Special Bulletin

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At the Atlantic Council Global Energy Forum

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On January 12 and 13, the U.S. think tank Atlantic Council sponsored an international conference named Global Energy Forum in Abu Dhabi. In recent years, the Atlantic Council focused on studies and recommendations regarding international energy problems, sponsoring relevant international conferences. The Global Energy Forum in Abu Dhabi was the think tank's first conference specialized on energy problems. The Abu Dhabi and United Arab Emirates governments provided high-level support for the two-day conference.

The conference came as part of the Abu Dhabi Sustainability Week event from January 12 through 21, dealing mainly with the international energy situation, and geopolitics and energy. A wide range of specific topics included 2017 international energy market outlooks and challenges, crude oil prices, post-oil energy market changes and economic structure diversification, the new U.S. administration and the Middle East, the future prospects for nuclear energy, natural gas and geopolitics, China's "One Belt and One Road" initiative and its implications, national wealth funds' post-oil strategies, energy and water problems, physical and cyber risks regarding energy infrastructure and transportation, and the new U.S. administration's energy and environment policies.

Present at the conference were top management officials of the Atlantic Council. High-level participants from the host country of the UAE included Energy Minister Suhail Mohamed Faraj Al Mazrouei, ADNOC CEO Sultan Ahmed Al Jaber and Mubadala Development Company CEO Khaldoon Khalifa Al Mubarak. Among prominent ministerial participants were Saudi Arabian Energy Minister Khalid A. Al-Falih, Kuwaiti Oil Minister Issam A. Almarzooq and Iraqi Oil Minister Jabbar Ali al-Luiebi. Other high-level participants included Mohammed Sanusi Barkindo, Secretary General of the Organization of the Petroleum Exporting Countries, and Fatih Birol, Executive Director of the International Energy Agency. International energy company executives attending the conference included Total CEO Patrick Pouyanné. In addition, senior government officials, international energy industry executives and prominent experts participated as speakers or panelists at the conference featuring high-level discussions on international energy problems.

While the conference dealt with a wide range of topics as noted above, the most impressive to me were major OPEC ministers' interesting discussions on the future international oil market, highlighted in the first half of the first day.

One of the most important points in the discussions was how to interpret last year's agreement between OPEC and non-OPEC oil producing countries on their coordinated production cuts. The agreement came as a surprise that reversed a majority view among oil market participants. Since OPEC announced a production cut agreement at an extraordinary meeting in Algeria in last September, market players have been greatly interested in OPEC and non-OPEC production-cutting efforts. In response to the oil production cut agreement, crude oil prices have risen. Since December, the key West Texas Intermediate crude oil futures price has remained in a $50-55 per barrel range. Discussions at the conference indicated that major OPEC ministers seemed to be satisfied with the price trend at present and confident of the agreement's impact on the market.

In the discussions, as a matter of course, the chair, panelists and audience made questions about the present and future compliance with production quotas. In response, participants from oil producing countries confirmed these countries' commitment to the agreement and reiterated that the compliance will be sustained. On January 21 and 22, oil producing countries participating in the coordinated production cuts will hold a meeting of a ministerial committee to monitor the production cuts. The meeting is expected to deal with how to monitor the compliance. The production cut plan has just been put into implementation. As time goes by, the status of the compliance will be unveiled, attracting global attention.

Officials from oil producing countries mostly pointed out that the production cut agreement was very important for avoiding severe damage brought to their economies by oil prices' slip below $30/bbl in the first half of 2016 and for boosting oil prices to levels for investment required to stabilize supply and demand in the international oil market. There are many attention-attracting points regarding the coordinated production cuts. Given the past records, doubts remain about Russia's compliance with the agreement. Concerns exist on future oil production by Iraq and Iran. Libya and Nigeria, left outside the production cut by country framework, could increase production depending on improvements in their security situations. Given these points, the determination and initiatives of Gulf oil producing countries such as Saudi Arabia, the UAE and Kuwait to comply with the production cut agreement are very important.

Regarding the impact of OPEC's production cut efforts, vigorous debate came on the presence and implications of U.S. shale oil. Ministerial and other officials from oil producing countries reiterated their official stance that they do not necessarily have to view U.S. shale oil as their rival because shale oil is expected to play a key role in expanding oil supply to meet global oil demand growth. Undoubtedly, however, U.S. shale oil will have the most important impact on the coordinated production cuts by OPEC and non-OPEC oil producing countries. Through the oil price weakness, U.S. shale oil production costs have declined, enhancing U.S. shale oil's resistance to low prices. Furthermore, incoming U.S. President Donald Trump could support U.S. shale oil production expansion through deregulation and infrastructure development.

Already, the number of operating U.S. oil-drilling rigs bottomed out late last May and has increased by nearly 70% from the bottom. In response, U.S. crude oil production has increased from a little less than 8.5 million barrels per day last summer to around 8.8 million bpd. How the current oil price range of $50-55/bbl will influence shale oil production is a very important point. Some participants in the conference were concerned that U.S. shale oil production could expand to delay rebalancing in the international oil market. Global oil inventories, though having begun to decline at last, are still at a historically high level. Inventories must be normalized for the rebalancing. Potential U.S. shale oil production expansion responding to price hikes could greatly affect the fate of the rebalancing.

OPEC has made a commitment to the coordinated production cuts for the first half of this year to see their effects on the market. Some participants in the conference said the production cuts could be extended to 12 or more months if the rebalancing is delayed or becomes difficult. One questioned if OPEC and non-OPEC oil producing countries could enhance the production cuts when further cuts are required depending on future developments. Given that there are various destabilizing and disturbing factors in addition to the abovementioned key points in this year's international oil market, we must pay attention to future developments.

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