RSOG SEMINAR

What's Next for Oil and Gas?

with

Mohammed Al Riyami

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Speakers	:	Mohammed Al Riyami

About the Seminar

"I never think of the future – it comes soon enough". Sounds like an irony but that statement came from one of the greatest thinker in modern times, Albert Einstein. World oil prices rose from USD50 per barrel in early 2007 to USD140 in mid-2008. Many corporations wanted to have a slice of share in this lucrative industry. Skilled workers in oil and gas industry were much sought after and saw their income tripled or quadrupled overnight. Considering that the oil and gas industry has a long value chain, the euphoria spilled into many other pockets such as transportation, banking and finance, and even in real estate. Shift in geopolitics were also observed in light with the spike. To the men-in-the-street, it was a bitter pill to swallow. Not only that they have to pay more at the pump, every other price of necessities hiked up – speculated to be linked to the increase in the price of oil. Forums and seminars were organised to discuss about alternative energy – will life ever be the same again? Then came the free fall in mid2014 with no signs of rebound until today. What has happened? Why has this happened? What is next for oil and gas? What is in store for the government and the people? This seminar intends to explore these conundrums, largely from the socio-economic perspectives and its implications for the future.

Summary

The modern oil industry can be traced back as far as about 150 years ago in the United States. It is believed that the industry began as a result of the search for inexpensive lighting. While the industry was initially geographically concentrated, throughout the period the oil industry has changed the world in many ways. It have been shaped by politics, economics, and technology of the day. For instance, the idea of cartel and antitrust came about following the development in this industry. The cartel-like business were largely corporations-based, it then became country driven post-1960s when the Organisation of Petroleum Exporting Countries (OPEC) was formed. Oil then began to be traded on exchanges in the late 1970s, which inadvertently enhanced price transparency and encouraged institutional and retail participation. The super Bull Run of commodities, in particularly oil, in mid-2000 up until 2014 saw the birth of the influential Sovereign Wealth Funds (SWF), estimated to be worth over trillions of dollars. By and large, SWF is intended to help resource rich countries to channel excess money into immediate consumption, diversify future incomes, and gradually lessen their dependence from its resource revenue.

In comparison to gas, oil requires lesser infrastructure investment in terms of storage and distribution. Oil (hydrocarbon molecules) can quickly release a large amount of energy heat, which makes it the preferred form of energy source for transportation. It is no coincidence that more than 60% of global transportation is powered by oil. The challenge with oil is that it is non-renewable and fast depleting considering the consumption rate. In the pursuit of meeting growing demands from emerging economies like China and India and maximising profit from the limited resources, oil companies made a bold move to venture beyond usual shores. They went further offshore, deep sea exploration, into conflict zones, and in unyielding rock formations like shale. Perhaps these high risk ventures remain valid as long as the price of oil is sky high. The recent free fall not only warrants the oil companies to go back to the drawing board but more importantly to ask themselves of the rationale and assumptions when the decisions were made only a few years back.

Mohammed Al Riyami went to a great length to share the backdrop in illustrating that the ups and downs of oil price is normal and has happened in the past to an audience that comprise mainly from the public sector. While the speed of the fall is a concern, the situation can be viewed as a natural occurrence in an openly traded environment as the sophistication of trade allows traders to make profits from both directions. Thirdly, the immediate impact to oil producing companies like Malaysia ultimately leads to less revenue – including dividend and royalty. Moving forward, the concern is the indirect revenue or economic damages following this drop in price (massive capital expenditure made for high risk ventures, pressure on local supporting industries, loss of jobs, and inability to repay loan, among others).

No organisation or countries can confidently predict what is going to happen next, considering that the influence of oil to the economy and society is extensive and intricate. Concerns on the environmental impact of the industry seem to have taken a backseat as the obsession with the prices' downward trend increases. The World Economic Forum, Future of Jobs Report outlined "Solving Complex Problems" as the most valuable skill to have in 2015 and 2020. Certainly the current predicament stands as one of the more pressing problems. It was also at the forum this month where Daniel Yergin, an energy expert and founder of IHS Cambridge Energy Research Associate, crisply outlined how shale dominated the oil market: "It takes USD 10 billion and five to ten years to launch a deep-water project. It takes USD 10 million and 20 days to drill for shale." It appears that in this situation, economics prevails. But the cost and where it will lead resources-dependent countries remains a challenge unprecedented for current policymakers.

Issues raised

1. In the case of Malaysia, the impact from oil decline is not solely limited to revenue that the government receives from its national oil and gas company but it also concerns other factors such as investment from oil rich countries. Many of existing projects are in collaboration with Gulf Countries and the impact on their sovereign funds will inadvertently have a bearing on Malaysia.
2. Although the source of revenue is the same, there is a stark difference on the reality between oil traders and policymakers. While the former may trade or make decisions at a whim, policymakers are not able to change plans overnight due to the interconnectivity of issues and critical implications it may cause.
3. Geopolitical shifts and tensions along with competing needs makes it an even arduous task to unravel. In precarious times as such, leadership and concerted effort by responsible entities to find a common ground in addressing this is needed..

About the Speaker

Mohammed Al Riyami has more than 20 years' hands on experience in the oil and gas industry. He has worked for Shell in the down and midstream value chain covering marketing, distribution, operations, supply chain, and business planning. Also in the Middle East, he has worked for Oman and Qalhat LLNG holding key positions in Marketing, Business Development and Investments. On a wider intergovernmental perspective, Al Riyami has held senior positions in the Gas Exporting Countries Forum making presentations to important gas producing countries at a ministerial level.

Contact

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