



EUCERS/KAS/ISD Energy Talks 2016

The Gulf Region and the Future of Oil

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When it comes to oil production, the Persian Gulf Region – Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (UAE) – is the most important single geographical zone in the world. 50% of the world's oil reserves are located here.¹ With 22% of the world's proven reserves Saudi Arabia is typically considered to be the most relevant actor in global oil markets. But Iran and Iraq also account for significant reserves – circa 13% and 12% respectively.² These two countries are particularly important at the moment given that their current contribution to global markets is lower than their potential output due to geopolitical cleavages. And whilst smaller independently, the other countries in the Gulf produce roughly 14% of the world's oil. In addition, the region's oil has historically been appreciated for being 'sweeter' than the alternatives and thereby easier to refine. Moreover, the region also accounts for some of the countries with the lowest costs of production, with Saudi Arabia and Iran reported to produce at less than \$10 per barrel.³ Altogether, these countries have aided low oil prices in the past two years by not cutting production. Whilst this is not the only reason why oil prices are currently low, it does have the declared objective of making it harder for producers elsewhere to compete. The hope in the region is that forcing other producers out will, on the long term, solidify their market share.

Much despite the fact that their influence is felt throughout the world, all of these countries face serious challenges as a result of the same oil prices being pursued. Firstly, producers in the region have been forced to delay future oil projects worth billions of dollars.⁴ This highlights the risk of future infrastructure challenges. Secondly, and most importantly,

¹ OPEC, *OPEC Annual Statistical Bulletin* (Vienna, Austria: Organization of Petroleum Exporting Countries (OPEC), 2015), p. 22 <http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2015.pdf> [accessed 12 May 2016].

² OPEC, 'OPEC Share of World Crude Oil Reserves', *Vienna, Austria: Organization of Petroleum Exporting Countries (OPEC)*, 2016 <http://www.opec.org/opec_web/en/data_graphs/330.htm> [accessed 12 May 2016].

³ WSJ, 'Barrel Breakdown: The Cost of Producing a Barrel of Oil and Gas Varies Widely across the World, Setting up Winners and Losers as the Price of Crude Fluctuates at Historically Low Levels.', *New York, NY: The Wall Street Journal (WSJ)*, 2016 <<http://graphics.wsj.com/oil-barrel-breakdown/>> [accessed 12 May 2016].

⁴ Benoît Faucon and Summer Said, 'Persian Gulf Producers Delay Oil Projects', *Wall Street Journal*, 2015 <<http://www.wsj.com/articles/persian-gulf-producers-delay-oil-projects-1446821634>> [accessed 12 May 2016].

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low prices significantly challenge the region's developmental agenda. This is mainly because the direct contribution that oil revenues have for the GDP of the countries in the region is substantial – circa 45% for Saudi Arabia for example.⁵ As such, once we take in consideration all public finances, no country in the region is currently producing above break-even prices.⁶ In consequence, the world wonders if the region will be able to withstand low oil prices for much longer without triggering global instability, a topic that has divided experts.⁷ This concern is shared by the Gulf countries themselves. Some have even announced significant economic reforms that go as far as taxation – an unprecedented step in the region.⁸

There are also striking contradictions with regard to the region's long term planning. For example, UAE is home to the world's most ambitious renewable energy project – Masdar City – but also intends to boost oil production by around 30%. Whilst both objectives may seem reasonable by separate, it is not entirely clear whether ambitious plans of that kind can be undertaken with the current low oil prices. Saudi Arabia, on the other hand, continues to have an ambitious agenda aimed at diversifying its economy and enhancing its global presence, agenda that may also be hindered by the lack of funds to invest in such diversification.⁹ Let's not forget that a major crisis is currently unfolding in Iraq and that Iran is currently in the process of re-entering the markets, possibly affecting the market in uncertain ways. This is an effect that already underway. For example, whilst the extent to which supply could rise in these two countries on the short to medium term is uncertain, Iran already reached pre-sanction levels of supply this last April.¹⁰

It is in this highly uncertain context that we will approach the challenge of examining *The Gulf Region and the Future of Oil* in our third 2016 EUCERS/ISD/KAS Energy Talk. Do come and join us in the discussion led by regional experts to continue learning about the complex future that we face with regard to energy and security!

⁵ cf. GCC, *GCC Economic Statistics: Compiled by the GIC Economics & Strategy Division* (Safat, Kuwait: Gulf Investment Corporation, 2011), p. 14 <https://www.gic.com.kw/site_media/uploads/gic_ar_crted_4.20.12.pdf> [accessed 12 May 2016].

⁶ Elliot Bentley, Pat Minczeski and Juan Jovi, 'Which Oil Producers Are Breaking Even?', *WSJ*, 2016 <<http://graphics.wsj.com/oil-producers-break-even-prices>> [accessed 12 May 2016].

⁷ Julia Dempsey, 'Judy Asks: Will Cheap Oil Kill Global Stability?', *Brussels, Belgium: Carnegie Europe*, 2016 <<http://carnegieeurope.eu/strategieurope/?fa=62516>> [accessed 12 May 2016].

⁸ Samuel Osborne, 'Six Gulf States Will Start Taxing People for the First Time | Middle East | News | The Independent', *London, U.K.: The Independent*, 2015 <<http://www.independent.co.uk/news/world/middle-east/six-gulf-states-will-start-taxing-people-for-the-first-time-a6768206.html>> [accessed 12 May 2016].

⁹ cf. Mamdouh Salameh, 'Saudi Arabia's Oil Strategy Has Backfired', *EUCERS Newsletter*, 2016, 4–6.

¹⁰ Angelina Rascoet, 'Iran Oil Output Rose to Pre-Sanctions Levels in April, IEA Says', *New York, NY: Bloomberg.com*, 2016 <<http://www.bloomberg.com/news/articles/2016-05-12/iran-oil-output-rose-to-pre-sanctions-levels-in-april-ia-says-io408r1c>> [accessed 17 May 2016].