

6th Asian Ministerial Energy Round Table

Plenary Session 1

Oil Markets: A New Normal, or Just Another Cycle, and What Does it Mean for Asia?

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HE Sheikh Abdullah bin Nasser bin Khalifa Al Thani,

HE Dr. Mohammed Bin Saleh Al-Sada,

Excellencs' Ministers,

Distinguished guests,

It is indeed an **honor and a privilege** to participate in the sixth Asian Energy Ministerial Round-Table.

I would like to extend my **profound thanks** to the Government of the State of Qatar for hosting this event.

This is the sixth event, and its theme is important to Asia, as **Asia remains the world's fastest growing primary energy consumer with a rising population and ever growing demand.**

Oil still dominates the largest share of the world's primary energy demand with almost 33% of the global energy mix. **Over the past year or so, oil prices have dropped by nearly 60% and have now hit their lowest levels** since early 2009, because of an over supplied market coinciding with signs of economic slowdown around the world, most notably in some major Asian economies.

The world is now **re-adjusting to an environment where lower oil prices prevail**, and there is great competition from other industries.

The oil industry is faced with a new reality of lower price environment, and the question is why? Is this just another cycle of lower oil prices? For how long will this cycle prevail and what are its implications?

Excellencies,

The world has crossed a boundary in which prices are not only lower now, but will probably remain low for some time, until the market eventually re-balances.

This current lower oil price environment has been caused mostly by the significant supply growth from unconventional, expensive oil because of technological advancement. **Production of expensive unconventional oil made economical sense only because of a period ever of sustained high oil prices from 2010 until mid-2014.**

Oil prices are also greatly influenced by expectations of demand growth especially in emerging markets.

The Volatility in equity and foreign exchange markets in Asia have **increased uncertainty about the economic growth prospects of many developing nations in Asia**, affecting the price of crude oil.

In early August, the devaluation of the Chinese Yuan took place. This was followed by the **depreciation of a number of other emerging market currencies in Asia because of their significant trade exposure to China.**

Declines in the Chinese Yuan and weak manufacturing indicators contributed to decreases in Chinese stock indices in August.

Equity markets around the world, particularly those in other Asian countries, also declined, reflecting market sentiment that China's economic growth may slow down and affect producers of energy and non-energy commodities who are reliant on demand growth in China.

Oil price collapses in 1981-1986 and 2008-2009 are the only analogues for the present oil price situation. So far, the current price collapse seems more similar to 1981-1986 than to 2008-2009.

If oil prices stay low for long enough, demand will very likely increase to support a return to higher prices. Unless significant geopolitical events take place, oil prices should react to growing demand and will gradually be driven by market fundamentals. Eventually the market will determine acceptable and comfortable prices for both producers and consumers.

We believe that the market will rebalance itself and prices will rise, although the timing is not certain. In fact, the market already has shown a shift as crude oil production growth from Non – OPEC is slowing down. U.S. tight oil production has started to gradually fall from July 2015, after rig counts fell significantly due to sustained lower oil prices. On the other hand, demand has been remarkably strong compared to 2014 levels, and that would certainly help market to rebalance.

Excellencies,

Whilst weaker oil prices give individuals more disposable income and lower costs for many businesses around the world, they are also a worrying sign of weakness in the global economy that represents a challenge to governments dependent on oil revenues.

In Asia, lower oil prices are clearly positive for trade balances and government finances as the region is a major net oil importer and some nations subsidize the price of fuels. Lower oil prices have helped curb fuel subsidies and reduce one of Asia's largest fiscal deficits. Without a doubt the cost of Asian oil imports has dropped.

China is the world's largest net oil importer with imports accounting for almost 60 percent of its domestic supply, making lower prices beneficial for economic growth.

For Japan, the world's third-largest oil importer, lower prices should help prop up an economy, which recently fell into recession. However, cheaper oil also challenges efforts to end deflation.

Top LNG importers Japan and South Korea may enjoy the benefit of lower prices for consumers and industry.

Excellencies,

Asian and Middle East countries represent a large portion of the world's population, the bulk of the world's oil and gas reserves and the greater part of the surging global energy demand expected in the decades ahead.

Over two-thirds of growth in developing countries will come from developing Asia, with China seeing the largest expansion, followed by India.

This emphasizes the importance of cooperation and dialogue in order to achieve stability of prices and energy markets and provide sufficient oil supplies.

The interdependence between Asia and Middle East is obvious and must transform into a strategic partnership between the two regions for their long term mutual benefits.

Furthermore, we need to exchange experiences in the field of energy efficiency, developing alternative and renewable sources of energy as well as developing qualified human resources.

Excellencies,

Energy security for any country means access to sufficient, affordable and secure supplies of energy to support economic growth and activities.

Security of demand is as important to producers as security of supply is to consumers.

Energy policies are one of the key drivers for future energy demand and supply, and one of the most uncertain areas to address. Energy policies in some cases add considerable uncertainty to the demand outlook. Consuming countries must be clearer about the impact of their policies on future oil consumption levels and overall energy demand.

Furthermore, it is essential to stimulate trade without hurdles in order to ensure the stable flow of oil and gas from producing regions of the world to consuming regions like Asia. Energy efficiency is largely recognized as the most measurable and cost effective manner to meet growing energy demands whilst contributing to climate change mitigation and economic growth.

Despite the uncertainties and challenges facing the energy sector, we all agree that our main objective must focus on providing a stable and sustainable energy future for the next generations.

Through transparency and continued open dialogue, we can move forward and overcome such challenges.

Excellencies,

In a world of increasing interdependencies amidst rising uncertainties, there is a fundamental certainty; **the world needs more and cleaner energy for economic and social development.** More energy used in a more efficient way, accessible and affordable to a larger share of the world's population.

Global focus now is on issues of energy security, economic recovery, **price volatility**, and investment in all sources of energy.

To achieve these goals, the State of Kuwait will continue to contribute and play a major role in fueling the world's economic growth through providing secure, reliable and affordable energy to Asia and the rest of the world for many years to come.

Thank you.