

Economic Diversification in Oil Producing States

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Dunia Chalabi
International Energy Agency



Context

- OPEC Middle East hold 63% of world crude oil and NGL reserves
- Saudi Arabia, Iraq, Iran, UAE, Kuwait hold the largest reserves among Middle East producers
- Major Middle East producers have the lowest supply cost
- Declining market share through price optimisation policy

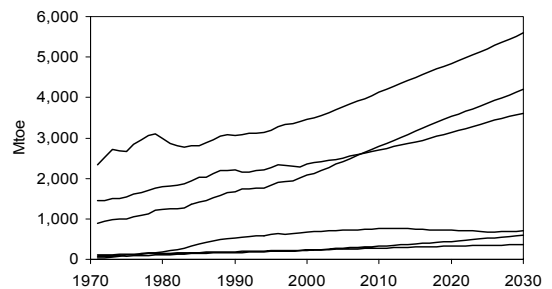


Economic Parameters

- Chronic budget deficits
- Oil dependency
- Slow economic diversification
- High population growth rates
- Decrease in GDP/capita
- Rising unemployment



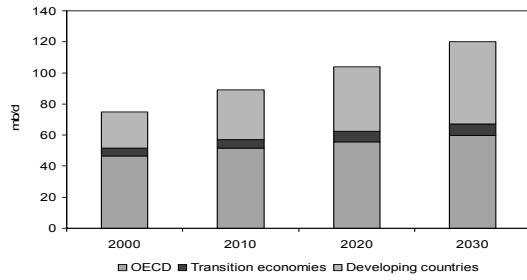
World Primary Energy Demand



Gas grows fastest in absolute terms & non-hydro renewables fastest in % terms, but oil remains the dominant fuel in 2030



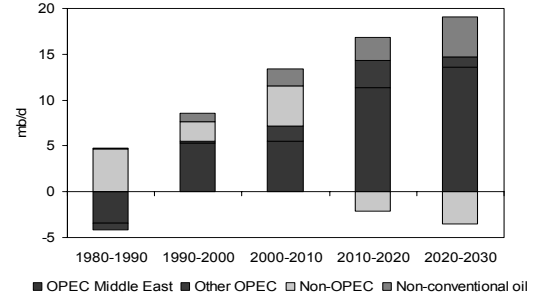
World-Oil Demand



Oil demand grows in every region, fastest in the developing countries



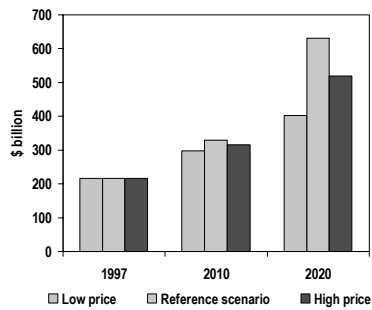
Change in World-Oil Production



Middle East OPEC producers capture most of the increase in oil demand after 2010



Oil Revenues



Saudi Arabia

- Largest economy in the Arab Middle East
- Oil exports dominate the economy:
 - 90% of total export earnings
 - 80% of government income
 - 40% of GDP
- Economy vulnerable to oil price fluctuations



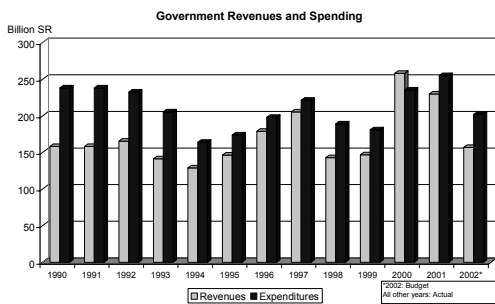
Core Imbalances

- High government debt
 - excessive state spending
 - high domestic debt levels (99% of 2001 GDP)
- Oil dependency
- Rapid population growth
- Unemployment
- Slow implementation of Saudisation



Crude Oil

- Holder of the world's largest oil reserves
- Largest oil producer in the Middle East
- Production capacity officially at 10.5mbd
- Only country in the region with supply cushion in times of crises



Iraq Untapped Resource Base

- 2nd largest proven crude oil reserves in the Middle East
- 3rd largest in the World after Russia
- least explored oil provinces in the Middle East
 - 526 known structures
 - Only 125 have been drilled
 - 73 discovered fields
 - 15 of which have been developed

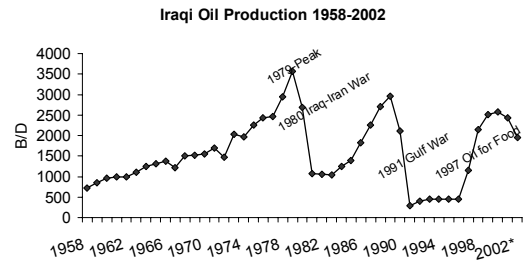


Irregular Crude Oil Production

- Crude oil production peaked in 1979 at 3.5mbd
- Production climbed to 1.7mbd in 1997 with the introduction of the oil-for-food programme
- In 2002, output averaged 2.1mbd
- Sustainable production capacity estimated at 2.8mbd



Crude Oil Production



Mobilising Energy Investment

- Expansion of production & supply capacity will call for massive investment - especially in developing countries
- Raising production capacity in many countries will require major capital inflows & know-how from OECD countries
- Producing governments need to lower regulatory & market barriers to create an attractive investment climate



Concluding Points

- Investment and costs will depend on:
 - Government policies and industry developments
 - Political stability
 - Macroeconomic stabilisation
 - Ability to attract FDI
- Much of the supply growth after 2030 will come from the Middle East but contingent on:
 - Timely investment
 - Lowering of barriers
 - Creating stable regulatory and fiscal regimes



Producer/Consumer Co-operation

- *Security of Supply*: **Producer-Consumer dialogue on different levels**
 - Dialogue successful in 2003
 - Continued exchange of data
- *Energy Policy & Regulatory Reform*: **energy sector restructuring underway in many countries: energy policy reviews**
- *Energy Efficiency & Technology*: **crucial for NMCs to meet growing energy demands**



Co-operation with Non-IEA Countries

- Through its **Committee on Non-Member Countries**, the IEA carries out a significant work programme and organises workshops outside the OECD;
- **OECD countries increasingly rely on energy supplies from non-OECD sources - hence, importance of close relations, co-operation and the sharing of experiences to help with transition.**

