16th International Oil Summit

Paris, April 16, 2015

◆ ◆ ◆

Introductory Remarks

by

Nordine Ait-Laoussine

Ladies, Gentlemen and dear colleagues,

Good morning everyone, and welcome to the 16th International Oil Summit!

Since our first summit, sixteen years ago, we have lived through a period of unprecedented change during which we have witnessed a profound industry restructuring on a scale never seen before. As some of you may recall, we have debated the most important consequences of the ongoing structural change and discussed their impact on the industry at large.

During this period, our industry has gone through a full cycle ending right back where we started:

- We have moved from “market surplus” to “market tightness” and back to “surplus” again.
- We moved from “peak production” concerns for the consumers a few years ago to “peak demand” concerns, for the producers now.
- From one year to the next, we have moved from a critical shortage of skills in the industry to massive layoffs in the service companies.
- And, in real terms, oil prices have fluctuated between their lowest and highest levels ever.

The perennial issue of uncertainty over market direction and price trends has been discussed at length in our previous summits and will likely permeate, again, our debate throughout the day. This is reflected in the overall theme of this summit which is “how to restore profitability to the oil industry amidst the current high cost and low price environment”.

As we all know, the oil price collapse which began last June has been exacerbated by Saudi Arabia’s insistence at the last OPEC Ministerial meeting to abandon the Organization’s traditional price defence strategy in favour of protecting its market share which had been threatened by soaring non-OPEC oil production for several years.

The decision to let market forces drive down the price of oil, in the hope of stimulating demand and reducing non-OPEC supply, has been unsuccessfully tried in 1986 and 1998. As a matter of fact, on those occasions, OPEC felt compelled to resume the price defence strategy when the Organization realized that lower prices had a limited impact on global demand and a delayed impact on non-OPEC supply, which together implied a long time-lag between near-term revenue sacrifices due to lower prices and long-term benefits resulting from a higher market share. On both occasions, it took OPEC about a year to reverse its course and buck the declining price trend by cutting substantially its aggregate output to balance the market so as to benefit from a gradual price recovery.

Evidence so far suggests that the 50% drop in oil prices observed since the middle of last year has affected global oil demand only to a limited extent, with very little change in the expected growth this year, and that lower oil prices are beginning to slowdown, but not arrest, the increase in non-OPEC production. As a result, most analysts expect that, by the end of this year, OPEC's market share will begin to recover and that this recovery will (on an annual basis) halt the decline in the call on OPEC crude that began in 2013.

But the fact that OPEC will eventually succeed in protecting its market share is neither sufficient in itself to arrest the price decline, nor to steer a durable and gradual price recovery. This price crisis may last longer than in 1986 and 1998 for the following reasons:

First: OPEC output is, in fact, increasing and remains above the Organization's ceiling of 30 mmbd. It topped 31 mmbd last month, mostly as a result of an expected jump in Iraq's exports and an unexpected substantial increase in Saudi Arabia's production. The OPEC GCC members, who insisted on the maintenance of the 30 mmbd ceiling with their combined allocation of 15.6 mmbd agreed in November 2011, are now exceeding this level by an aggregate amount of 1 mmbd, which suggests that they are really after an increase rather than the protection of their market share. Continued OPEC output at recent levels will clearly exacerbate the current large overhang of global inventories (which are approaching record levels), putting renewed downward pressures on oil prices in the short-term.

<u>Second</u>: In the medium term, the eventual increase in the call on OPEC crude, fuelled by the low price environment, may not be sufficient to make room for potentially higher exports from Iraq, Libya and Iran, which could threaten the widely anticipated price recovery later this year or in 2016.

<u>Third</u>: The resolution of the previous price crises of 1986 and 1998 was the result of a collective effort to curb output, mostly - if not entirely - from OPEC producers with, occasionally, a limited support from non-OPEC producers. Clearly, past experience suggests that OPEC cannot count on a meaningful credible and lasting support from non-OPEC countries except under distressed market situations. In the past, pledges of output restraints have been made by a group of non-OPEC producers on three occasions. In each instance, an agreement was, indeed, reached when oil prices had already fallen to $ 15 or below or under the threat of a price war. All in all, non-OPEC cutbacks never

amounted to more than a few hundred thousand barrels per day, contributed almost exclusively by Norway and Mexico for a period not exceeding one year. When world oil prices recovered to an accepted norm, non-OPEC cooperation vanished or was reduced to lip service or to token and symbolic gestures.

In the past, non-OPEC voluntary output restraint was never set so forcefully as a condition for an intra OPEC production agreement. The recent Saudi statement that the Kingdom will not change course until non-OPEC producers share the responsibility of stabilizing the market will, in my view, delay any durable resolution of the current crisis. The rigid Saudi position may eventually convince non-OPEC producers to commit some voluntary output restraint, but the fact remains that they are reluctant to do so under the prevailing $ 50 to 60/bl price range. Prices may have to go lower to elicit their support.

For all these reasons, I believe that this time the oil price recovery will take longer than generally anticipated. Will the industry survive in a low price environment? Can it prosper in a $ 50/bl world? This is the fundamental question that the organizers of this summit are inviting us to consider throughout the day. Another crucial question that we should keep in mind is whether Saudi Arabia and its GCC partners will be able to confront and resist the pressures for a change of course resulting from the ongoing financial pains endured by the other OPEC members.

Before I give the floor to our first speaker, allow me to make a final observation.

The history of the petroleum industry tells us that the oil market has a cyclical behaviour in which price increases are always followed by price declines which, in turn, are followed by renewed price swings. Several factors contribute to this cyclical pattern, including the state of the world economy, the OPEC response in its never-ending pursuit of market stability and the international geopolitical environment, which can shorten or extend the length of each interval. But one aspect is common to all major price shocks, and that is the long lag between price changes and their impacts on both demand and supply. Governments, consumers and oil companies typically take years to respond to revised oil price expectations.

As long as we face wide cycles of prices, the industry seems helpless to avoid swings of investment and employment. The cycles are self-reinforcing and self-fulfilling: low prices compel companies to cut costs, reduce investments, mothball equipment, lay off skilled employees. This eventually yields shortages and, hence, an upswing of prices. And so the cycles continue, endlessly.

If companies feel like victims of these cycles, some governments are just as seriously affected. These include petroleum exporting countries that have been unable to diversify their economy or to build substantial financial reserves and which are badly hurt when prices are low as well as countries highly dependent on petroleum imports which are badly hurt when prices are high.

For individual laid-off employees, this can be tragic. Some of the most highly-skilled employees do not have skills that can be easily transferred to other industries. Spending on in-service education is often one of the first items cut when prices fall and profits are lean - but this inevitably means the company won't be properly preparing for the next generation of leaders. The industry really needs to think long term about developing talents at all levels and keeping skilled personnel on board even during downturns.

Our proceedings will begin with a welcome address to be delivered by Mr. Benjamin Gallezot, Directeur Général Adjoint des Entreprises, on behalf of the French Minister of Economy.

We will then pay attention to a keynote statement from Patrick Pouyanné, the Chief Executive of Total.

Our panel session after the coffee break will give us the occasion to hear the views of the International Energy Agency, the OPEC Secretariat and the International Energy Forum on the outlook for oil demand and supply as well as on the progress in data collection and reconciliation so crucial to reduce the prevailing uncertainty over market direction.

Before we break for lunch, Mr. Toufik Hakkar, the Executive Director of Sonatrach for Strategy and Economic Planning, will share with us his views on how an important national oil company is gearing up for the low price environment.

We will then have the whole afternoon to focus on the investment strategies of some of the most important international companies as well as major service companies: how they are responding to the new challenges ahead and how they intend to combine their efforts to improve efficiency and reduce costs.

I look forward to a stimulating debate which, I hope, will benefit as usual from your active participation.

This concludes my introductory remarks. I will now hand the floor to Mr. Gallezot.

* - * - * - *