The new Silk Road beckons

The International Energy Forum is the only organisation offering a platform to both countries that produce oil & gas and those that primarily consume it. The voice of emerging markets within the IEF is becoming louder, and Secretary General Noé van Hulst observes that Europe’s current oil & gas suppliers are increasingly looking eastwards.
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What is the IEF’s experience with the GECF?
One of the IEF’s key roles is to create market transparency by collecting, reconciling and publishing monthly data from around the globe on oil consumption, production, stocks, etcetera. This Joint Oil Data Initiative is five years old now, and the next step is to extend it to include gas. A pilot is now underway, and we should be ready to launch in 2011. We get the consumption data via the International Energy Agency, the EU, the UN and others. As for the production data, OPEC is as yet undecided whether it will participate for gas, but we do hope and expect to work with the new Gas Exporting Countries Forum recently set up in Doha. If the GECF were to actively engage in improving gas market transparency, that would help diminish some of the anxiety in consuming countries about them. I’ve had my first meeting with the GECF Secretary General a few months ago, and he’s due to visit me in Riyadh soon.

It’s still too early to tell whether GECF will eventually become an organisation like OPEC. The consensus has long been that this would never happen in the gas industry. Gas is after all a very different commodity from oil. For one thing, oil is mainly a transportation fuel, while gas is typically a fuel for power generation. As such, gas faces far more competition from substitutes - coal, nuclear and renewables. On top of that, the technical issues surrounding gas are more challenging, and to date, the market has been dominated by long-term contracts. This is quite a complex environment for a gas-OPEC to emerge from. The desire to cooperate and optimise market conditions for producers is certainly present, though.

What are the implications of increasing cooperation between IOCs and NOCs?
There are several reasons why we’re seeing more and more joint ventures between international and national oil companies. First of all, all & gas reserves are heavily concentrated in countries where NOCs are traditionally dominant, notably in the Middle East, the former Soviet Union and Central Asia. These countries already account for a sizable chunk of current production, but their share in reserves is vastly bigger. So in the decades ahead, IOCs will be forced to find a way to operate in these countries. IOCs have the technology, the project management skills and the cash, but going forward they will have less and less access to reserves. Secondly, as ‘easy oil & gas’ become scarcer, the industry will move into remoter areas and into technologically more challenging fields. Risks and costs will be higher, and parties will increasingly want to share them.

So IOCs will have little other option than to work with NOCs - and perhaps sometimes to make concessions on matters of standards. Western-based companies won’t be able to play the game entirely by their own rules any more. This is a fact of life that financial markets and shareholders will have to learn to face and live with, they’ll need to be educated about this changing environment. People must understand that if IOCs are to maintain their strong market positions, they’ll have to compromise and act as partners.

Are governments back for good as the dealmakers of the oil & gas industry?
While a few decades ago governments seemed to be retreating from the oil & gas market in favour of corporate parties, now they’ve definitely returned to centre stage. I see several factors contributing to this turnaround. For one thing, security of supply – regarding oil but increasing gas as well – is climbing the agenda. The trends I just sketched for IOCs and NOCs are reflected in growing government involvement. As more Western countries become dependent on oil & gas imports from regions where NOCs and governments hold the oil & gas industry reins, the Western governments themselves are forced to step in. This is also necessary to be able to compete for supplies with those other big importers, India and China, where the state plays a very hands-on role. Another factor is that governments these days are expected to pursue an active climate policy, and that includes using their influence to bring about shifts in the energy mix. So I observe that governments are far more present in the oil & gas market than they were ten or fifteen years ago. And I don’t see that changing in the foreseeable future.

What should Europe’s response be to these trends?
To be honest, I’m sometimes worried about Europe. I live and work in the Middle East, and observe how this society is increasingly looking eastwards. That’s where their growth markets are – India and China. As Ben Simpfendorfer explains in his intriguing book The New Silk Road, bonds are strengthening between the regions that centuries ago lay along the world’s first global trade route: North Africa, the Middle East and Asia. Energy is just a part of what is cementing these bonds, but an important part. This seems to be escaping notice in Europe, but the dynamics are getting stronger by the day. Europe would do well not to be caught napping. For instance, it’s by no means a foregone conclusion that Europe will remain the most important sales market for Russian gas. I can well imagine demand for gas in China growing far more spectacularly than the consensus projections suggest. It could become a very interesting growth market for the Russians, and we cannot expect them to remain forever focused on Europe, with their backs turned to Asia. Europe has to play its cards well in relation to Russia and Central Asia, keep an eye on diversification, and keep a hand in the LNG trade.

Europe faces a stark choice between a common policy and the current situation of every country for itself. The individual countries at the playing table – the UK, France, Germany – used to be global powers, but they aren’t any more, and certainly won’t be in twenty years’ time. The dynamics just aren’t going their way. If Europe doesn’t succeed in speaking much more with one voice and promoting its common interest, it’ll fall on harder times. Is awareness dawning? Not enough yet. I haven’t seen the EU Commissioners for Energy or Foreign Affairs or the new EU president in Riyadh yet. But meanwhile, European heads of state are flying in and out all the time, and not just to shake hands with King Abdullah.

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