

Q&A

OPEC and the energy transition

HE Mohammad Sanusi Barkindo, OPEC Secretary General, talks about OPEC's role in helping unlock a carbon-free future, ahead of his keynote presentation at IP Week 2020.*

How do you see OPEC's role in the energy transition, given the reliance on conventional oil and gas production by most of its members?

The basic challenge of the energy transition can be summed up in two questions. The first is how can we ensure there is enough supply to meet expected future demand growth? And the second is how can this growth be achieved in a sustainable way, balancing the needs of people in relation to their social welfare – particularly the almost 1bn people without electricity and the 3bn that still lack access to low-emission fuels for cooking, the economy and the environment?

It all points to not limiting ourselves by putting all our eggs in one basket. The oil and gas industries, and OPEC member countries, have to be part of the solution; they possess critical resources and expertise that can help unlock our carbon-free future. We need to remember that for oil and gas, the environmental challenge is not oil and gas. It is the emissions that come from burning them.

We believe that solutions can be found in cutting-edge technologies, such as carbon capture, utilisation and storage (CCUS) and others, that reduce and ultimately eliminate these emissions. We will need a very broad portfolio of cleaner and more efficient emission removal technologies to tackle climate change across all available carbon-based energy sources.

At OPEC, we welcome dialogue with all stakeholders and coordinated action within the industry, and through various research and development platforms, such as the Oil & Gas Climate Initiative (OGCI).

We believe the oil and gas industries have a constructive and positive role to play in the energy transition. And let me stress, OPEC remains fully engaged and supportive of the UNFCCC (United



HE Mohammad Sanusi Barkindo, OPEC Secretary General

Photo: OPEC

Nations Framework Convention on Climate Change) and the Paris Agreement, which remain the only viable global frameworks to address climate change. All 14 OPEC member countries have signed the Paris Agreement and 10 have ratified it.

Has OPEC developed any policy recommendations in terms of renewables and demands for more sustainability in the face of climate change?

To put it simply, OPEC welcomes the development of renewables. Our member countries have great sources of solar and wind, and we are seeing huge investments being made in this field.

For example, the United Arab Emirates (UAE) has been at the

forefront of renewable energy and sustainable development. This can be seen through Masdar City, the region's first carbon-neutral zero waste city. In its 'Energy Strategy 2050', the UAE aims to increase the contribution of clean energy in its total energy mix to 50% by 2050. In Saudi Arabia, through 'Vision 2030', the Kingdom also has ambitious renewable energy plans, including a major solar project that aims to generate 200 GW by 2030. This is not an exhaustive list, but highlights some of the instances where OPEC member countries are rapidly developing their renewable capabilities.

At OPEC, we will also continue to prioritise the advancement of the environmental credentials of oil, both in production and usage. We fully recognise the importance of energy efficiency and sustainability. In this regard, allow me to highlight one key detail from our most recent *World Oil Outlook*. In the period to 2040, fuel efficiency improvements are expected to result in a far greater reduction in oil demand than the increasing penetration of alternative fuel vehicles.

Will OPEC formalise its closer relationship with Russia?

Russia has played an extremely important role in the landmark 'Declaration of Cooperation', which has helped return more balance to the market and a more sustainable stability to the market. It has been an umbilical cord of sorts in helping bring OPEC and non-OPEC producers together.

President Vladimir Putin and his Energy Minister Alexander Novak have been, and continue to be, extremely supportive. This was clearly evident when I met with both in Moscow in October 2019, where I received personal assurances of Russia's commitment to the Declaration and the recently endorsed 'Charter of Cooperation'.

The latter will provide a platform to facilitate dialogue among participating countries, aiming to promote oil market stability, cooperation in technology and other areas, for the benefit of oil producers, consumers, investors and the global economy. It has a longer-term focus, a high-level voluntary commitment; it does not create any legally binding obligations; it opens a new chapter in OPEC and non-OPEC cooperation; and it is open to all producers, promoting the

principles of transparency, equity and fairness.

Russia has been a vital advocate in further institutionalising this positive and transformative cooperation, which was also highlighted in the signing of the Charter during President Putin's official visit to Saudi Arabia in October.

How can OPEC avoid splintering given the fierce antagonism between certain key members?

It is important to stress that all member countries are focused on ensuring the organisation remains a positive, adaptable, accessible and transparent group. In addition, every member country has an equal say in the organisation. All countries have one vote. This is how the founders correctly set it up back in 1960, and is how it continues to function today.

Of course, at times we have differences of opinion. This is natural for any international organisation. But we always look for a consensus; a pathway forward. This has been clearly evident through the Declaration of Cooperation and now through the Charter of Cooperation.

From a personal viewpoint, when I assumed the position of OPEC Secretary General back in August 2016, my focus was on being impartial, an arbitrator, a bridge between all of our member countries. I listen to the views of all our member countries. It is in all of our interests that we dialogue and listen to each other.

What oil price does OPEC consider to be too high or too low, given the need to balance economic growth with oil demand?

OPEC's focus has always been on a balanced and stable market. This has been true since the organisation was formed back in 1960. It has also been evident in the organisation's landmark cooperation with 10 non-OPEC producers – the Declaration of Cooperation – since it began at the start of 2017.

We should never underestimate how severe and potentially ruinous that last downturn was in 2015 and 2016, with nearly \$1tn in investments frozen or discontinued, many hundreds of thousands of jobs lost and a huge number of companies filing for bankruptcy. It was one of the most calamitous downturns in the long history of oil.

The core aim of this cooperation can be summarised in just four words – sustainable oil market stability. This is in the interests

of all producers, consumers and the global economy in general. It is very clear that the nations in the Declaration are not seeking a 'quick-fix' to temporarily alleviate the oil industry's woes. This is why the 'sustainable' aspect of our core aim is so important. It is a long-term commitment, as now viewed through the Charter of Cooperation.

Do you consider that oil demand will peak in the mid-2020s or much later?

In OPEC's *World Oil Outlook*, we see long-term global oil demand increasing to 110.6mn b/d in 2040, although annual growth is forecast to decelerate steadily over time.

From the regional perspective, there is a contrasting picture between the two major regions – declining OECD demand and expanding demand in the non-OECD. Driven by an expanding middle class, high population growth rates and stronger economic growth potential, oil demand in the non-OECD is expected to increase by 21.4mn b/d between 2018 and 2040. India is projected to be the country with the fastest demand growth and the largest additional demand. OECD demand is expected to plateau around 48mn b/d for the next few years, before it begins a longer term decline to around 38mn b/d by 2040.

The bottom line is that oil will continue to be a major driver of global economic growth in the years and decades ahead.

Does OPEC have a perspective on the need for digital energy transformation, and other areas of technology innovation?

OPEC puts great emphasis on technology and the benefits it can bring to the oil industry, the climate and mankind in general. We also believe in cooperation and collaboration on technological innovation. As Alexander Graham Bell, who invented the first telephone in 1876, said: 'Great discoveries and improvements invariably involve the cooperation of many minds.'

In terms of the digital energy transformation, the possibilities could be described as limitless.

Digitalisation and automation in the oil industry has the potential to lead to great gains, bringing huge benefits and efficiencies to companies in terms of day-to-day operations, including reducing production disruptions, improving maintenance, as well as advances and benefits for health, safety, security and environmental

performance.

Today, new trends and technologies like artificial intelligence (AI), Big Data, analytics and blockchain, are seeing the industry reconsider its approach to how it does things. Digital transformation is a process we must go through; digitalisation has become an important part of the industry's strategies. This is likely to grow further in the years ahead.

Has OPEC come to terms with the US boom in unconventional and the changing world balance vis-a-vis renewables?

The US is a major producer, with a vibrant industry and a tight oil patch that continues to add significant volumes year-on-year. Moreover, we now have a regular dialogue with US tight oil producers, with all parties recognising the importance of achieving and sustaining oil market balance and stability. We believe we can work alongside each other.

It is also important to note that in the long-term, the *World Oil Outlook* highlights that we see a steady increase in demand for OPEC liquids, which rises to over 44mn b/d by 2040, while the supply of tight oil will decline towards the end of the next decade.

While renewables are coming of age, with wind and solar expanding fast, even by 2040 in our *World Oil Outlook* they are only estimated to make up around 19% of the global energy mix. Oil and gas are still forecast to make up over 50% by 2040. I appreciate that some will view this as an OPEC forecast, and dispute the numbers, but we do not see any reputable outlook projecting that renewables will come anywhere close to overtaking oil and gas in the decades ahead. ●

* IP Week 2020 will be held at the InterContinental Park Lane, London, on 25–27 February 2020. See inside front cover for more details.