Increasing importance of Arab oil and gas producers

BY HIS EXCELLENCY ABBAS ALI NAQI
SECRETARY GENERAL, OAPEC

The Organisation of Arab Petroleum Exporting Countries (OAPEC) is a regional inter-governmental organisation located in the state of Kuwait, concerned with the development of the petroleum industry through fostering cooperation among its members. It contributes to the effective use of the resources of member countries through sponsoring joint ventures. Among these joint ventures, which were set up in the 1970s, are the Arab Maritime Petroleum Transport Company, the Arab Shipbuilding and Repair Yard Company, the Arab Petroleum Services Company, and the Arab Petroleum Investments Corporation, whose main activity is oil project finance.

Kuwait, Libya and Saudi Arabia undertook the establishment of OAPEC on January 9, 1968. The founding members wanted the organisation to be restricted to Arab countries in which oil revenues constitute a "significant source of its national income". However, it was decided on December 9, 1971, to relax membership conditions to be open to any Arab country for whom petroleum forms an important source of national income", rather than just a main source of national income .

The founding countries (Saudi Arabia, Kuwait, and Libya) were later joined by Algeria (1970), Bahrain (1970), United Arab emirates (1970), Qatar (1970), Syria (1972), Egypt (1973), Iraq (1973) and Tunisia (1982). Tunisia's membership is in suspension.

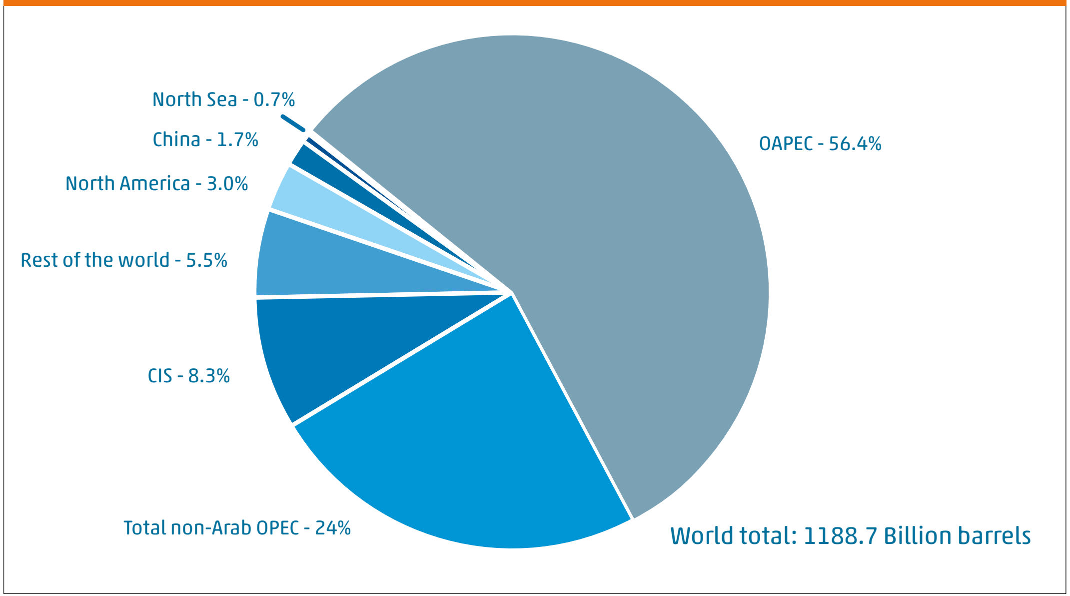
Therefore OAPEC has 10 active members spread across two continents, Asia and Africa. As of 2010, OAPEC member countries with a combined population of 218 million people, representing 62 per cent of the Arab population. OAPEC total GDP amounted to US$1,635 billion, accounting for 81 per cent of total Arab Gross Domestic Product measured in current prices.

OAPEC member countries occupy a significant position in the international oil and natural gas markets. They are located in a region where economic, political, and security factors are interlinked in a manner unparalleled in other regions of the world. Their significance – present and future – can be illustrated by the main parameters of their reserves, production, consumption and exports of oil and natural gas.

World total oil proven reserves have undergone a sharp rise in the last decade, increasing from 1,104.9 billion barrels in 2000 to 1,188.7 billion barrels in 2010. .

OAPEC member countries account for about 35 per cent of the increase in world proven reserves. OAPEC proved reserves increased from 640.2 billion barrels (57.9 per cent of world total) in 2000 to 670.1 billion barrels (56.4 per cent of world total) in 2010. Five OAPEC members (Saudi Arabia, Iraq, Kuwait, United Arab Emirates, and Libya) hold about 53 per cent of world proven reserves. This puts OAPEC at the top versus other international groupings or regions, as shown left.

Proven reserves of crude oil according to International groups,2010 (%)



As for natural gas, world proven reserves increased from 154.3 trillion cubic metres (tcm) in 2000 to

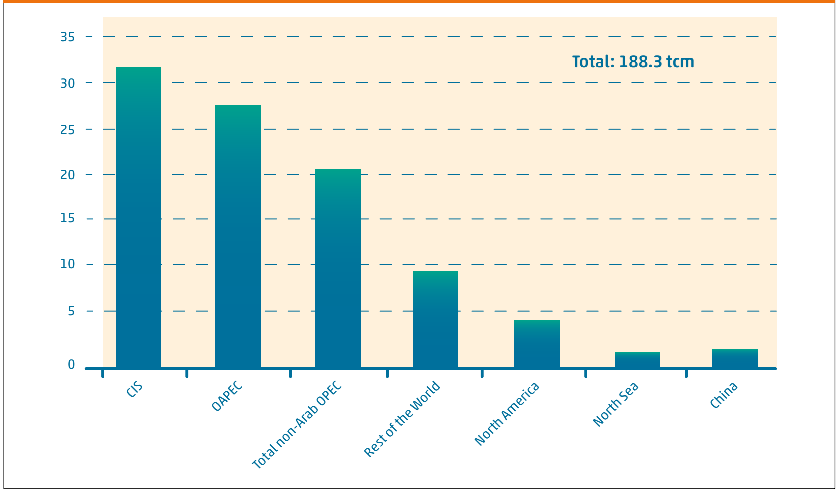
188.3 tcm in 2010. Natural gas reserves are more dispersed than those of oil, with the Commonwealth of Independent States (CIS) accounting for 32.6 per cent of world total, and OAPEC coming next with a share of 28.3 per cent rising from 25.2 per cent of world total in 2000, as shown right.

At the end of 2010, OAPEC natural gas reserves reached 53.3 tcm, and they are concentrated in Qatar which holds 47.6 per cent of the OAPEC total and 13.5 per cent of the world total.

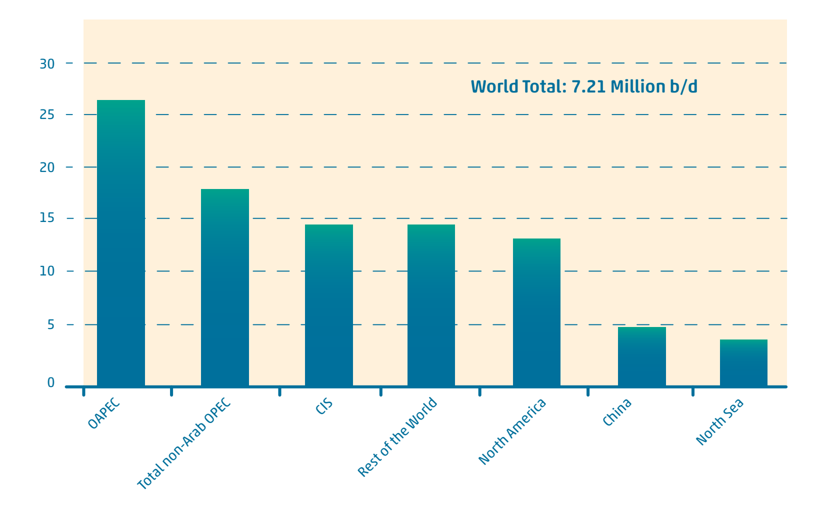
In terms of crude oil (excluding condensates and NGLs), world production also witnessed a sharp rise between 2000 and 2010. World production increased from 67.1 million b/d in 2000 to 72.1 million b/d in 2010. By the end of 2010, OAPEC crude oil production reached 19.7 million b/d, even though its share receded to 27.3 per cent of world total compared to 28.9 per cent in 2000, as shown below.

The bulk of OAPEC crude oil production is concentrated in Saudi Arabia which holds 22.3 per cent of world proven reserves. Saudi Arabia produced 8.1 million b/d or 11.3 per cent of global output in 2010, followed by the United Arab Emirates and Kuwait with 2.3 million b/d or 3.6 per cent each of world total.

Natural gas reserves by region, 2010 (%)



Crude oil production by region, 2010 (%)



Key spare capacity holder

OAPEC members play a central role in balancing the world market, not only because of the size of their production, but also because of their spare production capacity. Saudi Arabia, the leading world exporter, with total capacity of around 12.5 million b/d, holds the bulk of the world spare capacity – defined as oil that can be brought onstream within 30 days and sustained for 90 days.

It is worth noting that OAPEC oil production share of the world total (27.3 per cent) is much less than its share from world proven reserves (56.4 per cent). The opposite is true for other regions such as the North Sea, North America, and CIS where their share in total production is higher than their share in world total reserves.This fact strengthens OAPEC capacity to meet the expected increase in world oil demand, and indicates the organisation's member countries will play a more dominant role in the world oil market.

Among the world top 18 producing countries, each of whose output exceeded 1.5 million b/d in 2010, there were seven OAPEC countries, headed by Saudi Arabia followed by the UAE, Kuwait, Iraq, Algeria, Libya and Qatar.

Turning to marketed natural gas, world total production in 2010 was estimated at 3,193.3 billion cubic meters (bcm) →

→ compared to 2,504.6 bcm in 2000. OAPEC production of natural gas witnessed a similar increase from 255.4 bcm or 10.2 per cent of world total in 2000 to around 443 bcm or 13.9 per cent of world total in 2010. The bulk of OAPEC gas production in 2010 was concentrated in Qatar, which produced 26.3 per cent of OAPEC total (3.6 per cent of world total), followed by Saudi Arabia (18.9 per cent), Algeria (18.2 per cent) , Egypt (13.8 per cent), and UAE (11.5 per cent).

Growing Consumption

Generally, OAPEC countries witnessed a steady increase in consumption of both oil and natural gas. Oil consumption increased from 3.2 million barrels of oil equivalent per day (4.2 per cent of world total) in 2000 to 4.9 mboe/d (5.6 per cent of world total) in 2010, representing an annual growth rate of 4.3 per cent, while production was close to 20 million b/d. The difference between OAPEC member countries production and consumption of oil illustrates their significance to supplying energy-deficit countries.

Domestic consumption of natural gas increased from 2.7 million boe/d (6.3 per cent of world total) in 2000 to 4.7 million boe/d (8.6 per cent of world total) in 2010, with an average annual growth rate of 5.5 per cent. Consumption varied from one country to another due to the differences in availability of oil and gas resources, energy-intensive local industries and standard of living in each country. Saudi Arabia consumed 25 per cent of OAPEC total, followed by the UAE (23.7 per cent) and Egypt (12.7 per cent). OAPEC countries' relatively greater surplus of production over local consumption – compared to other regions in the world – magnifies the importance of their role in the international gas market.

The net trade balance between regions is a good indicator of the importance of countries in the oil market. The Middle East is the largest exporting region in the world with net oil exports of 16.9 million b/d in 2009. Exports of oil and oil products from OAPEC countries played vital role in the last decade, irrespective of the fact that their 2009 level was the same as that for the year 2000, as shown in the graph on the next page.

During 2009, OAPEC crude oil exports were estimated at 14.2 million b/d, and oil products exports estimated at 2.6 million b/d . Total OAPEC oil exports represented 29.1 per cent of the world total, followed by exports from Western Europe (14 per cent), Eastern Europe and FSU (13.2 per cent) and Asia- Pacific (11.7 per cent).

The net position of OAPEC members in 2009, shows that OAPEC hold the largest surplus of oil and oil products in the world reaching 16.8 million b/d compared to deficits of 16.3 million b/d in Asia-Pacific, 9.7 million b/d in Western Europe and 8.2 million b/d in North America.

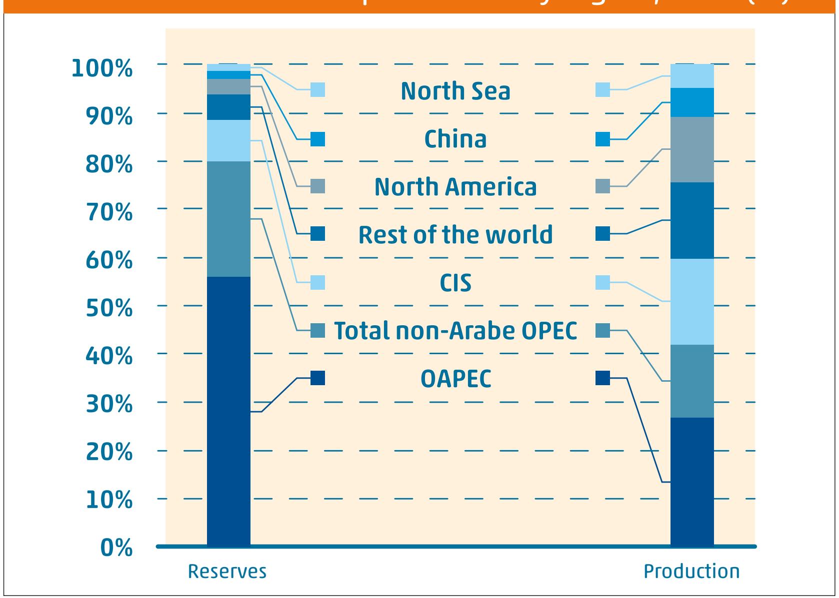
Of the world's 15 largest oil exporters – each exporting more than 1.0 million b/d) – there were seven OAPEC countries in 2009, headed by Saudi Arabia with an export level of more than 7 million b/d.

OAPEC members played and continue to play a vital role in the world oil trade. Their share in total imports of crude oil and oil products exceeded 27 per cent in 2009. In fact OAPEC countries supplied 18.8 per cent of North America total oil imports, 14.6 per cent of Western Europe and 44.2 per cent of Asia- Pacific during that year.

As regards gas, OAPEC exports more than doubled in the last decade, rising from 83.5 bcm in 2000 to 164.3 bcm in 2009, and accounting for 18.1 per cent of world total in 2009.

Approximately 60.3 per cent of OAPEC natural gas exports were in

Crude oil reserves and production by region, 2010 (%)

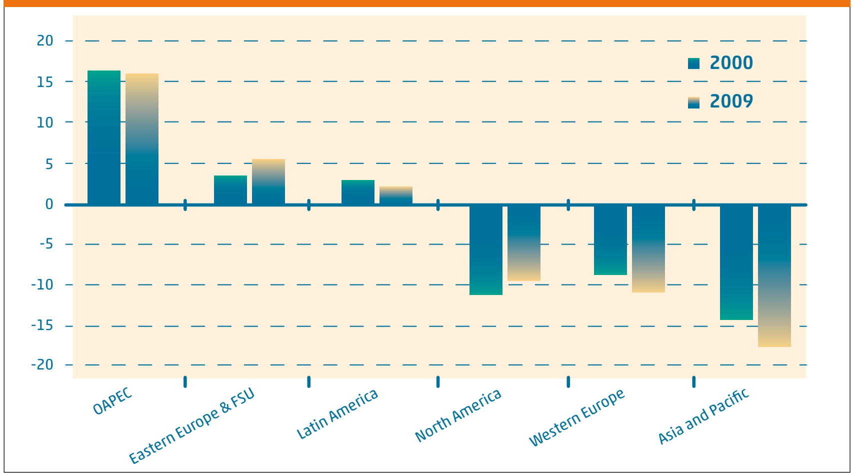


the form of Liquefied Natural Gas (LNG), while the rest were pipeline gas from Algeria , Egypt, Libya. Qatar is OAPEC's largest exporter of gas (41.5 per cent of OAPEC) , followed by Algeria (32.1 per cent) and Egypt (11.2 per cent).

The net trading position of natural gas during 2000 – 2009, indicates the significance of OAPEC surplus, at a time when western Europe, Asia – Pacific, and North America were incurring increasing deficits as shown in the graph below.

In 2009, OAPEC surplus exceeded 135 bcm, versus deficits of 209 bcm in Western Europe, 87.9 bcm in Asia - Pacific and 4.1 bcm in North America.

Oil balance of international regions, 2000 and 2009, (million b/d)



Conclusion

OAPEC member countries occupy a significant position in the international oil and natural gas markets, as they held more than 56 per cent of world oil reserves, and more than 28 per cent of natural gas reserves. On the other hand, OAPEC accounted for approximately 27.3 per cent of world oil production and 13.9 per cent of world natural gas production highlighting the significance of OAPEC members in meeting rising world demand.

The net position (oil balance) in 2009 shows that OAPEC contributed around 17 million b/d toward covering the increasing oil deficits in other regions such as North America, Western Europe, and Asia-Pacific. In fact, one third of world total oil imports in 2009 came from OAPEC member countries, supplying one fifth of North American imports, 14.6 per cent of Western Europe, and 44.2 per cent of Asia – Pacific during that year.

OAPEC member countries are likely to continue to play a major role in meeting future world demand for oil and natural gas, contributing effectively towards market stability. OAPEC major producing member countries (Saudi Arabia, Iraq, Kuwait, and the United Arab Emirates), accounting for around 53 per cent of the world proven reserves, will be the world's main oil suppliers in the medium to long term. But for this to be realised, the producers will need to add production capacity requiring large investment outlays. This will take place only if they are confident that anticipated demand for their oil will materialise and they have access to sufficient funds.

The trade balance of natural gas, 2000 and 2009 (billion cubic metres/year)