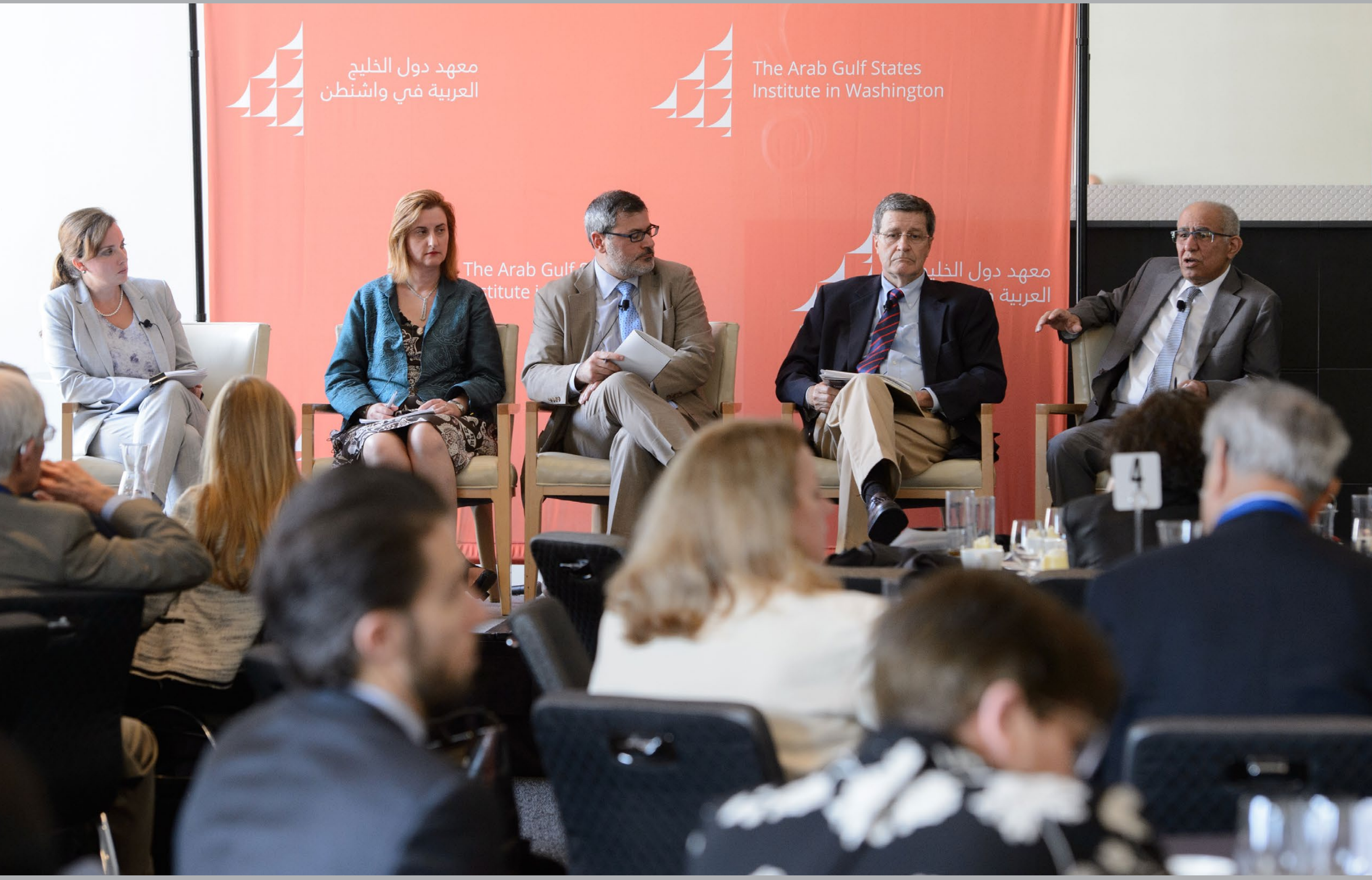
The Arab Gulf States Institute in Washington

Building bridges of understanding



Petro Diplomacy: Navigating the New Oil Era

Conference Report

The Arab Gulf States Institute in Washington
Building bridges of understanding

October 26, 2017

Petro Diplomacy: Navigating the New Oil Era

Conference Report

Event Report

#3

2017

The Arab Gulf States Institute in Washington (AGSIW), launched in 2015, is an independent, nonprofit institution dedicated to increasing the understanding and appreciation of the social, economic, and political diversity of the Gulf Arab states. Through expert research, analysis, exchanges, and public discussion, the institute seeks to encourage thoughtful debate and inform decision makers shaping U.S. policy regarding this critical geostrategic region.

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This publication can be downloaded at no cost at www.agsiw.org.

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About This Report

This report was compiled by Omar H. Rahman, an associate editor at World Politics Review in New York, following the AGSIW conference "Petro Diplomacy: Navigating the New Oil Era" held on September 25, 2017.

AGSIW's annual Petro Diplomacy conference brings together experts from the oil industry, finance, government, and academia to investigate and debate the interplay of the oil, economic, and political forces at work in the new energy world. Speakers and discussants identify the critical issues in play and provide a greater understanding of their implications for the energy market and the political economies of the Gulf Arab states.

Videos from the conference are available online at:

http://www.agsiw.org/petro-diplomacy-navigating-new-oil-era-2/

Contents

Welcome Letter i

Executive Summary 1

Key Findings 1

Introduction 2

OPEC and Oil Market Dynamics 3

Oil Company Investments and Strategies in a Challenging Oil Price Environment 5

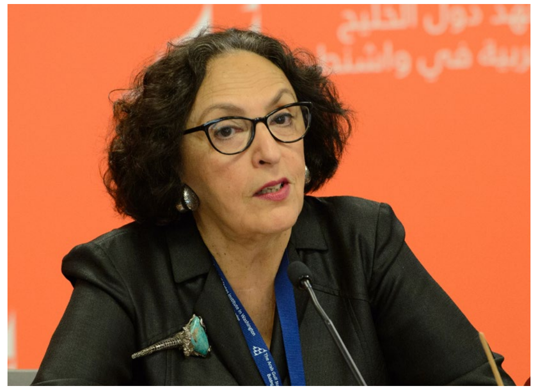
Political and Economic Flashpoints for Oil Markets 8

Conclusion 10

Agenda 11

Petro Diplomacy in Pictures 13

Welcome Letter


Ambassador Marcelle M. Wahba, President, AGSIW

Dear Colleagues,

On behalf of the Arab Gulf States Institute in Washington's board of directors and staff, it is my pleasure to share with you the report of our third annual energy conference: "Petro Diplomacy: Navigating the New Oil Era." AGSIW brought together experts from the oil industry, finance, government, and academia to discuss critical issues facing the oil industry against the background of the shifting economic and political landscape in the region.

Hosted on September 25, 2017, the conference began with a conversation with His Excellency Fareed Yasseen, ambassador of the Republic of Iraq to the United States, and included panels, held under the Chatham House Rule, discussing pertinent issues such as OPEC and oil market dynamics, industry investments and strategies, and the political and economic flashpoints that are affecting the oil markets.

During the lunch keynote session, author, journalist, and historian Anna Rubino discussed her biography of trailblazing reporter Wanda Jablonski, whose role within the oil business was so prominent that she was given the nickname "OPEC's Midwife."

As AGSIW expands its expertise in the energy field, our publications and programming are garnering interest in Washington and beyond. Our energy roundtable series, launched earlier this year, has been labeled as "the hottest ticket in town for energy folks."

I would like to thank Aramco Services Company, EOG Resources, and Chevron for supporting our work in the energy field. I hope you find this report insightful, and I look forward to partnering with you on future programs that focus on the trends shaping the future of the Gulf Arab states and implications for U.S. businesses and policymakers.

Sincerely,

Ambassador Marcelle M. Wahba
President, Arab Gulf States Institute in Washington

Executive Summary

"OPEC doesn't have a shale problem. It has a Wall Street and a shale problem, and it's the combination of both which makes it so powerful."

On September 25, 2017, speakers and discussants from the oil industry, finance, government, and academia convened in Washington to examine the challenges of navigating the new oil era at the third annual Arab Gulf States Institute in Washington Petro Diplomacy conference. In a period of tremendous flux for the industry, oil producers are striving to establish strategies that can meet the challenge of a technology-driven, lower oil price environment. At the same time, national oil companies of the Gulf Cooperation Council states are restructuring their business operations toward a more profit-oriented model to fully monetize their hydrocarbon resources and deliver increased revenue to governments.

The past year in oil markets has been defined by the extraordinary measures taken by OPEC and non-OPEC countries to stabilize prices through collective action, which has provided a pillar of support for Gulf Arab states to enact much-needed fiscal and social reform.

"Petro Diplomacy: Navigating the New Oil Era" focused on the dynamics of OPEC and the oil market, what national oil companies and independents are focusing on for their current and future strategies, and what to expect in terms of economic and political flashpoints in the days and years ahead. The conference also identified fundamental questions that will shape the energy landscape: How will the production of shale oil respond to incremental shifts in price, and how quickly? What geopolitical and geoeconomic pitfalls lie ahead?

Key Findings

- A $50-60 per barrel range is expected through 2017 and 2018, with limited upside potential for oil prices, barring a major supply disruption or geopolitical crisis. In the medium term, stronger than forecast global oil demand, reduced capital spending, and a less robust outlook for shale could push prices much higher by the end of the decade.

- The success of the historic OPEC and non-OPEC agreement in cutting production has exceeded industry expectations. However, market confidence in the ability of OPEC and non-OPEC producers to maintain strong compliance with lower production levels is waning as several key participants continue to exceed targets and the group seems reluctant to make deeper production cuts amid the much slower market rebalancing.

- This dynamic market management policy has a much stronger foundation than previous agreements, anchored by high-level diplomatic efforts by Saudi Arabia and Russia and a shared financial imperative among all oil producers. Monthly monitoring of production compliance has also strengthened the accord.

- The long awaited rebalancing of fundamentals finally took hold in the first half of 2017 but stocks are being drawn down more slowly than initially hoped and draining excess supplies could take another year. Stronger than expected global oil demand may hasten the drawdown.

- The massive inventory surplus has muted price volatility of extreme geopolitical risk in the Middle East and around the world but as stocks contract further and the market rebalances, the buffer to risk will correspondingly erode and expose the market to more risk-related price volatility. Multiple, ongoing political risks in Libya, Nigeria, Venezuela, Iran, and Iraq could escalate and lead to increased price and supply volatility.

- Forecasting shale oil production remains an enigma but lower available capital market financing is signaling more constrained growth in 2018. The threat of shale production growth is often overestimated, ignoring the serious inconsistencies in well production stemming from the quality of rock.

- Questions remain whether national oil companies can restructure their operations to meet the challenges of this more competitive new oil world. Reduced capital expenditures are leading some experts to warn a supply crunch is on the horizon while others argue that new short-cycle nonconventional oil will be able to meet any shortfall.

- The most difficult issue on the structural side of reform for Gulf Arab states is how to create more jobs for their large youth populations. Those countries that can plug into global trends on the industries of the future will be most likely to succeed.

Introduction

Market fundamentals are slowly returning to balance as the new lower production strategy initiated by OPEC and non-OPEC countries is gradually reducing surplus inventories. There is a growing consensus among industry analysts that rapid-cycle shale, or tight oil, production will keep prices in a narrow price range in 2018. A number of developments could upend the short- and medium-term outlook for prices, from weaker compliance by the OPEC and non-OPEC alliance with new production targets, to stronger than expected supply and demand, to escalating political risks in a number of major oil producing countries. Experts at the Arab Gulf States Institute in Washington conference “Petro Diplomacy: Navigating the New Oil Era” saw conflicting industry views on the outlook for shale oil production growth as the most significant variable impacting the market outlook.

The prevailing view that the sharp reduction in capital expenditures on exploration and production over the past three years will lead to a supply shortage and spike in prices was downplayed, with many participants now seeing a more tempered supply recovery. However, aside from the United States, many of the new oil production projects on the drawing board will need to be approved for final development in 2018-19 to meet robust demand growth. Middle East producers Saudi Arabia, Iraq, and Iran are expected to provide incremental supply growth but whether the countries will allocate resources for development of the projects remains uncertain.

Oil exporting countries are reorienting their economies and budgets to the “new normal,” but there are significant challenges ahead. Unprecedented reform in the Gulf region is moving forward, backed by strong political will to see it through, but the pace of change is slower than initially envisioned against a backdrop of social tensions in an already tumultuous regional environment.

OPEC and Oil Market Dynamics

"OPEC, through its alliance with key non-OPEC producers, has created a new paradigm for managing markets."

The first session of the conference addressed the multitude of complex issues driving the oil market and price outlook in the short and medium term. The wide-ranging discussions focused on the pace of the global oil market rebalancing, OPEC's new market management policy, divergent supply and demand forecasts, shale oil production trends, and potential risks that could pressure prices higher or lower in the near term.

A $50-60 per barrel range is expected through 2017 and 2018, with limited upside potential for oil prices, barring a major supply disruption or geopolitical crisis. Supply and demand are expected to be broadly aligned, with still substantial global stock levels and a sharp increase in non-OPEC supplies in 2018 putting a ceiling on prices while production cuts by the OPEC and non-OPEC alliance are expected to keep a floor under current levels.

There was considerable debate, however, about the price outlook in the medium term. A number of participants argued that stronger than forecast global oil demand, reduced capital spending, and a less robust outlook for shale could push prices much higher by the end of the decade, or even earlier. One consultant described himself as "extremely bullish in the medium term," pointing to the underinvestment in exploration and production in recent years and argued that shale oil production would not be sufficient to offset the resulting supply gap.

However, with so many pieces to the market puzzle, participants cautioned that a number of developments could upend the short- and medium-term outlook for prices. The wide-ranging forecasts for shale oil production growth were seen as the most significant variable driving the market outlook. What is clear is that, after three years of global supply surplus, the long awaited rebalancing of fundamentals finally took hold in the first half of 2017. Stronger than expected global oil demand and the unprecedented production cut agreement between OPEC and non-OPEC producers have led to a significant drawdown in global inventories, with the stock surplus to the five-year average range now halved. Nonetheless, commercial stocks are being drawn down more slowly than initially hoped and several participants suggested reducing excess supplies could take another year, or even longer.

Opinions were divided on the supply and demand outlook for 2018. There was a chorus of participants arguing global oil demand growth will be much stronger than some forecasters are currently allowing for, given recent trends. One expert noted that, in terms of five-year cumulative increases, the 2015-19 period is poised to post "the biggest growth in demand in the history of the oil industry." He argued the rapidly expanding petrochemical industry, especially in Asia and the Middle East, is a key driver of this growth, which will outpace all other sources of hydrocarbon demand in the foreseeable future. A significant shift in sales to low-mileage gasoline vehicles all over the world during the period of low oil prices is another reason demand growth will be much higher than expected, another said.

A sharp increase in global oil supplies is also forecast for 2018, with non-OPEC production expected to rise by anywhere from 1-1.5 million barrels per day (mb/d) in 2018. The U.S. shale patch and startup of long-planned projects in Brazil and Canada will account for the lion's share of the increases. Forecasts for fast-cycle U.S. tight oil production growth in 2018 range from a low of 250,000 barrels per day (kb/d) to as much as 900 kb/d – and there was no clear consensus on the production outlook.

The New Cooperation Paradigm

The success of the OPEC and non-OPEC agreement in implementing a significant cut in oil production has exceeded industry expectations. Although, reaching the pact's stated goal of reducing global oil inventories to the five-year average has been a much slower process than initially anticipated, not least because of the resurgence in U.S. shale production. However, one speaker noted, "For the OPEC and non-OPEC alliance, an effort to rebalance the market was always going to be a longer marathon with some obstacles along the way, contrary to traders who want to sprint to the finish line." Market confidence in the ability of the group to maintain adherence to the lower production targets in 2018 has also been undermined by several key producers ignoring their targets despite repeated promises to cooperate.

Disappointment with the OPEC and non-OPEC pact also stems from the group's apparent unwillingness to make deeper production cuts amid a much more gradual market balancing. Recognizing the slow pace, the alliance extended the initial time frame by nine months, to the first quarter of 2018, and has indicated it is willing to consider extending it through the year at its next ministerial meeting on November 30. One participant, in particular, argued that an extension scenario begins to look like a structural problem in the market, which discourages producers from cutting. Moreover, as prices recover, compliance will likely fade.

Addressing doubts about the sustainability of the coordinated cutbacks, one OPEC expert argued that this new more dynamic market management policy has a much stronger foundation than previous agreements. The pact is anchored by high-level diplomatic efforts by Saudi Arabia and Russia and there is a shared financial imperative among all oil producers, including Moscow, to achieve stronger price levels, the expert noted.

The agreement is strengthened by the creation of a technical team of experts, which monitors oil market developments and participants' compliance and prepares a monthly report for ministerial officials to review. Time, however, is needed for the positive outcomes of this cooperative effort to be fully realized in terms of a balanced market and higher prices. Flexibility and adjusting the agreement as needed is also important in order to adapt to the constantly changing information flow.

Speculation that prices may plummet as OPEC ramps up production once the agreement ends, however, was dismissed as shortsighted by one expert, who argued, "It is in the best interest of producers to create a soft landing and not disrupt the market's newfound balance."

Geopolitical Risk

The critical issue of rising geopolitical risk against a backdrop of a smaller stock cushion was also a key focus of the discussion. Over the past few years, the massive supply overhang has muted price volatility of extreme geopolitical risk in the Middle East and around the world. As stocks dwindle and the market rebalances, however, the buffer to risk will correspondingly erode and expose the market to more risk-related volatility in the future, several speakers noted.

Today, there are multiple, ongoing risks that could impact a tighter supply market. Venezuela poses a stark example of geopolitical risk as a potential economic default could seriously impact the country's highly leveraged oil industry. There are chronic supply disruptions in Libya, where production levels could fall again in 2018 amid domestic political strife. Nigerian production also remains under stress from civil unrest, as the conflict continues between the government and militants in the Niger Delta oil producing region.

In Iran, the level of foreign direct investment Tehran expected after the removal of nuclear-related sanctions has not come as fast as anticipated or spurred growth in its oil sector as quickly. Moreover, the administration of U.S. President Donald J. Trump has continually threatened to abandon the nuclear agreement, the Joint Comprehensive Plan of Action. And in Iraq, while oil production has largely remained unaffected by the ongoing conflict in the country's non-oil producing regions, the emerging possibility of further conflict over the Kurdish independence movement has raised the risk of oil not making it to the market.

Political risks are not limited to disruptions of supply. Participants also pointed to the risks on demand if, for example, the current crisis in the Korean peninsula were to escalate, arguing that demand in South Korea, Japan, and elsewhere could be seriously affected.

From an oil market perspective, 2018 could prove a challenging year as political risks escalate and the supply cushion contracts. The potential impact on price volatility may complicate OPEC policy and add another layer of uncertainty into the market outlook.

Oil Company Investments and Strategies in a Challenging Oil Price Environment

"A supply gap is not preordained. It depends on what happens in the next two years."

No issue is more important to OPEC and the broader international oil market than understanding the complex development variables and production trajectory of shale oil. In the second session, participants debated the outlook for the ever-evolving tight oil patch that has injected an unprecedented level of uncertainty into forecasts. The disruptive force from this new short-term supply source is also having a dramatic impact on the international oil supply system, from upending OPEC production policy, to injecting more competition for capital financing, to ultimately creating a major strategic shift in traditional supply forecasting.

For OPEC, as well as most of the industry, forecasting shale oil production remains an enigma that continues to wreak havoc on price forecasts, project plans, oil revenue, and, by extension, the economies of the oil producing states. During the session, several experts said key to cracking the code is tracking U.S. independent oil producers' access to capital markets. "OPEC doesn't have a shale problem. It has a Wall Street and a shale problem, and it's the combination of both which makes it so powerful," one expert noted. Shale oil producers are almost completely reliant on the capital from markets to fund their drilling. The difference between $45 per barrel (/bbl) and $55/bbl, however, plays a significant role in raising capital from the markets. If the investment makes economic sense given the current price of oil in the market, the capital will be available to drill. While the equation appears simple, the variables are complex.

The connection between shale plays and capital markets in the United States means that a very large pool of money is at the disposal of shale producers at certain oil price thresholds. "The availability of cash means that the system has two speeds, full on or full off," one participant said. "At $55 everyone can borrow. Right now [at under $50] no one can." The participant said in 2017 U.S. exploration and production companies have had access to a large pool of capital, spending around $80 billion in drilling and completion, which has led to an unexpected growth surge of around 800 kb/d through the year. If prices rise to $55/bbl, an estimated $88 billion will be available from capital markets, allowing producers to bring on an additional 1 million barrels in 2018. "The oil sector in the United States can be funded very well when it is at certain levels," one speaker noted. Another participant quipped that OPEC may want to postpone any decisions that support the market at the November ministerial meeting and let prices drift lower ahead of the budget process.

At current prices, the level of capital available is expected to be lower, which will likely constrain production in 2018. At $45-50/bbl, shale oil production is not economic. "I don't believe that a well, even at the best play in the United States, is economic at $50/bbl," one expert said. Moreover, after years of the industry outspending cash flow on loss-making tight oil plays in its bid to pursue growth over profits, equity analysts are "really mad" and imposing more discipline on producers. As one participant put it, "I think there has been a bit of an overreaction to the potential of horizontal oil this year and next, and it probably carries over for decades down the road." While the production rate of shale is accelerated, so is the depletion rate, and the variability in quality wells is immense.

Over the last three years, shale producers have made tremendous gains in efficiency, reducing costs across the major U.S. shale plays to around $40/bbl, which one expert considered to be the bottom price point. Yet that number is deceiving because over that same period shale producers have consolidated their drilling around the most productive wells, which require less capital to extract. As shale drilling activity increases, producers move out of the sweet spots and well costs go up. "When you accelerate the drilling programs everything gets a lot more difficult," one expert noted. Shale also faces an acute dilemma between the availability of rigs and the scarcity of frack spread equipment, which allows producers to drill but not expand output. Indeed, one shale expert noted 2018 output could be soft due to an ongoing stalemate over cost negotiations between exploration and production (E&P) companies and the service industry.

Yet multiple participants agreed that shale has room to run if the right price point is met. "U.S. producers have shown they can grow at low prices and we expect that will continue over the foreseeable future," one speaker noted. Increased well productivity, big data and analytics improving accuracy in identifying the most prolific areas to target, longer lateral drilling, among many other efficiencies, continue to exceed expectations. "With $43/bbl oil in 2016, U.S. E&Ps were as effective at adding new volumes as they were in 2012 at $94/

bbl," one speaker said. Moreover, U.S. independent E&P companies are at "various stages of technological advancement, which provides running room for improved economics," he added.

Shale oil's fast-cycle speed and the short time frame it takes to bring an oil play to full production have also essentially added "a new gear" to the traditional supply system. This gear changes the way producers with longer-term projects must react to prices, because forecasting the price environment three to 15 years ahead – the time it takes to bring a conventional oil play to fruition – becomes much more complex and difficult. The speed in which a shale play can attract capital investment and move into production has also changed the way in which everyone must account for the outlook on global supply. As one participant put it, OPEC must switch from looking at supply on a year-to-year basis, to a quarter-to-quarter or even month-to-month basis. "The global oil market now really has a Texas accent," one participant stated.

Can Middle East Producers Plug a Supply Gap

The collapse in oil prices over the last three years forced significant cuts in capital expenditures prompting some analysts to speculate about a looming supply crunch in the near future, when demand outstrips supply and new production is unable to be generated quickly enough to respond to the needs of the market. One participant suggested the market will need to come up with 12 mb/d in the next five to six years, including 10 mb/d to replace natural decline, and another 1.5-2 mb/d to satisfy new growth that will not be met by projects already sanctioned or in development. The bulk of this new supply, around 80 percent, will have to come from only a few countries: the United States, Russia, Brazil, Iraq, Iran, and Saudi Arabia.

Outside of the United States, oil production is sanctioned and developed in part by national oil companies (NOCs), which will play a fundamental role in answering the question of whether there will be a supply gap. But participants stressed that, unlike the shale producing companies in the United States, or international oil companies (IOCs) in general, the NOCs have different cost calculations and shareholders. Many of these countries have come under tremendous fiscal pressure because of the lower oil revenue and are facing capital scarcity. NOCs must monetize resources and at the same time deliver the rents upon which their governments depend.

Iraq is a leading example of this. The country has been embroiled in war and civil conflict since 2003 and must undertake a significant rebuilding effort in the years ahead. While the country has significant untapped resources, it simply does not have the funds available to invest in extraction to the extent needed. In order to access these resources, it needs the help of IOCs. However, the Iraqi government was unable in the past to meet the terms of its own contracts with IOCs, leaving projects economically unviable. In rewriting the terms of new contracts, NOCs looking to increase foreign investment must be willing to match their terms with the risk involved.

In other countries that are undertaking significant economic and social reforms, like Saudi Arabia and the United Arab Emirates, prudent decisions must be made about whether to invest billions of dollars in oil projects or in other areas that will help their countries diversify away from a hydrocarbon-based economy. Why should they invest in oil in a fiscally constrained environment, one participant asked, when they carry very large budget deficits? An added complexity is that more production can lead to less revenue as oil prices fall as a result of oversupply. Even simply sanctioning a project can lead the market to react well before the oil enters production.

Nonetheless, several countries in the Gulf region continue to invest significant resources into their oil industries, while also taking strides to rationalize their production costs, streamline their institutions, improve their access to technology, and become more commercially viable.

Political and Economic Flashpoints for Oil Markets

> *"Many of the established truths of a decade ago have been flipped on their head."*

During the final, public session, panelists Elena Ianchovichina, acting chief economist for the Middle East and North Africa region at the World Bank; Jason Bordoff, founding director of the Center on Global Energy Policy at Columbia University; Jean-François Seznec, nonresident senior fellow at the Atlantic Council; and Ibrahim Al-Muhanna, vice chair for the Middle East at the World Energy Council, discussed the acute fiscal and political challenges confronting Gulf Arab states during the period of lower oil prices, as well as the broader geopolitical and geoeconomic threats facing the global energy system.

The collapse in global energy prices that began in mid-2014 has taken an enormous toll on the economies of oil exporting countries in the Gulf. While years of $100/bbl oil prices led to the creation of robust fiscal buffers for several Gulf states – preventing the type of economic collapse seen in countries like Venezuela – the impact has still been considerable as revenue streams were cut in half and large budget deficits emerged. With the expectation that prices will remain relatively stable at this "new normal" level, Gulf countries have also embarked on significant domestic reforms aimed at their economies, institutions, and, in some cases, societies and culture. These measures have included diversifying their oil-based economies, introducing taxes, and rationalizing spending. There have been considerable efforts to constrain increases in wages and benefits, remove or reduce the distortionary spending on subsidies for energy products and water, and, in some cases, rationalize discretionary spending plans and postpone investment projects, according to Ianchovichina. While all of this has dampened economic growth, "the process of introducing structural reforms to improve long-term growth prospects will have to continue because these countries are looking at breaking their oil dependence and creating new sources of growth," she said.

Yet, according to other panelists, the current pressures Saudi Arabia and other Gulf countries face are neither unprecedented nor existential. Between 1982 and 2000, Saudi Arabia ran a budget deficit of roughly $10 billion per year, but managed to balance its accounts by borrowing from local banks until the price of oil eventually reached a level that allowed the government to pay back debts, Seznec noted. During the current period, Saudi Arabia is accessing global financial markets to cover costs and, at the same time, hoping new reform efforts and the introduction of taxes will also reduce the fiscal breakeven costs in line with lower oil revenue. However, more stringent reform efforts and imposition of taxes may lead to increased social tensions.

The risk of creating social tension has long prevented introducing the type of reforms that have been discussed in Saudi Arabia since the 1980s, according to Al-Muhanna, who believes this time around the government has the "guts" necessary to follow through. One major structural issue of reform is employment. Both Al-Muhanna and Seznec argued there is little incentive for the private sector in Saudi Arabia to hire locals because the financial costs of doing so are too high. But if measures are taken to force the private sector to hire Saudi nationals, the private sector will face a tremendous burden and inflation will rise for all. Ianchovichina pointed out that the Saudi government has set the floor on wages through vast public sector employment, conditioning Saudi nationals to expect high wages for little work. "Redistributing natural oil wealth through public sector employment is very distortionary because it sets the idea or the floor for what a proper wage is for nationals," she said. One option to alter the system would be to establish a universal basic income based on the current price of oil that would supplement normal salaries in the private and public sectors. Yet creating those jobs in the new global economy will be no easy task.

A Wider Lens on Risk

Taking a broader look at the global system, panelists discussed what they considered to be the most pressing geopolitical risks and trends in the world today. Bordoff argued that the current administration in Washington is a serious concern in this regard, especially through the unpredictability of its foreign policy, unraveling of multilateral frameworks, and overuse of sanctions. In the Middle East, tensions between Saudi Arabia and Iran are "getting out of hand," warned Seznec, saying the proxy wars of today could turn into the conventional wars of tomorrow. "We are at the mercy of an accident," he added. With the Middle East region in turmoil, it is difficult to ignore the impact low oil prices in the Gulf are having even on oil importing countries, and what that means for everyone as a whole. Egypt, Jordan, and Lebanon, for example, which are very important for the stability of the region, are highly dependent on aid, remittances, and investment from the Gulf oil exporting countries. However, as revenue from oil has shrunk, dependent countries' economies have suffered.

While Al-Muhanna acknowledged the risks inherent with crises in Venezuela, Nigeria, and elsewhere, he cautioned that these crises rarely impact the global supply system and are usually regional in nature. A far more important risk is anything that might upset the global economy, such as an international downturn or trade war. "The global economy is more important to the stability of the international oil market than some conflict here or there," he said.

Focusing on oil markets, Bordoff pointed to the significant uncertainty created by shale oil production, while also raising the question of whether banks will continue to finance their business model without seeing a lot of profitability. Bordoff also dismissed the notion that electric vehicles will have a significant impact on oil demand in the relatively near future, especially as this would be offset by growth in other sources of demand, such as petrochemicals.

Conclusion

"The Global Oil Market Really has a Texas Accent Now."

Global oil markets are gradually rebalancing with a broad consensus that prices will hover in a $50-60/bbl price range through the end of the decade. However, the uncertain outlook for shale oil production growth is injecting a high level of uncertainty into the market outlook. Moreover, a number of potential risks could pressure prices higher or lower in the near term.

OPEC's new market management policy has been a stabilizing influence on prices but the group will have to overcome a number of obstacles and stay the course until it reaches its goal of bringing stock levels down to the five-year average. Contrary to more pessimistic observers, OPEC has a toolbox of options to draw on to support stronger markets, but an enormous amount of flexibility and the willingness among the OPEC and non-OPEC partners to adapt to changing market conditions will be required to sustain the agreement.

Shale oil will continue to revolutionize the industry but the pace of growth is an unknown factor going forward. For NOCs, hard decisions need to be made soon if they are to sustain or increase production: Do they embark on joint venture partnerships to secure cash and the latest technology or do they commit scarce financial resources to go it alone and possibly invest capital for a potential supply gap that may or may not exist five years from now?

Finally, geopolitical and geoeconomic risks must be factored in to the equation now that supply and demand are coming more into balance. The variables are immense and the complexity of the market has only become more daunting.

Agenda

September 25, 2017

Welcome and Introduction

Welcome Remarks:

Ambassador Marcelle M. Wahba, President, Arab Gulf States Institute in Washington

A Conversation with H.E. Fareed Yasseen

H.E. Fareed Yasseen, Ambassador of the Republic of Iraq to the United States

Session 1: OPEC and Oil Market Dynamics

Discussion held under the Chatham House Rule

The global oil industry is acutely focused on the rebalancing of oversupplied markets and how OPEC policy and shale oil production trends will achieve this goal. OPEC is charting a new course with non-OPEC producers but questions remain on whether the group's supply management strategy will continue beyond 2018. Supply forecasts are wide ranging and are constantly being revised, which is injecting a high level of uncertainty into the outlook for prices.

Session 2: Oil Company Investments and Strategies in a Challenging Oil Price Environment

Discussion held under the Chatham House Rule

Lower oil prices have compelled both international and state oil companies to recalibrate their business models to achieve greater operating efficiencies and deliver improved profitability. Questions remain whether national oil companies can restructure their operations to meet the challenges of this more competitive new oil world. Reduced capital expenditures are leading some experts to warn a supply crunch is on the horizon while others argue new short-cycle nonconventional oil will be able to meet any shortfall.

Lunch Keynote

Introduction:

Diane Munro, Non-Resident Fellow, Arab Gulf States Institute in Washington

Keynote Address:

Anna Rubino, Author, Journalist, and Historian

Anna Rubino is the author of *Queen of the Oil Club: The Intrepid Wanda Jablonski and the Power of Information*. Rubino's compelling biography of Jablonski unveils a little-known power broker so influential in the oil world that she was called the midwife of OPEC. Pulitzer-prize winner Daniel Yergin writes in the foreword, "Her life and her work have much to teach us about her era, oil and politics." Rubino shared her unique story of Jablonski and the rise of the 20th-century oil business, from the shift of big oil's dominance by the major oil companies to the private networking that helped shaped the creation of OPEC, and the largest transfer of wealth in history.

Session 3: Political and Economic Flashpoints for Oil Markets

Moderator:

Karen E. Young, Senior Resident Scholar, Arab Gulf States Institute in Washington

Speakers:

Jason Bordoff, Founding Director, Center on Global Energy Policy, Columbia University

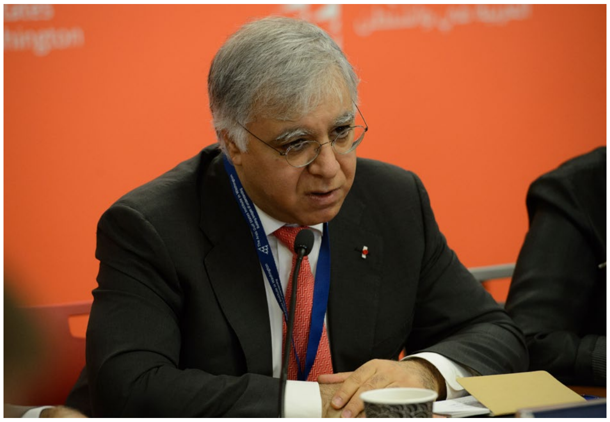
Elena Ianchovichina, Acting Chief Economist, MENA, World Bank

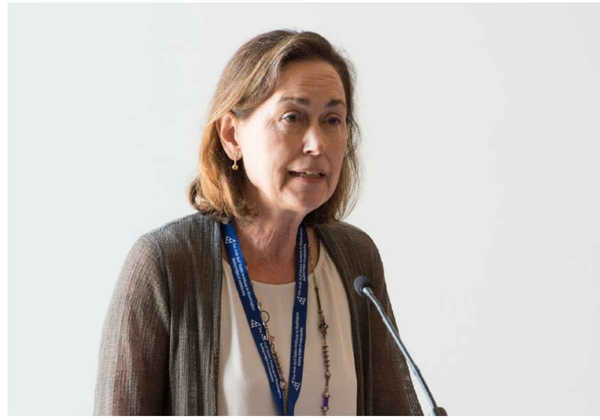
Ibrahim Al-Muhanna, Energy Consultant, Vice Chair for the Middle East, World Energy Council; Member of the Board of Directors, Arab Gulf States Institute in Washington

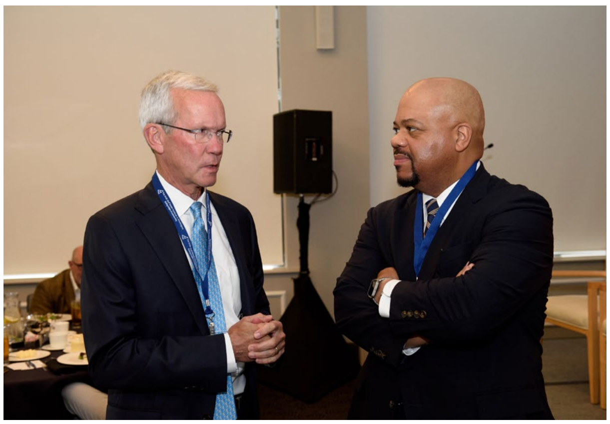
Jean-François Seznec, Nonresident Senior Fellow, Global Energy Center, Atlantic Council

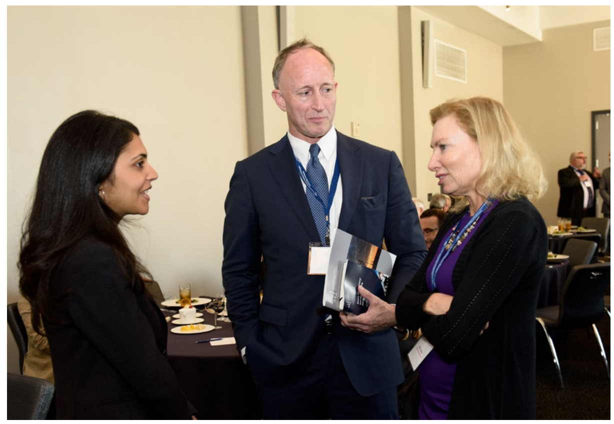
Critical geopolitical issues and major economic reform efforts amid a low growth, low oil price environment have created challenging financial imperatives for the GCC region. A new generation of Gulf leaders are upending political agendas, from the embargo on Qatar and its impact on the region's economies to a more muscular, costly military posturing in Syria and Yemen to escalating tensions with Iran. The nascent Saudi-Russian axis in oil affairs is the foundation for the new OPEC and non-OPEC cooperation on oil policy but doubts persist if the relationship can withstand conflicting political agendas on Iran and Syria. As a result, the new dynamics of GCC relations with neighbors and allies, including the Trump administration, are having a profound impact on energy geopolitics.

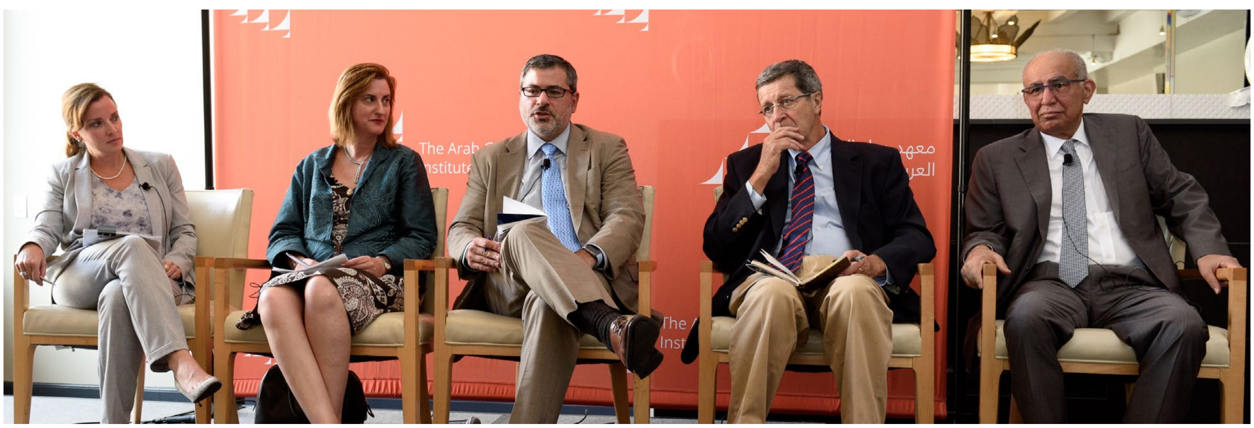
Petro Diplomacy in Pictures





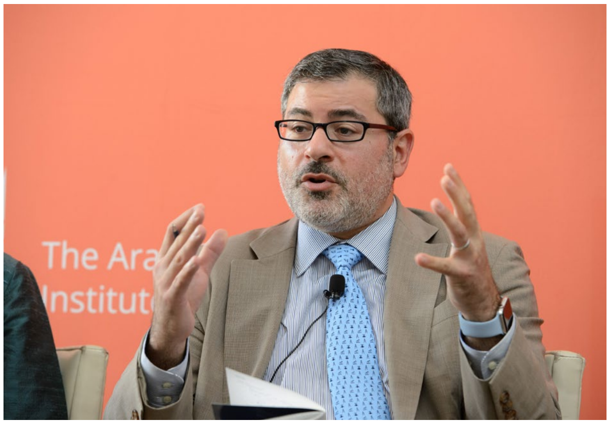


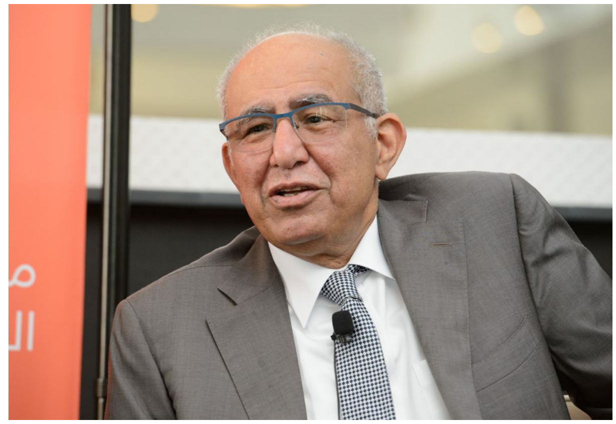


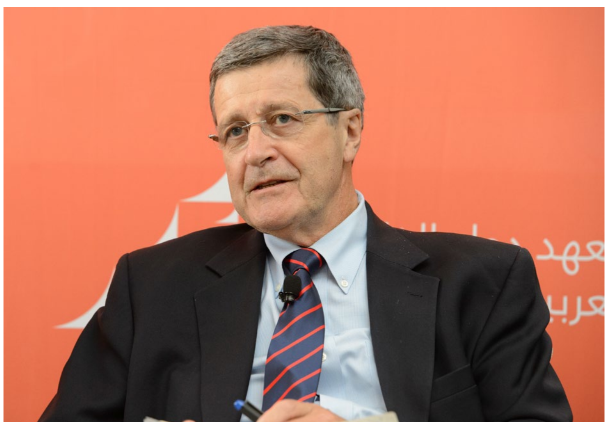


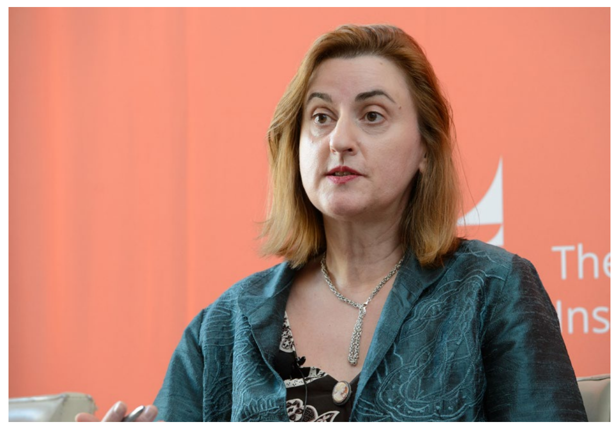
(Clockwise from top) *H.E. Fareed Yasseen, ambassador of the Republic of Iraq to the United States"; Keynote remarks by Anna Rubino, author, journalist, and historian; Conference attendees; (from left) Karen E. Young, Elena Ianchovichina, Jason Bordoff, Jean-François Seznec, and Ibrahim Al-Muhanna at the closing session of the conference, "Political and Economic Flashpoints for Oil Markets; Conference attendees*

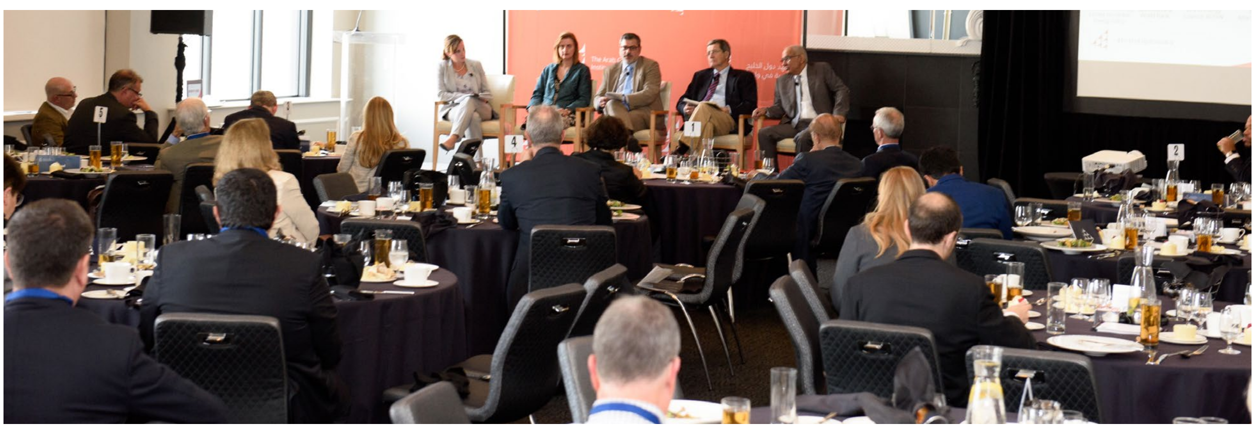
Petro Diplomacy in Pictures











(Clockwise from top left) *Jason Bordoff; Ibrahim Al-Muhanna; Elena Ianchovichina; Audience during the panel "Political and Economic Flashpoints for Oil Markets"; Jean-François Seznec* www.agsiw.org