GLOBAL ENERGY MARKETS:
REDUCING VOLATILITY AND UNCERTAINTY

Remarks by H.E. Minister Ali I. Al-Naimi
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Excellencies, ladies and gentlemen,

Good morning:

The last two years have been difficult indeed for the world economy, global energy market fundamentals and the producer-consumer dialogue. In response to the dramatic changes of this period and the oil price volatility characterizing it, Energy Ministers have held two ad-hoc meetings in Jeddah and London, besides the scheduled IEF meeting in Rome in 2008, to respond to the changing global economic and energy situation. Reflecting on these three meetings, we have come to appreciate the importance of IEF meetings, not only in understanding key energy issues facing our world, but for aligning our policies to incorporate each other’s concerns.

Meeting the world’s future energy needs has appropriately risen to the top of global economic and political agendas. We acknowledged in
all of our previous meetings that hydrocarbons, with oil at the forefront, will continue to play the primary role in fueling the world’s economy for decades to come. We also realized the importance of stability, predictability and sustainability to oil markets, and the need for concerted global efforts to deal with the causes and consequences of price volatility, to ensure sustainability for the energy system.

However, oil producers are faced with daunting uncertainty on both sides: demand, which continues to be subject to downward revisions, and supply, where sizeable but uncertain increments are being planned. Certainty and predictability in the oil market are undermined by a lack of reliable data and policy on energy supply and demand, both now and into the future. Certainty and predictability are also undermined by financial markets’ lack of transparency. Financial markets should not be a platform for excessive price speculations, but should function to give indicators about future expectations. A third factor for world oil market stability is spare capacity, both for the upstream and downstream. These factors all complicate investment decisions and the oil industry’s task of meeting future energy demand.

Now I want to address more directly Saudi Arabia’s role in the world oil market as we look to the future. We believe that oil demand will increase substantially once the world economy recovers. Building
on our long track record as the world’s most reliable supplier of energy, Saudi Arabia is at the forefront of efforts to expand capacity as needed across the supply chain.

In the upstream, Saudi Arabia has long made it a policy to maintain significant spare capacity in an effort to promote oil market stability and to minimize disruptions to the world economy. The Kingdom embarked on the largest expansion program in history in 2004. Currently our production capacity is 12.5 million barrel per day, with spare capacity of about 4 million barrel per day. Our ongoing policy is to maintain 1.5 – 2.0 million barrels per day of spare capacity. On the downstream side, we are planning to increase our refining capacity at home and at our joint venture abroad, from 2.7 to about 4.1 million barrels per day, largely to meet the international demand for cleaner petroleum products. However, having spare production capacity of more than four million barrel per day, as the case today, has cost billions of dollars. Furthermore, it entails further expenditure, particularly in a time of demand uncertainty under the urge for the rollback of petroleum use, and a reduction of oil imports from some countries including Saudi Arabia.

Ladies and gentlemen, Saudi Arabia’s contribution to the availability of energy and the security of global energy markets is
considerable, and serves the wider interests of global economic growth and human prosperity. We all gathered here must stay away from subjective and ill-judged reports about the world’s future energy requirements. The challenges before us are great, and we must confront them with a commitment to collaboration and cooperation.

In closing, I sincerely express the gratitude of my country, along with that of other countries, organizations and companies present here, to our gracious host. I look forward to our next forum in Kuwait, in anticipation of better economic conditions and more stable oil prices.

Thank you.