



MOSCOW INTERNATIONAL ENERGY FORUM
«RUSSIAN FUEL AND ENERGY COMPLEX IN THE XXI CENTURY»

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**Wave of Revolutions in the Arab Countries:
the World Oil and Gas Market, what Lies ahead?**

Experts and analyst all over the world actively discuss the recent events in the countries of North Africa and the Middle East, striving to answer two crucial questions: why it has been so sudden and what consequences will be for the economies of individual countries, in particular, and for the global economic order, in whole.

There are not less than two dozens of geopolitical and economic causes of the observed events, including explosive growth of the information exchange in the world, rise in food prices (Russia contributed to it by embargoing grain exports), economic recession consequences, poverty and income inequality in the conditions of a beginning economic growth, tiredness of the authorities after all, and many others.

But the matter of analysts' primary concern today is not to review the causes but to try to determine the impact of those global geopolitical processes on the world oil-dependent economy, both within near-term and relatively remote prospects.

These attempts are based on recognizing the fact that the world community has proven to be unprepared to such turn of events, that it can not forecast what consequences of changing political regimes in the Arab countries will be and how many of these countries will come through the revolution whirlpool. The events can not be influenced now; therefore, their consequences can not be certainly predicted either. Today, everyone is maximally reserved in assessments and judgments. This very uncertainty in politics is the main factor of the economic uncertainty that has provoked the oil prices growth.

Today, the speculative nature of this process is clear, but it is not nearly determined by the decrease in the oil supply from the Arab countries seized by revolutionary movement. The point is how persistent this trend is going to be and whether there are other fundamental factors determining future changes of the world prices for energy resources.

There are new world energy markets' tendencies being formulated as the major world powers consuming hydrocarbons comprehend the new realities and the new threats of the contemporary world. And the Arab revolutions, in these terms, act as a catalyst to accelerate these tendencies.

Since 2008, the USA and China, consuming more than a third of the world primary energy, have made more and more serious efforts to protect themselves - in this uneasy period - from possible systemic energy risks of shortage and excessively high price of the resources. The instruments' kit of this relatively new strategy, elaborated in the bosom of IEA, is well-known. It includes: delivery diversification, liberalization and promoted competition on the energy markets, priority development of the renewable power industry, increasing energy-efficiency, financing of research

in new energy technologies. A special place in this row is held by the climate policy, actively promoted by the Western countries and aimed at reducing the hydrocarbons energy's share in the world energy balance. These instruments are offered to the OECD countries, but they have also been adopted by the largest developing economies, first of all – China. Today's Chinese economy has set itself the greatest and most ambitious plans to reduce its dependence on foreign deliveries. Nowadays, nobody calls hybrid and electric cars exotic; it is not just a tribute to fashion, but the spirit of the times, a long-run trend. The USA, China and Japan develop the newest energy technologies, such as 4S reactors («nuclear cells») and sea-based wind hydrolyzers to produce hydrogen from water.

The world energy scenery changes within the framework of these new strategies are getting faster and more significant and the politic instability in the Arab world may become the last factor to ultimately tip the balance so that the countries being the leading energy resource consumers – first of all, the USA and China – will take extra, urgent and large-scale measures aimed at improving their own energy security. Beside the above instruments of reducing the dependence on energy resource imports, the new direction is to accelerated development of these countries' own extraction, in particular, of the extraction of the unconventional raw hydrocarbons, such as shale gas and shale oil.

Even today, the leading energy mega corporations buy up the assets related to the unconventional hydrocarbon production all over the world. After ExxonMobil completed the largest deal to acquire XTO Energy, the leader of the US shale gas production market (USD 40 bln. paid), in 2010, new investments came. Within six months, practically all the major players on the world oil and gas market, as well as a number of the mining companies, cumulatively invested over USD 50 bln. in this promising sector. The mega corporations' involvement should strongly urge the practicing and the further development of the newest technologies of the extraction of the full range of the hydrocarbons from the unconventional sources. Therewith, it may be confidently expected that the legal regime of the access to such deposits in the USA and China will be more favorable.

Analysis of these relatively new trends affords ground for forecasting the beginning of a new age in the oil and gas market history. Reformatting and regionalizing the oil and gas market will, sooner or later, lead to reduction of the oil share in the international trade and in the world consumption structure, while the relative volume of the export-import transactions will reduce. At that, in the mid-run, the world oil and gas market will increasingly resemble a «buyers' market», thus causing a decline in the world prices for oil and gas.

Thereby, the supplying countries will face a new challenge, so they will have to seriously amend their energy strategies. Obviously, these amendments will be aimed at elaborating countermeasures which are most likely to decrease the prices for hydrocarbons too.

In this view, the subject to concern is the question about «beneficiaries» of the results of the Arab revolutions. A number of Russian experts have already reckoned Russia among winners. However, as we know, he laughs who laughs last. And Russia's prospects within the context of the approaching changes in the global markets are not so rosy. On a large scale, increasing oil price are not profitable either

for us or for any other suppliers, say nothing of the consumers. No doubt, high oil prices are a brake on the world economic progress. For the suppliers from OPEC – especially, for Saudi Arabia and Iran – prices, exceeding the so-called fair or equilibrium price (USD 65–80 per barrel), pose danger as they stimulate the key consumers to search for alternative decisions - the scene we are observing today. When an oil price exceeds the equilibrium one, especially beyond the limit of USD 90, financial feasibility of developing alternative technologies increases. Another cause is that growing prices slow down economic growth and even lead to crises; then a recession comes and the price may collapse far beyond the equilibrium mark. The OPEC countries need stability and predictability. With their low oil extraction cost, they can afford lower profitability with lower risks. It is not so true for Russia though, as our breakeven level is considerably higher than that of the Arab countries. Too high oil prices, by themselves, are not attractive even for gamblers, as they are interested rather in situations of market instability and panic atmosphere. In the conditions of high volatility, the gamblers heat up the market in every possible way, thus creating an illusion of a long-term trend.

In reality, it is well-known to the oil market specialists that the current free extraction capacities amount to 6 mln. barrels per day, at least; it literally means that there are no fundamental reasons for any rapid growth in the oil prices. Therefore, it may be concluded that - in the conditions of the real period of uncertainty in the world politics and economics – the specific character of the contemporary exchange oil trade implies emerging the price extremums undermining long-term stability on the energy commodities markets and stimulating the market to reform seriously. And the world energy leaders know it perfectly well. Not coincidentally, in his address to nation of 5 April 2008, in the section devoted to the new US energy policy, President Barack Obama declared fighting the speculative tendencies to be a priority direction. Then, he also suggested creating «a simple effective legislation to close all loopholes for energy market speculators».

We can not but hope that, after all, the world will reach a balance between good sense and greed.

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