

Symposium on Pacific Energy Cooperation (SPEC) 2003  
Keynote Speech II

**Furthering Asia's Energy Security:  
A Case for Enhanced Dialogue, Cooperation, and Pragmatism**

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(Delivered by Mr. Khalid H. Al-Dabbagh, General Manager, Saudi Petroleum, Ltd.)

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Your Excellencies, honored guests, ladies and gentlemen; good morning. It is a pleasure to be with you here at this important gathering. The Symposium on Pacific Energy Cooperation has established itself as the premier forum for the discussion of energy issues affecting the Asian and Pacific regions, and I'm delighted to have this opportunity to share my thoughts on Asia's energy issues with this distinguished audience.

I think it is best to begin with a few basic facts about where we are today, and where we're headed tomorrow, in terms of Asia's energy needs and the sources of supply available to meet those needs. We need to keep sight of these realities as we explore ways to encourage dialogue and cooperation, because these facts must form the foundation of that conversation.

Today, over half of the world's people live in Asia. By 2020, the world's population will increase by another twenty-five percent, when more than seven and a half billion people will be sharing the planet. Just as important as this overall population growth is its distribution. In another two decades, nearly 85 percent of the world's people will be living in developing nations rather than industrialized economies, many of them in Asia.

This population growth will be accompanied by increased industrial growth, as new economic powers emerge and develop. In Asia, this means that well-established economies such as Japan and Korea will be joined by a host of important new economic players, including China, India and others. Of course, economic growth relies on energy input, so new energy demand will be strongest in developing economies, which will account for some two-thirds of new energy needs. If we accept a relatively modest two-percent annual increase in energy demand, by 2020 the world will be consuming some 270 million

barrels per day in terms of oil equivalent. Given the prevailing patterns of economic development, much of that consumption will be centered in the Asia-Pacific region.

So, what about the energy supplies necessary to meet that demand? Here, oil is set to remain the dominant fuel in the energy mix with roughly a forty-percent overall share. The projected growth of the global transportation sector, including greater private ownership of automobiles and motorbikes worldwide, will help keep petroleum at the forefront, as will new uses for petroleum and petroleum products. Today, the world consumes about 77 million barrels of oil daily. By 2020, that figure will be 115 million barrels per day. Much of that increase will come from Asia; in fact, demand for oil in Asia is forecast to grow two or three times faster than in the OECD nations. Overall, the International Energy Agency predicts that by 2020, fossil fuels will be meeting roughly ninety percent of the world's primary energy requirements.

In short, we see three continuing trends that will shape energy demand for the next several decades. First, overall demand for energy is set to increase steadily as a result of increased economic development and population growth. Secondly, the Pacific Basin will be every bit as important as the Atlantic Basin in terms of energy demand. In fact, because of growth patterns, energy demand will be increasing fastest in this part of the world. Third, oil will continue to play a dominant role in meeting energy demand for the foreseeable future. Obviously, the combination of these three trends means that striking an equitable, sustainable balance between energy demand and oil supplies will be critical for Asia's future, and the future of its people.

Further more, the future outlook from the point of view of an Asian consumer seems to be full of challenges. Japan and Korea are already large importers of oil, and satisfy much of their needs with oil from the Middle East. China, India and other Asian economies are set to take the stage as additional drivers of energy demand. China, with its huge population and high rate of economic growth, is a net importer of oil, and a large one at that. Other oil exporting countries in the Asia-Pacific region, such as Indonesia, could also become net importers over the long term, due to increased domestic economic growth and development. The Asian consumer, therefore, begins to draw an uncomfortable conclusion: there will be increased competition for increasingly scarce Middle Eastern oil, with a resulting increase in oil prices. All in all, this is a pretty gloomy outlook for our consumer.

However, these fears are based on misconceptions. Increasing demand will be offset by new developments and new areas of production. Total world oil reserves are plentiful, and will remain so for

some time to come. At Saudi Aramco, for example, for many years we have been able to replace our annual production with new reserves, in order to maintain our reserve base at a constant level. In addition, new technologies that improve petroleum's performance as a fuel will further extend the benefit of these reserves.

But let's shift perspective now, to that of a crude oil producer—a viewpoint with which I have some familiarity. Here the concern is not about a scarcity of supply, but rather an *oversupply* in world oil markets in the decade to come. That means falling prices as exporters scramble for market share, which clearly doesn't help me as a producer. Low oil prices certainly seem like good news for the consumer, but looks can be deceiving. A cut means less money to fund exploration efforts, as well as a drop in the levels of investment in production capacity and transportation infrastructure. Take it from one who knows: these investments are costly, and can be undertaken only if they make sound economic sense—which is a function of the market. Without such spending, reserves and production both begin to lose ground in the face of increased demand, resulting in an undesirable price spike.

And make no mistake: a jump in price *is* undesirable from my perspective as a producer, since prices that rise too high are just as bad as prices that fall too low. A high price for oil may seem to favor producers, but only in the short term. Unduly inflated prices dampen overall market demand for oil and raise the potential of increased spending on other, less reliable energy sources. Unrealistically high prices also ultimately result in a glut of oil on the market. And that takes us right back to the problems associated with falling oil prices.

Therefore, the government of Saudi Arabia has always advocated an equitable and stable oil price. Such a price helps to support global economic growth and fuel prosperity, while at the same time meeting the economic needs of producers. This, in turn, encourages adequate investment in the development of additional production capacity required to meet future growth in demand. In other words, everyone has a stake in achieving a mutually beneficial price, where the needs of both consumers and producers are met, and market stability is achieved.

Traditionally, supply security has been viewed as a matter of consuming countries competing for energy resources, leading to a high potential for conflict—especially if reserves are believed to be declining. This traditional view also equated energy imports, and particularly oil imports, as a source of national vulnerability and economic weakness.

Happily, though, this overly simplistic and overly pessimistic view seems to be changing. A number of public policy analysts are now arguing that energy serves not as a source of conflict, but rather as a unifying factor for producers and consumers by creating interdependence. I see this as a more realistic view of the dynamics of energy today, and believe strongly that our joint task is to devise ways to make energy available to all at equitable prices, and in a manner that can be sustained over the long term.

I am glad that Japanese energy analysts share my views stressing that traditional concepts of energy security have tried to navigate between the dangers of short-term supply disruptions and the long-term specter of oil depletion. Today, though, a new paradigm is needed to deal with energy security issues.

To return for a moment to some cold, hard facts, two-thirds of the world's proven oil reserves are located in the Middle East. These are also, by and large, the most economically produced reserves found anywhere in the world. To try and wish these facts away and articulate a national or regional energy security policy on anything else is not prudent. For three decades, the promise of cheap alternative fuels has been debated and discussed. Yet, despite thirty years of intensive research and development and considerable financial investment, alternatives still meet only a small proportion of the world's daily energy needs. Rather, it is primarily oil that fuels the engines of our economies, provides for the needs of our peoples, and makes the promise of prosperity a reality for billions around the globe.

Let's face it: the world has to have Middle East oil if present standards of living are to be maintained, much less improved upon. But it is just as true that the Middle East has to have oil revenues. You need us and we need you, which is the very definition of mutual dependency. Security of supply benefits both producers and consumers. As a result, the nations of the world must work together in order to improve the lot of their own people, and in so doing also contribute to the overall stability of energy markets.

Once we understand this basic truth, the distance between the producer and consumer camps starts to close rapidly. We can begin to understand one another's point of view, and we realize that we are both after the same objective: a reliable supply of energy at a stable and equitable price. The problem then becomes one of how to achieve that objective.

Yet substantially enhanced dialogue and cooperation with Middle Eastern oil producers is vital for Asia. The countries of the Gulf are already the biggest suppliers of oil to the region, and will become even more important in the years and decades to come. Looked at from the other side of the equation, Asia is already an important market for us, and is set to be even more critical in the future. We're back to mutual

dependency, and that is why I strongly believe that strengthening the ties between Asian consumers and Middle Eastern producers is the single most important factor in securing the Pacific region's security of supply.

To increase the level of dialogue between producers and consumers, Saudi Arabia has called for the establishment of an energy secretariat based in Riyadh. This institution is designed to assist in coordinating the views of consumers and producers, and to launch a new era of cooperation in resolving issues of mutual concern. Proposing this secretariat, Crown Prince 'Abd Allah ibn 'Abd al-'Aziz Al Sa'ud made clear the important role it must play. "At the present stage of human evolution," he said, "such dialogue and cooperation has become a *necessity*, and not just an option."

Another aspect of this new spirit of cooperation is reciprocal investment in areas of interest to both producers and consumers. As you know, Saudi Aramco has already made substantial downstream oil investments in the Republic of Korea and the Philippines, is working on similar opportunities in China, and will always consider economically attractive options in other areas of the Asia-Pacific region that are aligned with our strategic business goals.

There is also a need for joint development of new technologies designed to improve oil's performance, particularly in terms of emissions and their impact on the natural environment. We take the issue of environmental protection very seriously, and believe that there is indeed room for improvement. At the same time, oil is the only fuel source that is realistically able to meet the growing energy needs of the world's people. Therefore, our research efforts should focus on ways to make oil even more efficient as a fuel source, and to improve its performance in environmental terms.

In this regard, let me highlight the exemplarily joint effort shown by King Fahad University of Petroleum and Minerals, Nippon Oil, and the Japan Cooperation Center, Petroleum (JCCP) to construct a demonstration plant at Ras Tanura Refinery to further improve a new oil conversion technology in the area of High Severity Fluidized Catalytic Cracking Technology.

As I've already noted, market stability is an area of mutual interest for producers and consumers, and no country in the world has done more to foster such stability than Saudi Arabia. Whenever world events or economic trends have impacted the market, the Kingdom has worked tirelessly, on its own and in cooperation with other producers, to dampen large price swings and to encourage market stability. Saudi Arabia has a long track record of keeping its promises to consumers. From the Iranian crisis of the late

1970s, through the Iran-Iraq war of the 1980s and the invasion of Kuwait in the early 1990s, Saudi Arabia has always acted as a force for market stability. Saudi Aramco has been, and will continue to be, the world's most reliable supplier of much-needed energy and a dependable partner in fueling economic development, whether in Asia or elsewhere around the globe.

Saudi Arabia has repeatedly reiterated its resolve to maintain the stability of oil markets, now and in the future. As part of that commitment, Saudi Aramco continues to maintain a large surplus production capacity, despite the considerable economic cost it entails. This spare capacity can be rapidly brought on-stream should events warrant, and the very fact of its existence is a factor favoring market stability. We continue to invest in capacity expansion to ensure that we can reliably meet our commitments to customers around the globe, because we depend on them just as they depend on us.

Ladies and gentlemen, the only practical and economical way of meeting the future energy needs of Asia's growing population and rapidly developing economies is to rely on fossil fuels and clean-burning technologies. This combination will enable us to satisfy both the economic and environmental goals of the international community, to ensure Asia's economic and energy security for future generations, and to meet the aspirations of the world's people for a better life. Saudi Arabia and Saudi Aramco are committed to working with you to realize these objectives, in a spirit of teamwork and cooperation. Then, and only then, can all of us together help to make the promise of Asia's bright future a reality. Thank you for your attention.

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