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Theme: Hydrocarbons to fuel the future:Choices & Challenges

Plenary Session 1 – Oil Price Volatility: Challenges & Opportunities

This session was chaired by Dr. Daniel Yergin, Vice Chairman, HIS Markit, and moderated by Mr. Kaustav Mukherjee, MD, BCG. The distinguished speakers of the session includes Mr. Mohammed Sanusi Barkindo, Secy. General, OPEC; Mr. Johannes Benigni, MD, JBC Energy Asia; Mr. Mike Muller, VP, Global Oil Trading & Supply, Shell; Mr. B Ashok, Chairman, IndianOil; Mr. Sudhir Mathur, Acting CEO, Cairn India; and Mr. Keisuke Sadamori, Director, IEA.

Addressing the delegates, Mr. Keisuke Sadamori, said, “India will be the largest single source of demand growth by 2040. Low carbon fuels & technology, & renewables to supply nearly 1/2 of increase in energy demand by 2040”

“We require faster transition to a low carbon energy system through clean technologies”, Mr. B Ashok”, Chairman.

“OPEC & Non-OPEC, Producers & Consumers, Upstream & Downstream - all should work together to tackle the oil price volatility,” added the Secy General of OPEC. “Over next half year, a big wave of new supply flow is set to enter the energy market,” observed Mr. Johannes Benigini, MD, JBC Energy Asia.

The summary of the discussion in this session Oil Price Volatility Session is placed below –

Oil prices have historically been quite volatile with several sharp declines over the last 5 decades. OPEC's role has had a significant role on price movements. OPEC’s perspective continues to be market stability for all producers and consumers. The current decline is the longest by far compared to many previous cycles. The current crisis has extended for far longer than any other cycles since mid 80's.

The current crisis is the result of a series of global events that created an imbalance between supply and demand a. Events that impacted Global supply. Global production increased driven by US tight oil and situation in Iraq as well as Libyan short-term recovery in mid-2014. In Nov'14 meeting of OPEC, Saudi Arabia had refused to cut production, to allow the market to self-correct. Supply further increased in 2015, driven by US tight oil, Iraq, and the broader OPEC; Russia has also kept pace with production Sanctions against Iran lifted and Iran oil output increased; other global supplies weakened.

Events that impacted Global demand:

- Demand growth slowed down by weak Chinese and European economies

- Demand is picking up due to increased demand growth in India, China, US, and Russia; future global demand will be led by Asia due to changed demography, rapid industrialization and economic boom
- Role of US Shale a. US shale has played an important role in maintaining low prices and could persist as a threat to OPEC going forward. US Shale production has persisted despite the oil price decline.
- OPEC cuts could be compensated by production rise from US shale that would rebalance the market.

Three possible scenarios that could emerge in the future

a. Fast Paced rebound- rapid recovery to $70-90 • Market correction and quick return to tighter supply / demand balance

b. Cyclical Recovery- Slow, sustained recovery to $60-70 • Market recovers over 1-2 years, but to lower levels than recent years

c. Sustained Pain- Around or below $50 for the mid-term. Current prices are established as a mid-term "new normal"

Challenges for 3 key players in the industry

a. Producers • Revenues of Oil and Gas production companies have taken a hit, profits and cashflows at uneconomic levels • Companies have quickly moved to control damage by deploying cost cutting measures • However, global investment in oil and gas sector continues to decrease

b. Governments • Govts. dependant on oil related exports adversely impacted, importers benefiting • Exporting countries adapting appropriate countermeasures, such as scaling back investments and contemplating/ introducing new taxes, reducing subsidies, etc.

c. Energy Service Providers (ESPs) • ESP stock prices in heavy decline, producers opting to cut contracts • ESP players coming together in JVs, M&As in an attempt to better address the needs of the changing market

Potential Opportunities:

a. Savings Reinvested: Reinvesting savings back into the oil & gas industry. E.g., China is buying oil to build strategic reserves; India could invest in refinery capacity as demand growth in India is outpacing its refining capacity.

b. Collaboration: Players collaborating on common projects. Collaboration is also increasing between OPEC and non-OPEC nations

c. New Markets: Capturing new consumers and markets

d. Governments can utilize this unique opportunity to implement fundamental reforms e. In long term more steps should be taken to diversify the Energy portfolio and in moving towards green and sustainable resources. E.g., Electric vehicles will take big substantial market share by 2040 which would impact long-term oil demand globally.

Conclusion a. Oil prices have historically been quite volatile with several sharp declines over the last five decades. Current decline is the longest and is the result of a series of global events that created an imbalance between supply and demand. b. US shale has played an important role in maintaining low prices during this crisis and could persist as a threat to OPEC going forward. Sanctions being lifted against Iran. c. 3 possible scenarios: Around or below $50 for the mid-term; Slow, sustained recovery to $60-70; Rapid recovery to $70-90. d. Current oil crisis has generated a set of challenges for producers, governments as well as oil field service providers. Opportunities have also opened up that could add significant additional value.