OPEC and the future

Mohammed Sanusi Barkindo, OPEC Secretary General, provides insight into the role of OPEC and fossil fuels in the future energy mix ahead of IP Week on 21–23 February 2017, at which he will be giving a keynote presentation.

Source: OPEC

How do you see the role of OPEC in a rapidly changing mixed energy environment?

For more than half a century, OPEC has remained steadfast in delivering on its original mission of acting as a consistent, stabilising force in the energy industry, while acknowledging the interrelated issues of providing oil, promoting prosperity and protecting the environment.

Looking towards the future, oil and gas will continue to play a very important role in supplying the world's energy needs, making up an estimated 53% of the global energy mix by 2040, according to our recently published *World Oil Outlook*.

The outlook on global oil demand is also positive. It is estimated to increase from roughly 93mn b/d in 2015 to over 109mn b/d by 2040. In relation to natural gas, demand is set to rise from around 350bn cf/d in 2015 to 590bn cf/d in 2040.

This positive outlook, of course, hinges on huge investments being made to not only increase production from new areas, but also to compensate for existing fields on the decline. Between now and 2040, an estimated $10tn in oil-related investments will be required, and for gas, roughly $6tn.

OPEC's member countries are ready to make the required investments in production, as well as research and development (R&D), so as to ensure that the future requirements of consumers are met in a timely and sustainable manner. Over the past two years, though, the industry has seen dramatic drops in investment due to the fallout from the price crash that hit the industry in mid-2014. Spending on global oil and gas exploration and production declined by around 26% in 2015, and an additional 22% decrease is forecast for 2016.

Some have suggested that it is possible that we may see a third year of investment cutbacks, which would be unprecedented in the history of the oil industry.

This is one record we do not want to see broken. The fact is our industry needs a steady flow of ongoing investments to ensure the required supply gets to consumers in both the medium and long term, and OPEC will be instrumental in making this happen. This was readily apparent in the decisions taken at the end of last year by OPEC member countries, as well as some non-OPEC producers, to adjust their production in order to achieve oil market stability in the interest of both producers and consumers.

What are the key challenges for OPEC in the coming years given the rise of US shale gas and potential production from the Arctic and other sources, coupled with moves towards decarbonisation due to climate change?

We see a future energy environment that is sure to have its fair share of challenges, but it will also present many opportunities.

One thing that you can count on, though, is that the world will need more energy in the coming years to fuel a global economy that is expected to more than double between now and 2040. Add to that the exponential growth in the world's population, which is forecast to expand by 1.7bn to reach a staggering 9bn by 2040, and it is clear that our work is cut out for us.

To meet this demand, all forms of energy will be required, including a significant and increased contribution from renewables, such as wind and solar. According to our *World Oil Outlook*, the share of non-fossil fuel sources in the overall energy mix is expected to grow from approximately 18% in 2015 to 22% by 2040. OPEC's member countries support this development, and many of them are already benefiting from their own bountiful renewable resources. This also supports their transitions to more diversified economies.

As far as non-OPEC supply goes, we see a decline during 2016 and 2017 due to recent lower oil price levels, but then a gradual increase to 2021. From the long-term perspective, we expect non-OPEC supply to continue to rise steadily, reaching a high of 61.4mn b/d in 2027, before dropping to 58.9mn b/d in 2040.

This all points to the fact that OPEC will be needed to fulfill most of the additional long-term oil demand. For crude, this means an estimated 8.9mn b/d between 2015 and 2040, and for all liquids, 12.6mn b/d. The share of OPEC crude in the global liquids supply is forecast to increase from approximately 34% today to 37% by 2040.

At the same time, OPEC recognises the issue of climate change and its potential threat to the environment. We welcome the COP21 agreement made in Paris in 2015 where our member countries played a valuable role in drafting the agreement. OPEC remains committed to this process, which can be viewed in its member countries playing a full role at the recent COP22 meeting in Marrakesh, and it will continue to support the successful and comprehensive implementation of the Paris Agreement to ensure a 'win-win' outcome for all.

In this regard, we should also remind ourselves that the Paris Agreement is under the UNFCCC and should continue to be guided by its principles and provisions. In particular, the unique situation of developing countries should be given the top priority it deserves.

How long do you see the oil price remaining an effective tool for change? And how has OPEC helped return stability to prices and balance to the market?

In January of last year, the OPEC Reference Basket price dropped to $22.48/b, a decline of 80% over the period since the oil price crash hit in June 2014. It is the largest percentage fall in the five cycles of sharp price declines we have observed over the past three decades. This oil price decline exerted a severe blow on the industry, resulting in hundreds of thousands of jobs being cut, investments being deferred or cancelled, and R&D, in some cases, coming to a halt.

With this in mind, it is important to consider the crucial relationship between prices, demand and supply. If these three factors are in balance, we will see the industry regain its footing and begin to invest at adequate and necessary levels again to ensure that future energy needs are met.

However, if these factors remain out of equilibrium, then we could see further negative consequences for jobs, investments and R&D. No one in the industry likes to see severe boom and bust cycles. These are undesirable for all stakeholders. In this respect, both oil prices levels and the volatility of prices are important factors.

Given that oil and gas will continue to play a vital role in providing energy in the years to come, we must continually focus on providing balance and stability in the market. Achieving market stability is one of the main reasons OPEC was founded, and it will continue to be the central aspect of our strategy going forward.

This was evident during the second half of 2016 when it became evident that producers, as well as most consumers, began to fully comprehend the gravity of the current oil cycle that began in mid-2014. We saw extensive consultations with many OPEC ministers and non-OPEC ministers, as well as some heads of state and governments engaging in the process of rebalancing the oil market, and expressing their views on the need to see sustainable stability return.

From OPEC's perspective, this led to the landmark Algiers Accord that was agreed by all OPEC member countries at the 170th (Extraordinary) Meeting of the OPEC Conference in Algeria on 28 September 2016 and the historic Vienna Agreement, adopted on 30 November 2016. The agreement focused on the urgent need to stimulate the acceleration of the drawdown of the stock overhang, to bring the market rebalancing forward and ensure that much needed investments return to the industry. It all underscores OPEC's continued commitment to stable markets, in the interests of both producers and consumers.

What followed soon after was a pledge from some non-OPEC producers to adjust their production at a joint ministerial-level meeting between OPEC and a number of non-OPEC producers in Vienna on 10 December. This underlined a shared and deep resolve to return much needed stability to the market, and the industry, as a whole.

What are the key opportunities going forward?

Given the developments at the end of last year, we will continue to work closely with our fellow industry stakeholders. This includes further strengthening the consultations between OPEC and non-OPEC oil-producing countries, as well as evolving existing and developing new dialogues to help better understand the challenges and opportunities we face. In this regard, let me stress that it is vital that we have open channels of communication so that we are able to take timely and pro-active measures to ensure a balanced oil market on a sustainable basis.

It is evident that the current oil market has presented our industry with tremendous challenges, but we should remember that 'tough times' are nothing new for the industry. The story of our industry is one of many cycles, both up and down, but it has always recovered and come back stronger.

I believe there are many reasons why we should be optimistic about the industry's future. Firstly, it is clear that oil and gas will continue to be fuels of choice. And secondly, I have no doubt that through innovation, human ingenuity and technology, the industry will become more efficient, more resilient and more nimble. This will enable it to continually transform itself to overcome the challenges it faces, and unlock the many opportunities before it in the years ahead.

For example, many of OPEC's member countries are embracing new opportunities to boost efficiency and innovation in their operations through environmentally friendly carbon capture and storage initiatives, as well as enhanced oil recovery efforts to optimise extraction of valuable resources.

This is a great example of a negative being turned into a positive. The cyclical challenges we are experiencing at the moment have presented us with new opportunities to improve as an industry, and we are optimistic that a bright future lies ahead.