On the road to (price) stability? The return of OPEC and the geopolitics of oil

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Maarten holds a master's degree in Economics from the University of Groningen and a post doctorate Controllers degree from VU University of Amsterdam in the Netherlands. After joining Shell in 1995 he held a variety of financial, commercial and general management roles in Shell's downstream and trading businesses in Europe, Brazil and Ghana.

He continued his career in Shell's Upstream business, holding financial and commercial Vice President roles in the Middle East and Russia/CIS.

In 2009, Maarten became Executive Vice President Finance in Upstream International. From 2013 to 2015 he served as Executive Vice President for Integrated Gas, based in Singapore.

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Maarten Wetselaar outlines key factors behind recent oil price volatility. He then states that oil prices should not be overly fixated on, given their unpredictability. Instead, he argues that it is better for oil and gas companies to focus on costs. Maarten concludes by stressing that natural gas – a global, cost-competitive commodity – should be discussed alongside oil in a debate on energy security.

Ladies and Gentlemen, good morning. It's a pleasure to be here with you all.

One hundred and eight. Forty seven. Twenty nine. Three numbers that neatly sum up what we're here to discuss. They were the prices of oil in June 2014, January 2015 and January 2016.

Over the past few years, they've caused a lot of furrowed brows, including my own. So, is there any clarity about what's behind the volatility we've witnessed?

For me, there are four factors which stand-out.

Four factors

One, the state of the global economy. As we all know, industrial activity remains the key driver for energy demand.

Two, companies have adapted successfully to lower prices. And also, in the North American onshore there is a new type of supply that is able to respond faster than any other non-OPEC supply, such as deep water or heavy oil.

Three, the role of OPEC. The recent deal in which OPEC and several non-OPEC resource holders agreed to cut production for half a year eventually had the desired effect of hiking up prices.

And four, the rise of oil from outside OPEC, which now accounts for around 55% of global supply. This has been driven by the fall in cost of producing oil across the industry.

It looks like volatility is here to stay, with these factors continuing to have an impact on the price of oil. But to what extent? And for how long?

I don't know. This may not be a popular answer, but in truth, none of us do. Not with any certainty anyway.

That doesn't mean we should stop crunching the numbers and having debates like this. They're vital in helping to improve our understanding on the path ahead.

"It looks like volatility is here to stay."

Control

But it's important not to fixate overly on prices, given their unpredictability. Far better to focus on what can be controlled.

In the case of oil and gas companies, they have control over their costs.

At Shell, we recognise the need to be competitive at a range of oil prices. This means making tough decisions to trim the fat off our projects in order to lower the price at which they break-even.

In the case of governments, there is some control over the way income is used for producing countries and the quantities and types of energy purchased for consuming nations.

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Broadly speaking, energy policy priorities for governments fall into three categories. The first is ensuring reliable energy supplies from a diverse number of sources – the overarching theme of this roundtable. The second is maintaining competitiveness in global markets. And the third is reducing greenhouse gas emissions.

Oil and how much you pay for it will – to varying degrees – influence each of these priorities. As such, it is right that it plays a central part in today's discussion.

Natural gas

But there's another energy source, which should also be a part of a conversation on energy security. And that's natural gas.

Having diversity and flexibility to provide energy from both gas and oil allows countries to optimise their cost of supply. As the market for gas becomes more liquid – as has happened here in Europe – the price is no longer linked to oil. This allows a country to hedge both price and volume through access to both sources of energy.

Gas is also the cleanest-burning hydrocarbon. It's a global, cost-competitive commodity. It has multiple uses across all sectors of the global economy – from power to transport, buildings to industry. And it is an ideal partner for intermittent renewable energy sources.

As such, it addresses the priorities of competitiveness and the environment.

Are oil prices critical to energy security? Absolutely. But so is the role gas can play in a country or region's energy system.

Unlike prices, governments do have some control over the extent of gas' role in ensuring secure supply in countries throughout the world. That's why it should be discussed alongside oil in a debate on energy security.

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