



## FINAL REPORT

# The Evolution of Saudi Arabia's role in the Global Oil Market and in the OPEC



*A conference organized by the **MEDEA Institute**, the **Egmont Institute** and the **Embassy of the Kingdom of Saudi Arabia in Belgium***

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Château de Val Duchesse  
259 boulevard du Souverain, 1160 Brussels

## The evolution of Saudi Arabia's role in the global oil market and in the OPEC

*Dr. Majid Al-Moneef, Governor of the Kingdom of Saudi Arabia at the OPEC*

The influence of Saudi Arabia on the global oil market is unchallenged. Saudi Arabia's role and decision parameters since the discovery and production of oil in the Kingdom have been determined by different factors:

- **The size and the production life of Saudi Arabia's oil reserves:** For the past fifty years, Saudi Arabia has the world largest crude oil reserves, equivalent to 20-25% of the world's proven reserves.

- **The diversity of its export outlets:** Saudi Arabia is exporting to the U.S., to Europe and to the Far East. This diversity of outlets (and crude types exported) offers Saudi Arabia marketing flexibility and highlights the international consequences of its policies.

- **Its large crude oil production capacity:** Saudi Arabia maintains large excess capacity available in order to face market interruptions and demand surges. Saudi Arabia's role has been very useful to soften the impact of major oil supply interruptions, such as the Iran-Iraq war, Iraq's invasion of Kuwait, the Venezuela crisis in 2003, hurricane Katrina in 2005 and the recent Libyan crisis.

- **The role of oil in the national economy:** For the past three decades, oil has represented 35% of Saudi Arabia's GDP, 84% of its government revenues and 90% of its merchandise exports. These rates explain the high interdependence between the Kingdom's domestic and international oil policies.



These four factors have pushed Saudi Arabia to develop its own oil industry, through its national oil company Aramco. The latter was created through the purchase by Saudi Arabia of four American companies. Saudi Aramco was entrusted with the tasks of managing and developing the hydrocarbon resources of the Kingdom to achieve its development objectives, execute the government energy policies and develop the technical skills in that sector.

Saudi Arabia's oil policies are geared towards maximization and sustainability, which involves stable oil markets and an efficient oil industry able to play a leverage role in the oil sector.

In the face of environment uncertainties, Saudi Arabia is investing in research and development projects such as research centers, universities and companies.

Regarding the role of Saudi Arabia in OPEC, it has been as equally important for OPEC as OPEC has been for Saudi Arabia (dixit Robert Mabro, Oxford Institute for Energy Studies).

Both OPEC and Saudi Arabia have evolved in line with the market changes. These developments are mainly due to the diversity of its players, to the influence of the financial market on the physical

market and to the energy policies of consumer countries driven by climate change and their energy security concerns.



The impact of the financial market on the oil market is increasing. Saudi Arabia acknowledged the new market reality and asked the international community to introduce some regulatory rules as well as transparency measures over means of transactions in such markets. In order to stabilize the market, Saudi Arabia has been working with OPEC and IEA to reach better predictability. The Kingdom is also promoting the strengthening of the producer consumer dialogue, among other things by participating in the International Energy Forum (IEF), created in 2003.

In the early 1990's, Saudi Arabia realized that the challenges of climate change would add to oil demand and supply uncertainties. For this reason, Saudi Arabia has integrated climate change policy in its oil policy.

Saudi Arabia considers energy security as a two dimensions concern: supply security, that is: the availability, diversity and reliability of energy supplies at all times; and demand security, that is: the predictability, efficiency and growth of energy demand in line with economic growth.

In conclusion, Saudi Arabia is predicted to continue playing a dominant role on the global oil market. The Kingdom will also continue its efforts to ensure long term price and production sustainability. At the same time, it will go on with its investments in the oil and gas sectors to ensure adequate supplies and sustainable economic growth. It will maintain an excess capacity of 1.5 to 2 MVD at all times in order to face supply crises efficiently. Finally, Saudi Arabia's oil policy will be defined in dialogue with other producers and consumers in order to address together the environmental, investment and price volatility challenges.

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## **Belgium's energy policy and the global oil market**

*Mrs Marie-Pierre Fauconnier, Director General for Energy, Belgian Ministry of Economy*

In recent years, Belgian energy policy has focused on the security of supply based on the diversification of geographical sources and fuels, energy efficiency, transparent and competitive energy pricing and environmental protection.

Oil and gas represent roughly two-thirds of the total primary energy supply, while the nuclear sector provides just over 20% of Belgium's energy supply mix. Oil still remains the dominant energy resource with about 41% of the TPES.

Belgium is 100% dependent on import for its oil supply. Belgian crude oil imports come from the former Soviet Union countries (43%), from OPEC countries (31%) and from the North Sea (22%). Saudi Arabia's share of total Belgian oil imports rates at 15%.



Europe is increasingly dependent on external oil supply, its own resources decreasing permanently. As of early May 2011, crude oil prices stood at \$123 per barrel for Brent, 60% above the 2010 levels and 25% higher than the January 2011 average.

However, the recent price increase is not solely due to the unrest in the North African region and the collapse of Libyan oil production. Prices had already begun to rise before the troubles in Libya started.

OPEC, including Saudi Arabia, detain most of the world's spare capacity. Saudi policymakers announced to the markets that, in case of a shortage, Saudi Arabia would take its responsibilities. Unfortunately, Saudi actions have not been fully reflected in the current prices. But we remain confident that the Saudi Government will continue its efforts to reassure the market.

Libya produces normally around 1.5 million barrels per day of light crude, ideal for gasoline production. However, the spare OPEC capacity includes substantial volumes of heavier crudes, so there is no perfect quality match. On the other hand, in case of a substantially strong supply disruption, IEA and, of course, EU countries can respond to the crisis themselves. All of the Member states have at least ninety days of emergency oil reserves and could therefore take action if necessary. Until now, no decision has been taken for a stock release because most of the IEA countries do not have supply concerns. However, the main problem rests in the economical burden due to high oil prices.

Current high oil prices have entered a danger zone for the global economy. Indeed, they could have some irreversible consequences on demand. They could boost the competitiveness of alternative fuels and encourage the uptake of more efficient vehicles.

All this reinforces the necessity of a good consumers-producers dialogue. And Saudi Arabia is playing a leading role within it. The **International Energy Forum (IEF)** Secretariat was created upon the initiative of Saudi Arabia's King Abdullah in 2000. Today we see that the IEF has evolved into one of the most inclusive platforms for dialogue in which consumers and producers meet on a regular basis to discuss issues of common interests pertaining to the global energy scene. At present, the IEF member countries account for more than 90% of global oil and gas consumption and production.

Producers and consumers have to pursue their efforts of cooperation with the intention to protect their long term common interests. They must also continue to actively attempt to gain better understanding of each other's positions.

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## **The evolution of the EU's energy policy: towards a broad dialogue**

*Michael Köhler, Head of Cabinet for EU Energy Commissioner G. Oettinger*

The interventions by Dr Al-Moneef and Mrs Fauconnier have underlined one important development: we finally hear "we have spare capacities" before referring to the need to "keep oil at cheap prices".



With this in mind, it is important to wage a broad range dialogue on energy. This sector needs some long term planning. The investor today must know if he will witness a return not only in 1-2 years but also over the next 20 to 30 years. For instance, a question may be asked about the impact of technology in the next 20-30 years? How much will we advance on this? The uncertainty means that we have to reexamine regularly the plan and not stop investing.

In order to plan, we have to look at energy in a broad context: European investment policy, but also OPEC's countries energy policies. We also have to enhance the cooperation with corporations.

Relations between the EU and GCC are at a stalemate, due to a clear lack of political will on both sides. Indeed the FTA between the two has been on the table since 1994.

Saudi Arabia is the world's 1<sup>st</sup> producer and 4<sup>th</sup> supplier. OPEC's reserves are the biggest, but also the cheapest to extract. Therefore OPEC's reserves are the most attractive in the world. It is a reliable producer, but also a producer that holds spare capacity. 10% of the EU's import relies on Libya; hence, Saudi Arabia's intervention was very useful once instability broke out in Libya.

On the other hand, the energy market is changing. EU and OECD countries consumption is lowering, while emerging countries' demand is increasing constantly. The EU is planning to reach the 20-20-20 objective by 2020. It is important for this energy objective to be planned in a broad dialogue with producers. There is a need for a continued dialogue between producers and consumers, and this in order to reach security for both.

The intervention by Dr Al-Moneef highlighted a new Saudi investment trend in technology and research, which represents a very valuable development. Indeed, the EU and Saudi Arabia are facing common challenges and should therefore be increasingly working together. A joint study with OPEC on the impact of the global crisis could be useful. Greater transparency between the EU and Saudi Arabia should also be promoted. Both parties should consider the better for their shared future. In the nuclear energy sector for instance, the Euratom agreement with Saudi Arabia illustrates the EU's new investment approach.

The EU has set out to find ways to reduce its CO2 emissions by 80%. Questions thus rise as to what should be the place of oil, gas, or renewable energies? Nuclear reactors in all EU Member states will have to be replaced in the coming years. As for the role of oil in obtaining the results the EU has set itself to achieve, it will have to be used where it is the most precious and useful. In this light, it is very important that OPEC and Saudi Arabia participate in this exercise. The Mediterranean and other regions will also have to play a role in the EU's broad energy agenda.

It is therefore important to understand what both parties' policies are and work together to examine the respective objectives and agendas of the EU and Saudi Arabia. A broad dialogue between the EU and Saudi Arabia is important to share the broad agendas and objectives for the future (for example: the EU could learn more of Saudi Arabia's plans to produce its electricity through solar energy).

## List of Participants



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