest, with this year's estimates hovering around 535 billion dollars, or some 40 percent less than the peak. In other words, from 2016 to 2019, the industry invested only an additional 35 billion dollars per year for oil and gas combined.

In the process, the industry cumulatively lost almost 1.7 trillion dollars in investments compared to 2014 levels.

And let's keep in mind that various organizations estimate that the industry needs about 11 *trillion* dollars over the coming two decades to meet the anticipated growth in oil demand and to offset natural decline. However, we are not seeing an investment trend that will get us even closer to the required figures.

In addition, a large share of the recovery in investments has gone to shale oil and other quick payout, short-cycle projects. In my view, this is not adequate to build a robust and longer-term base of oil production.

Even in shale oil, a continuing challenge facing "dedicated" shale oil producers or those who *only* invest in shale oil is their weak cash flow situation: the CAPEX of about three-fourths of these companies exceeds their cash flow from operations. This is making it difficult for smaller companies to raise capital.

US oil rigs are a leading indicator of the adequacy of shale oil investments. That rig level, which was around 1,600 at its peak in 2015, has been gradually declining since the middle of last year and stands today at roughly half of that high-water mark, or a little over 830 rigs.

This situation is clearly not satisfactory for long-term oil supplies.

Speculative Forces

Another question concerns the impact of *excessive* financial speculation on the market. We know that market fundamentals don't change significantly over very short periods of time—and yet many times we experience wild fluctuations driven by speculative activity. Such undue speculation should be countered to the greatest extent possible, in the interest of more stable, steady and predictable markets.

Collaboration

In light of these challenges, it is more important than ever that we continue to collaborate to ensure market stability. Our experience tells us that whenever we have taken our hands off the steering wheel for even short periods of time, the market has ways of quickly getting off track—and once that happens it becomes a lot harder to put it back on course. And as soon as we begin to think that major challenges are behind us, something new of one kind or another emerges and surprises us!

I don't expect the future to be any different in this regard, because that's the nature of the oil market.

To address this environment, our decision reached last December has worked fairly well, though some gaps remain that we plan to address. In fact, following my discussions here over the last two days, I'm confident of the assurances given to me by my colleagues representing the large producers to reach full compliance, or even exceed it.

The work of both the JMMC and the Joint Technical Committee plays an important role in our defense against instability, and I am appreciative of both committees' efforts.

Longer-term cooperation also critical

At the same time, institutionalizing a suitable framework for *longer-term* cooperation between OPEC and Non-OPEC is strategically important, and would give the market the comfort and reassurance that whatever is thrown at us, we will be prepared to adequately respond.

Establishing such a framework will also prevent a replay of the market turmoil of 2014: frankly, if we had a suitable mechanism in place back then, in all likelihood such a serious downturn would have been avoided.

So I'm delighted to report that the development of the longer-term Charter of Cooperation has been proceeding satisfactorily, and that we are converging on a consensus document. In fact, we're set for the draft charter to be shared with the participating countries over the next couple of months.

The will to act in unison is the only guarantee of future success

Ladies and Gentlemen, in summary, our unity, commitment, and will to act collectively are the only guarantee of future success. We are much stronger working together than when we act apart, and each of us must take up our share of responsibility to produce the desired results for both producers *and* consumers.

Ladies and gentlemen, I look forward to fruitful discussions today, building on a good start from yesterday