

Oil-Centric Economies: Be Agile

BY ALI AL SAFFAR

Middle East & North Africa Program Manager, International Energy Agency (IEA)

T HERE IS A MAJOR GAP IN EXPECTATIONS; A 35 million barrels a day (b/d) gap to be precise. Oil demand will hit 105 million b/d by 2040 unless significant efforts are made in key end-use sectors to limit consumption. A Paris-compliant scenario would see this being capped at around 70 million b/d. Smart, affordable and sustainable solutions can fix this huge discrepancy and ensure energy security – but the clock is ticking.

Renewables may be a nascent industry, one that is growing in importance, but it would be premature to write the obituary for the fossil fuel industry, or to assume that it is fading in significance. Fossil fuels are likely to make up the bulk of energy consumption up to the middle of this century. If they are used efficiently, the revenues from fossil fuels could be critical in stimulating other parts of the economy and financing the macroeconomic reforms that countries are starting to implement as per the energy transition.

In short: revenues from oil and gas still matter and without them, if investments in upstream assets don't continue, taking into account natural declines in producing fields, the world will be 45m b/d short on oil supply by 2040 – a gap that cannot be filled by renewables.

The current development model that relies on recycling oil and gas revenues into jobs is not sustainable in the long-run. While labor productivity across the MENA region varies, economies without large hydrocarbon resources like Tunisia, Egypt and Morocco have generally fared better than countries with major hydrocarbon resources, such as Iraq and Saudi Arabia. This is primarily because the public sector workforce has been a huge and inefficient drain on national coffers. Without a change to the employment patterns going forward, the public sector wage bill in Iraq is expected to climb to more than \$70 billion by 2030 – 40% of net oil income, for example.

Encouraging diversification and efficiencies is key. This encompasses investing more in extracting incremental value from refined products, freeing up gas resources and stimulate local economies and small and medium-sized enterprises (SMEs). The same applies to boosting investments in renewables for power generation. Today, we have 1GW of solar capacity across the Middle East and North Africa (MENA) and 90GW of power via oil generation. Clearly, there's opportunity to refine this process and use renewables to improve the efficient – and lower-carbon – use of fossil fuels.

ON THE DEMAND SIDE, the removal or retargeting of energy subsidies to encourage consumers to adopt energy efficient behaviors would limit wastage in fossil fuel generation while incentivizing more renewable projects. Strengthening the 'middle ground' between old and new i.e. fossil fuels and renewables, can be encouraged with more enhanced oil recovery (EOR) and carbon capture and storage (CCS) projects. Oman's Miraah project is an excellent example; solar power generates steam that supports EOR efforts, therefore minimizing water and gas usage. Projects that tick boxes in both 'camps' – fossil fuels and renewables – are highly valuable, especially in this transitional phase.

Every month, the outlook shifts. It's difficult to accurately measure the pace of technology advancements, but we do know that it is growing exponentially. Solar PV prices have halved in five years and are even beginning to compete in power projects against gas in certain parts of the world, such as Mexico. Let's not forget shale; nonexistent a decade ago and now a huge disruptor. The only thing anyone truly knows is that uncertainty is the only certainty. Oil producers adopt the capabilities of chameleons; agility to adapt quickly and without fuss to a rapidly changing environment. □