

Energy security is a two way street

INTERVIEW WITH DR SHOKRI M GHANEM

CHAIRMAN, NATIONAL OIL CORPORATION (NOC) OF LIBYA



SHOKRI M GHANEM

was born in 1945. A graduate of the University of Libya, he was Deputy Director of Foreign Trade at the Ministry of Economy, and a Member of the Board of Directors at the Ministry of Petroleum. He has a Doctorate from Fletcher School of Law and Diplomacy in Boston. He ran the OPEC Secretariat, and then became Secretary of Libya's General People's Committee for Economy and Trade, moving on to the post of Secretary of the General People's Committee, until becoming Chairman of the National Oil Corporation in 2006.

How would you characterise the role of the IEF in fostering dialogue and confidence at the ministerial level, and what are your expectations for this year's forum?

In my view, if properly utilised, the IEF provides a unique platform that can help greatly in bridging the gap between energy consuming and producing countries through deeper dialogue that encourages cooperation and inhibits confrontation. The informality of the IEF framework is fostering a degree of frank exchanges not normally found in traditional and more formal international settings. I must also say that I was delighted to participate in both the 10th International Energy Forum Ministerial and the Second International Energy Business Forum held in Doha in April 2006. I certainly found the discussions with the Energy Ministers then quite stimulating and I hope that this year's forum in Rome will be equally successful.

What are your thoughts on the themes of this year's Ministerial sessions: enhancement of energy resource availability, ensuring energy investment, building a sustainable energy future, and improving global energy security?

Let me start first with the theme of global energy security, since it is really the crux of the matter and then the rest will just fall in place. You see, for consumers relying mostly on energy imports, security of supply is the most important issue. However, since oil is the most traded energy commodity today, the issue is really about security of oil supplies, with natural gas fast becoming a major security concern as well for many countries, particularly in Europe. However, for the oil and gas producers relying mostly on exports for their well-being, global energy security means security of oil and gas demand. Any uncertainty over the future worldwide demand for oil and gas or any downside risks can have devastating effects not only on the economies of the oil and gas producers but also on the economics of their plans for future oil and gas supply expansion projects.

Therefore, to resolve the issue of global energy security, I think it is essential to tie the issue of security of oil supply for the consuming countries to the issue of security of oil demand for the producing countries and to debate both issues transparently. Of course, only through continued dialogue between producers and

consumers could this be achieved, a dialogue that will have as its main objectives ensuring increased energy security for all by making the global oil and gas markets more efficient and transparent, promoting investment, ensuring adequate supply response at reasonable and fair prices, and minimising uncertainty and sharing risks. The IEF can and should play a significant role in fostering such a dialogue.

Moreover, I believe that the debate should include other sources of energy such as coal, tar sands and oil shale, as well as new and renewable energy such as nuclear, hydro, solar, and wind. Oil and gas alone cannot meet the growing world energy demand and technology can help solve some of the environmental problems related to the use of nuclear power, coal, other non-conventional oil resources such as tar sands and oil shale, as well as renewable energy. The developed countries need to develop the energy resources available to them within their own borders, particularly coal and oil shale, by developing new technology that will enable them to do so. They should not wait until the oil wells of the Middle East run dry. In addition, building a sustainable energy future for the world will not be complete if the developing countries are left lagging behind and certainly, the industrialised countries have a responsibility to bear in this regard.

Despite past good intentions, there has been little progress made on price volatility and the demand/supply security dilemma. What, in your view, can be done to improve relations between the national oil companies (NOCs) and international oil companies (IOCs) in order to ensure a beneficial interdependence for all parties concerned?

Let me begin by stating that the days when confrontation was the order of the day in the relationship between the IOCs and the producing countries are long gone, and I believe that cooperation between producers and consumers should be the motto of all concerned parties. I also think that nowadays the relationship between the IOCs and NOCs is based on more balanced agreements that promote investment, ensure adequate supply response at reasonable and fair prices, minimise uncertainty and share risks.

Furthermore, globally, today's NOC picture encompasses not only the NOCs of the producing

countries, but also the NOCs of some of the consuming countries such as China, India, Brazil, and Japan, just to name a few. These NOCs are aggressively competing with the IOCs as well as with the NOCs of the producing countries themselves. The competition for new oil and gas reserves now includes the IOCs, the NOCs of the major consuming developing countries eager to secure part of the supply to meet their growing demand, and the NOCs of the producing countries, themselves driven by their new financial and technological status. With such a complex picture of the new oil market and the diversity of interests of the various players, it is obvious that only through dialogue, collaboration and partnership between the IOCs and NOCs can oil market stability be achieved and the interests of all parties involved be met.

On the subject of oil price volatility, what is your perspective of the US\$100 per barrel floor/ceiling debate with reference to Libya's production quotas?

I have always argued that the prevailing high oil prices and the volatility of the oil market will most likely persist in the future because the demand for oil worldwide continues to grow – particularly in the developing countries – and investment to expand production capacity in the producing countries lags behind. I have also argued that the situation will get even worse if the world refining capacity is not expanded in time to match the rising demand for petroleum products having stricter environmental standards. Of course, I have cited other important factors, which were contributing in some way or another to the volatility of the oil market, such as geopolitics, traders' speculation, natural disasters and civil unrest.

Now look at what is happening: the oil price has surpassed the US\$100 mark, despite the relative slow-down of the US economy, its possible depressing spill-over effect on the economies of the rest of the world, and the fact that the oil market is well supplied. I do not think that many people now doubt the fact that the price of oil is no longer controlled by supply/demand fundamentals but rather by other factors, notably the speculators in futures markets and geopolitics. In this regard, I must say that the current OPEC quotas are sufficient to keep the oil market well supplied and that OPEC will do its best to keep the oil market well supplied in the near future.

Let me also point out that OPEC's ability to influence oil prices is diminishing because the futures market, which is speculative in nature, is the place where oil prices are determined. It is known of course that what is traded in the paper market is ten times the size of the real demand; hence, we see a continuous disconnection between the paper and real markets with the paper market deciding the price of oil.

In the light of Libya's recent bidding round, would you care to comment on the new partnerships being forged and how they will contribute to achieving Libya's strategic goals as an energy producer?

As you well know, since the lifting of the embargo in the late nineties, Libya's NOC has been working hard to establish collaboration and partnership with the IOCs, independents and the new emerging NOCs of the consuming as well as those of the producing countries. NOC's main goals are to increase its oil and gas reserves, boost oil production to 3 million barrels per day by 2012, and play a greater role in supplying Europe with natural gas. Since 2004, four Open Bid Rounds under EPSA-IV type agreements were successfully conducted involving areas both onshore and offshore, with the fourth round dedicated mostly to gas. In all, NOC signed 58 contracts covering a total area of around 367,000 square kilometres with a total investment commitment of around US\$2 billion. The exploration programmes of several companies started in 2007 and the rest will commence this year or next year. Already, some companies have been quite successful in finding oil and gas. Furthermore, new oil market realities are necessitating a fresh look at the old types of contractual relationships. We hope that the new agreements will pave the way for NOC to achieve its goals in increasing its oil and gas production to meet the increasing world demand, whilst at the same time enabling the companies to invest more, produce more, profit more and continue their good working relations in a friendly environment. ■

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The vast majority of Libya's offshore area remains to be explored

