

## INTERVIEW

### Three Questions to Fatih Birol, Chief Economist of the International Energy Agency:

#### Only the Middle East Will Be Able to Meet the Long-Term Growth in Chinese and Indian Consumption

(Following is the text of a telephone interview conducted on 12 November with Mr. Fatih Birol, Chief Economist of the **International Energy Agency** – see following page for his biography – regarding the publication the same day of the IEA's *World Energy Outlook 2013*. AOG last published an interview with Mr. Birol in its 16 October 2012 edition. See also Top of the News on page 3 for a comment on the WEO 2013, as well as the Document section on page 43 for the executive summary of this report. Further information about the WEO 2013 can be obtained from: [www.worldenergyoutlook.org](http://www.worldenergyoutlook.org). To purchase the report online, go to: [www.iea.org/books](http://www.iea.org/books); or email: [books@iea.org](mailto:books@iea.org). The IEA's address is: 9 rue de la Fédération, 75739 Paris Cedex 15, France).



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**Arab Oil & Gas:** *The International Energy Agency points out in the 2013 edition of its World Energy Outlook that the Middle East, the only major source of low-cost oil, remains at the heart of the long-term prospects for the world oil market. Does this mean that the IEA thinks it has gone a little too far in recent times by highlighting the global impact of the shale oil and gas revolution and the development of other **unconventional hydrocarbons** in the **United States**?*

■ **Fatih Birol:** In our *World Energy Outlook 2012*, we indicated that the United States could become the world's leading oil producer by 2017. In the 2013 edition, we confirm this trend and explain that this could happen as early as 2015.

The problem is that some leading politicians, businessmen and analysts have not interpreted our conclusions very well and have deduced that we will need appreciably less oil from the Middle East. The United States is certainly going to become the largest producer and its output should continue growing up to the mid-2020s, but it will reach a plateau around then, before declining as remaining resources become more difficult and expensive to produce.

Another key factor is the sharp growth in the oil demand of **China** and, a little later, **India**. Only the Middle East will be able to meet such an increase.

It seemed to us that it was very important to emphasize these fundamental elements. If decision-makers base themselves on the wrong message, the investment appetite in the Middle East could diminish, which would be dangerous for the world's future oil and energy balances.

**AOG:** *The WEO 2013 also indicates that the Middle East will become the world's second largest gas-consuming region by 2020 and the third largest oil consumer after China and the United States in*

that order by 2030. When you put the *dynamics of this key region's energy demand* side by side with expectations regarding its hydrocarbon export capacity, you might conclude that the world could face a serious problem.

■ **F. B.:** I think one of the major lessons of the WEO 2013 is the emphasis placed on the new geography of energy supply and demand. Importers like the United States and Brazil [Editor's note: The 2013 edition of the WEO contains a very detailed analysis of this last country] are becoming exporters, and exporters are among the main sources of the growth in demand.

Two key factors are at work in the case of the Middle East: the region's **rapid economic growth** and the scale of **energy subsidies**. On this second point, we estimate that subsidies cost **more than \$200 billion** in 2012. The conjunction of these two factors means that the Middle East's oil consumption could reach around **10 million barrels/day** by 2035, equivalent to the level of Chinese demand today.

That said, the right policies could help sustain this region as a major oil-exporting zone. At the moment, it consumes almost 2 million barrels/day of oil in thermal power stations for generating electricity. That does not make any sense. The Middle East's electricity mix could be substantially modified.

**AOG:** *To shift towards more competitive and more efficient markets, the IEA recommends that the rigidity of contractual structures in the liquefied natural gas sector and the mechanisms for indexing gas prices on oil prices should be loosened. As you know, gas exporting countries, especially those belonging to the Gas Exporting Countries Forum (GECF), do not really share these ideas. They point out that the current mechanisms facilitate the funding of increasingly costly gas development and export projects.*

## > Dr. Fatih Birol

Chief Economist and Director, Global Energy Economics Directorate, **International Energy Agency**

Dr. Fatih Birol is the Chief Economist and Director of Global Energy Economics at the **International Energy Agency** in Paris. He is responsible for the IEA's flagship *World Energy Outlook* publication, which is recognized as the most authoritative source of strategic analysis of global energy markets. He is also the founder and chair of the **IEA Energy Business Council**, which provides a forum to enhance cooperation between the energy industry and energy policymakers.

Dr. Birol has been named by *Forbes Magazine* among the most powerful people in terms of influence on the world's energy scene. He is a member of the UN Secretary-General's '**High-level Group on Sustainable Energy for All**' and the Chairman of the **World Economic Forum's** (Davos) Energy Advisory Board. Dr. Birol was awarded the Officer of the Order of Merit of the Italian Republic in 2012, the country's highest honour. In 2009, alongside awards from the Dutch and Polish governments, Dr. Birol received Germany's Federal Cross of Merit, the country's most prestigious decoration. He was awarded the Golden Honour Medal of Austria in 2007 and was made a Chevalier dans l'ordre des Palmes Académiques by France in 2006. These followed awards from the governments of Turkey in 2005 and the United States in 2004 and from the **Russian Academy of Sciences** in 2002. He is a past winner of the **International Association of Energy Economics'** annual award for outstanding contribution to the profession.

Prior to joining the IEA in 1995, Dr. Birol worked at the **Organization of the Petroleum Exporting Countries** (OPEC) in Vienna. A Turkish citizen, Dr. Birol was born in Ankara in 1958. He earned a BSc degree in power engineering from the **Technical University of Istanbul**. He received his MSc and PhD in energy economics from the **Technical University of Vienna**.

Source: IEA.

■ **F. B.:** When the indexation of natural gas prices on oil prices was introduced a long time ago, there was fierce competition between oil and gas in power generation markets, whereas that is not at all the case today. Furthermore, the market was dominated by a very small number of producers. But the markets are far more competitive these days.

Hence, pricing mechanisms need to reflect market conditions, which have changed a lot, and the fact that markets are far more competitive than in the past. Moreover, this does not mean that the developments we consider necessary will take place at the expense of gas producers and exporters.

Let us take the example of **Southeast Asia**, one of the most dynamic regions in economic terms. Within its power sector, coal is increasingly the fuel of choice, and is set to account for 60% of the growth in generation through to 2035. Gas is much cleaner than coal from an environmental point of view, but coal is being favoured. The reason for this paradox is clear: the price. With gas, the cost of generating a kilowatt-hour of electricity is twice that of generating from coal. This situation clearly shows that greater flexibility on pricing could bring additional outlets for natural gas, especially in Asia. Various factors, including the import of LNG from the United States and Canada, can be expected to help bring about a change in this situation.

