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The Challenges Faced by the Arab Oil Industry [Dar Al Hayat (Lebanon)]

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Arab experts are concerned by the challenges faced by the Arab oil industry, perhaps as a result of the continued progress seen in technologies that allow the extraction of oil and gas using unconventional methods, and in large quantities. For one thing, this has enabled major oil consuming and importing nations such as the U.S., after decades of hurdles and obstacles, to become highly self-reliant on their own energy resources. In the next two years, the U.S. is poised to become an exporter of crude oil and liquefied natural gas (LNG), in light of its large output of shale oil and shale gas. The best proof of the significance of these developments is the altered map of American oil production. For instance, the output of crude oil (especially of the shale variety) from North Dakota will reach about 700,000 barrels per day by the end of the year, making this U.S. state the second largest oil producer in the country after Texas - although North Dakota had not produced a single barrel of oil only two years ago. Favorable characteristics of shale oil and gas include the fact that they can be produced in many regions around the world. There are therefore attempts by both small and mega oil corporations to venture into this area in Poland, Spain and China, despite the trend in certain countries to steer clear of shale oil and gas -for example in France- for environmental reasons. State of the art technologies now allow for deep see drilling to depths of up to 20 thousand feet, which was achieved by the American group Noble Energy in the Leviathan offshore field in Israel, which holds an estimated reserve of about 20 trillion cubic feet of natural gas. These are all significant challenges faced by the Arab oil industry, and changes that will alter the nature of the latter and the shape of competition in the markets, not to mention the geostrategic position of the region. But despite these important challenges, the biggest problem in fact lies in how oil revenues, which are on the rise, are spent, with about 85 to 90 percent of state budgets that rely on oil rents being allocated to salaries - with a view to confront endemic unemployment in these countries. This is despite the fact that a majority of new jobs are redundant and are equivalent to masked unemployment that does not raise productivity. In addition, excessive subsidies are offered on energy prices that are sometimes lower than production costs, in tandem with overconsumption of these commodities. This is not to mention the rampant corruption and popular discontent that ensues from it. Yet the greatest threat to the Arab oil industry, and with it the future of oil-producing countries, is the postponement of necessary reforms, in the hope that future oil revenues will salvage the country and its people. Strikingly, OPEC's Annual Statistic Bulletin released last week indicates that the value of oil exports of its member states reached around USD 1.08 trillion in 2011, compared to USD 771.3 billion in 2010, an increase of USD 307 billion. The figures for 2009, 2008 and 2007 were USD 593.5; 996.2; and 722.8 billion respectively. It is noted that these ongoing high revenues were collected by these countries at a time when the global economy faced major shocks, starting with the U.S. subprime mortgage crisis and its repercussions in 2008, and then the European sovereign debt crisis which continues to reverberate to this day. These record annual increases in revenues (this is the first time the value of annual oil exports from OPEC countries exceeds USD 1 trillion) mean first and foremost that there is no excuse for the increase in poverty and the absence of reform programs during this huge boom in oil revenues. Instead, it is better - and it is a must - that this historical boom in revenues be coupled with projects and programs to combat illiteracy, reduce poverty rates, and build high-quality hospitals, schools and universities, not to mention power plants to meet the high demand for energy due to population growth and rising standards of living. This unprecedented increase in oil revenues collected by OPEC member states is attributable to higher prices and increased output. But for how long can these annual increases in production and prices be relied upon? Oil-producing countries have sought to increase salaries and allowances for public sector workers, to improve their living conditions. However, policies as such are the equivalent of palliatives that cannot and must not replace real reform. The big contradiction experienced by oil-producing countries, especially Arab ones, lies in their heavy and compulsory reliance on a price of USD 90 to 100 per barrel, in order to cover increasing spending in their national budgets. Nevertheless, this high level of oil prices also has disadvantages: For one thing, it helps alternative fuels to compete with OPEC. Here, we do not mean only renewable resources, but also shale oil and gas, and oil extracted from tar sands, as well as from very deep seas and oceans. Without high prices, all these resources would not be commercially viable. Many Arab economists and energy experts have made calls over the past decades for oil production levels to be determined in accordance with the requirements and fundamentals of the local economy. Even though a long time has since elapsed, and before it is too late, we believe that the opportunity is still there to adopt this economic approach, especially in light of the high oil revenues in recent years, and which are difficult to see repeated in the future.

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