

The 34th JCCP International Symposium

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“Structural changes in petroleum industries
in a volatile global market”

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Excellencies, distinguished guests, ladies and gentlemen.

It is a great honor to have been invited to give the keynote address at the prestigious JCCP International Symposium in Tokyo. Some of you may be surprised to learn that I consider myself an alumni of JCCP. In the year 2000, while at Saudi Aramco, I visited Tokyo for three weeks and attended an excellent JCCP technical course. I have nothing but fond memories of my visit.

Japan is a country for which we in Saudi Arabia have great respect and admiration. In 2015 we celebrated 60 years of diplomatic friendship and cooperation. As you know, our energy ties are deep and strong. Today, Saudi Arabia exports more than one million barrels of oil to Japan. That means that, over the past 12 years, Saudi Arabia's contribution to Japan's total crude oil imports has risen from under one quarter to more than one third. So Japan is a vital customer and Saudi Arabia a vital supplier. Saudi Aramco's Okinawa storage project, holding some 6.3 million barrels of oil, is a tangible example of our commitment, and an important part of Japan's energy security. I hope my presence here today will help further deepen our vital relationship.

Ladies and gentlemen.

The theme for this morning's event is structural changes in petroleum industries in a volatile global market. My talk will be followed by a leaders' panel, so I will open with my thoughts on three key areas which address the theme and hopefully lead to some interesting debate with the panel.

First, I will address the changes that have taken place in the oil market over the past 18 months. Second, I will look at the impact these changes have had on global petroleum industries. And third, I will look ahead to some of the challenges and opportunities ahead.

So, first, changes in the global oil market.

It is clear that today's oil market needs to be viewed in context. Like any market, and any commodity, the oil business is cyclical. Between 2010 and 2014, the oil price settled at something between \$100 and \$120 a barrel. This price, while it seemed reasonable for consumers and producers, was historically very high and it did not last.

At those high prices, previously uneconomic oil found a market, and we saw an expansion of production deep offshore, in the arctic, and most notably in terms of US shale oil. So, despite problems in a number of producing nations in the Middle East and beyond, we soon reached a point where supply was starting to outstrip demand. Or at least that was the perception.

Eventually, in late 2014, with demand growth static and supplies rising, the bubble burst. And here we are today. OPEC estimates that the market is oversupplied to the tune of some two million barrels, or equal to two percent of world demand. So it will take some time for the market to rebalance.

Saudi Arabia's oil minister, His Excellency Ali Al-Naimi, stresses that it is not high or low prices that we seek, it is stable prices. Wild price swings are in nobody's best interests. We all know that the energy business has long horizons and with uncertainly around price, this makes planning for the future much more difficult. Companies also require certainty to give them confidence to invest for the future.

With this in mind, it is important that we continue to work together to ensure stability of markets. Part of the answer is greater transparency, in terms of demand and supply data, from consuming and producing nations. I know that Saudi Arabia plays its part in this respect, supplying information to organizations such as the International Energy Forum. I know that Japan also plays an important role in many international energy agencies. Going forward, we must help other nations play their part. Through discussion and openness, we can get a clearer view of the state of the market and this will help minimize

market instability. This is good for national economies and good for business planning.

Ladies and gentlemen. This leads me to the second part of my talk here today: the impact of these price falls on global petroleum industries.

One of the biggest structural changes to the global oil industry over the past ten years is undoubtedly the rise of US shale oil production. The technology is not new, but the sheer quantity of oil being produced took most people by surprise. I think it is fair to say that no one saw this coming. Those \$80 shale oil plays in Texas were suddenly economic to produce. And of course producers became more adept with the technology and greater efficiencies were made.

While it seems clear that US shale oil has had a dramatic impact on world oil prices in 2014, it is less obvious the future holds in terms of potential future US production, particularly as it is now able to export oil.

As I mentioned briefly before, there is no doubt that low prices result in lower investment by oil companies across the board. Companies have already slashed billions of dollars of investment, but this will pose problems for the global economy if and when demand picks up and the supply is not there to meet it. Indeed, OPEC's World Oil Outlook estimates that \$10trn of investment will be required between now and 2040 to cover future needs and prevent a spike in prices.

In the short-term, the current price environment means that projects are being cancelled or mothballed. In some ways, this is a good opportunity for oil producers to become more efficient and take stock of expenditure. I know that Saudi Aramco is constantly looking for efficiencies in the way it operates and lower prices certainly focus minds.

That said, the Kingdom of Saudi Arabia is also conscious that investment must continue. Just to keep fields producing at current levels, investments must be made and we are committed to making these investments.

For consuming nations, and particularly developing nations, lower prices are good news for obvious reasons. For an advanced economy such as Japan, I have no doubt that energy cost savings are welcome. But the quest for greater efficiencies must also take place in developed nations.

As I said, oil will remain a vital resource for decades to come, but it is also a precious one. With climate change on the agenda like never before, we must all work together to ensure greater energy efficiency and lower emissions. With such a wonderful, and bountiful, source of energy, the world needs to work hard on new, clean technologies such as carbon capture and storage to ensure future generations can benefit from fossil fuels as we have done.

So, while lower prices present challenges for the petroleum industries, they also present opportunities for greater technological development. I hope that Saudi Arabia and Japan will continue to work together in terms of petrochemicals, greater energy efficiency and new technologies such as solar.

Ladies and gentlemen.

This brings me to my third and final point here today: the challenges and opportunities ahead.

Amid all the uncertainty, I can be 100% confident about one thing. That Saudi Arabia will continue to be a reliable and sustainable supplier of oil to its customers, including Japan. This will not change.

More broadly, we feel that the market will begin to come into balance in 2016 and that demand for energy – in all forms – will continue to increase. In very basic, fundamental terms, the global population is rising. These next

generations will demand access to energy – and why not? The efficient and effective use of energy has helped create strong economies in nations such as Japan. It helps educate young people, it fuels healthcare and powers industry. So I fully expect developed and developing nations around the world to demand more energy to fuel their growth.

I hope that a greater demand leads to a fairer price for consumers and producers, but more importantly I hope prices can be more stable for longer.

In terms of broader challenges and opportunities, I have discussed the oil price and briefly touched on investment and efficiencies. Of course there are many other great energy related issues ahead of us, including climate change issues and the potential of new technology. There is a lot more to say and I am looking forward to hearing from this distinguished panel of speakers, and this distinguished audience.

Ladies and gentlemen, again, I thank you for giving me the opportunity to address this respected organization. Let me leave you with this one message. In this uncertain world, some things will not change. And that is the enduring friendship that exists between the Kingdom of Saudi Arabia and Japan. Long may it continue. Thank you.

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