

CERAWEEK 2016

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Kingdom of Saudi Arabia
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Ladies and gentlemen, I am here today to set out why we as an industry have more that unites us than divides us. And I will highlight a challenge that confronts us all in the coming years and decades. My remarks will cover three main areas. The international oil market, Saudi Arabia's oil policy in these challenging times, and the impact of climate change.

First, some context. I joined Aramco as an office boy in 1947. During my seven decades in the industry, I've seen oil at under \$2 a barrel and at \$147, and much volatility in between. I've witnessed gluts and scarcity. I've seen multiple booms and busts. I've even survived peak oil. I think I have a t-shirt somewhere with that on it. These experiences have taught me that this business, and this commodity, like all commodities, is inevitably cyclical. Demand rises and falls. Supply rises and falls. Prices rise and fall.

When oil was up around \$100, the price seemed reasonable. But, historically, it was very high. That price also unleashed a wave of investment around the world into what had been previously uneconomic oil fields. This went from the Arctic, to Canadian oil sands, to Venezuela's Orinoco tar sands, to deep water frontiers. It also led to the development of shale oil resources in some parts of the US. This resulted in robust global growth of conventional and unconventional oil supplies. And the price started to fall.

Back in November 2014 at the OPEC meeting, there was a clamor by many for the group to cut its production to arrest the fall. But the oil market is much bigger than just OPEC. We tried hard to bring everyone together, OPEC and non-OPEC, to seek consensus. But there was no appetite for sharing the burden. So we left it to the market as the most efficient way to rebalance supply and demand. It was – it is – a simple case of letting the market work.

The fact is that demand was, and remains, strong. You can argue over small percentage falls or rises, but the bottom line is that the world demands, and gets, more than 90m barrels per day of oil. Long-term, this will increase. So I have no concerns about demand, and that's why I welcome new, additional supplies, including shale oil.

Let me say for the record, again, we have not declared war on shale or on production from any given country or company. We are doing what every other industry representative in this room is doing. We are responding to challenging market conditions and seeking the best possible outcome in a highly competitive environment.

Efficient markets will determine where on the cost curve the marginal barrel resides. The producers of those high-cost barrels must find a way to lower their

costs, borrow cash or liquidate. It sounds harsh, and unfortunately it is, but it is the most efficient way to rebalance markets. Cutting low-cost production to subsidize higher cost supplies only delays an inevitable reckoning.

Anything we can do to make downward cycles shorter and less extreme is beneficial. This includes seeking to allow markets to work with a minimum of meddling. We are hopeful that the nimbleness and responsiveness demonstrated by shale oil producers will continue. These supplies may be needed quickly once markets balance and tighten.

Incidentally, we are pleased to see that US producers are now able to freely export crude. We believe it will also help improve the efficiency and flexibility of the global market. For that's what it is – global. We're all in it together.

While the parallels with experiences in past cycles can be instructive, every era is different. This is not the 1980s. We are dealing with a challenging market that is much more sophisticated and complex. There are a lot of new players and financial instruments that simply didn't exist 35 years ago. Each oil market cycle comes with some uncharted territory. Even as the global oil market has become more efficient and dynamic over the past several decades, it continues to deliver surprises. Some are welcome, some are not. Volatility and overshooting – both at the top and bottom of the market – remain key challenges.

If and when the market goes awry, governments and industry need to find ways to work together to help it rebalance. We should allow markets to work, but we must also remain vigilant. We must seek to better understand changing market dynamics, and be ready to act when market failures and extreme volatility occur.

Ladies and gentlemen. This brings me to a brief overview of Saudi Arabia's oil policy in these challenging times. First, we remain committed to meeting the demands of our customers. Second, we invest vast sums to retain our vital spare capacity to help meet additional demand or address global supply disruptions should the need arise. We did it in the aftermath of Hurricane Katrina, for example. Third, we seek stable oil markets. As such, we continue to communicate with all major producers in an effort to lessen volatility. We seek consensus and remain open to cooperative action. And lastly, we remain committed to supplying a large portion of the world's energy demands on purely commercial terms. We're not chasing a greater market share.

Ladies and gentlemen.

My final point here today is one that should unite us all, whether you are from Saudi Arabia, the US or anywhere else that produces energy derived from fossil fuels. In fact, it poses a much greater existential challenge than cyclical price movements. Back in December, I was in Paris at the UN COP21 climate negotiations. We have been involved in the discussions from the start and, for the record, we recognize the threat posed by climate change. As such, we and many others have invested time, money and brainpower into seeking technological solutions to the challenges posed by climate change, in particular

with Carbon Capture and Storage. We are also investing in renewables and taking serious action to improve energy efficiency across our economy. But the widely accepted narrative that emerged from COP21 was that fossil fuels are harmful and, ultimately, they must be kept in the ground. Now, a disclaimer. I'm Saudi oil minister, yes, and I'm speaking to a room full of oil men and women, so of course I would say this. But I'm also a realist. And I am pragmatic.

Ladies and gentlemen, fossil fuels are good. And they are needed. They are an abundant natural resource. Over the past 250 years they have transformed our economies and our societies. Their mass production has resulted in mass consumption. They create and sustain economic growth and prosperity.

Fossil fuels will continue to play a vital part of the overall energy mix, whether we like it or not, but don't misunderstand me. I am a big supporter of renewable energy, particularly wind and solar. For Saudi Arabia, and Texas, solar will be a great source of energy for future generations. But I believe a mix of sources is the best and most secure way forward.

The problem is not fossil fuels themselves. The problem is the harmful emissions we get from burning coal, oil and gas. The answer is not to leave the world's greatest, most plentiful and economic, energy resource in the ground.

The solution is to work on technology that minimizes and ultimately eradicates harmful emissions. Some don't accept this view, but I have faith in technology. It is already happening on a small scale and, over the decades, the world has made progress, but much more work and collaboration is required. I would like to commend US energy secretary Ernie Moniz for his leadership when it comes to understanding and tackling these problems, particularly his faith in the power of technology. It is inconceivable that renewables alone can supply the growing global population with the critical energy it needs in the decades ahead. And it is simply not fair for advanced nations to dictate what developing nations can or cannot do to meet their energy needs.

Saudi Arabia, the United States, Europe, and many other nations are built on energy from fossil fuels. The products derived from oil are essential parts of our daily lives. As an industry, we should be celebrating that fact, and better explaining the vital importance of these precious natural resources. We should not be apologizing. And we must not ignore the misguided campaign to "keep it in the ground" and hope it will go away. For too long the oil industry has been portrayed as the Dark Side, but it is not. It is a force, yes, but a force for good.

Ladies and gentlemen. To sum up. This business is cyclical. We are in a painful downturn, but the market will rebalance and demand will pick up. I remain optimistic. We must continue to work together and we must stick together if we want to achieve our common goal of supplying energy for the betterment of the world and humankind.

Thank you.