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Changing the geopolitics of oil:

Growing trade interdependence between the Gulf and Asia

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Introduction

Ever since the nationalizations of the 1970s, Western oil majors have worked hard to get their foot back into the door of the petroleum sector in the Middle East. But now this is set to change. After years of courting national oil companies (NOCs) and governments in the region, the results are disappointing. They face intense competition from Asian NOCs and, where they win deals, the terms are often not attractive enough. Their focus is changing, with more supermajor investment dollars heading back to unconventional in North America, where terms are stable and opportunities abound.

The NOCs of the Gulf Cooperation Council (GCC) and Iraq, too, are shifting gears. They are turning their attention eastwards, where the bulk of their exports will be headed for years to come. They want to lock in that market. They are also realizing that their Asian customers can provide a more holistic investment package. This report addresses some of the pressing economic challenges the region faces. Emerging trends point to a closer Gulf-Asia energy relationship.

Based on interviews with senior executives from NOCs and on industry research, this report was written for KPMG International by Dr. Valérie Marcel, who has written widely on the subject of emerging energy industry trends.



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The impact of unconventional in North America

“The **growth** of unconventional oil and gas production in **North America**, in particular, changes the picture for **Gulf exporters** and the private oil majors.”

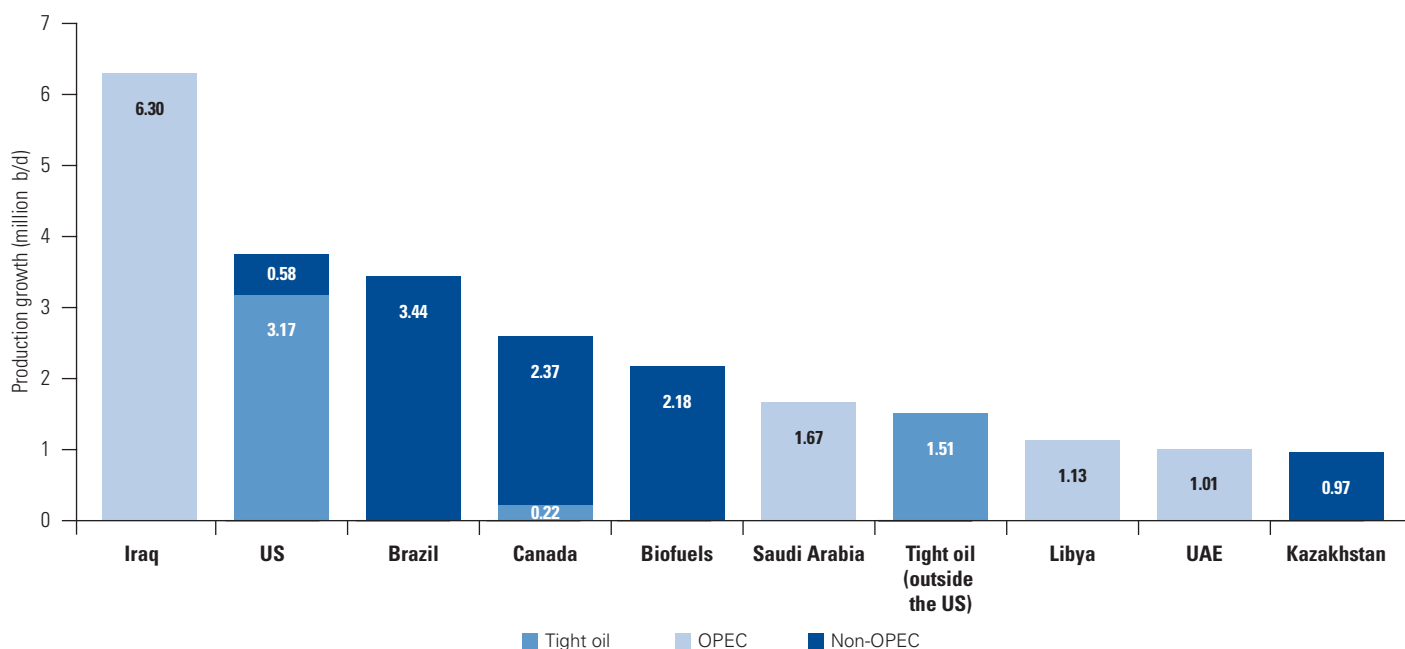
Oil markets are changing and this is having a profound effect on energy relationships. The growth of unconventional oil and gas production in North America, in particular, changes the picture for Gulf exporters and the private oil majors. Considering most global yet-to-find oil reserves are located in the US, Russia and Canada—areas which are more ‘open’ to investment—we should expect significant investment there in the coming years. Wood Mackenzie research indicates that more than half of the international oil companies’ long-term capital investments are going into deep water, shale/tight oil, shale gas and oil sands (refer to Figure 1).¹

While opportunities for investment will emerge in the Middle East (notably in

Iraq, Libya and the United Arab Emirates [UAE]), the terms in the Middle East have to be really attractive to draw the Western majors away from the ‘open’ potential elsewhere. Marathon Oil and Repsol’s announcements this year that they were considering exiting Libya in favor of much less risky shale assets in North America are a testament to the shifting priorities of International Oil Companies (IOCs).

New production in North America is competing with Middle East exports. While less affected than Nigeria, which saw its exports to the US almost halved between 2011 and 2012, the OPEC Gulf exporters, too, are concerned about security of demand and markets.

Figure 1: Top 10 global liquids growth areas to 2030



Source: Wood Mackenzie Global Oil Supply Tool, 2013

¹ WSJ, 5 December 2011



Increased interdependence and **emerging partnerships**

Growing Asian markets are another fundamental factor affecting trade and investment patterns. China is now the world's largest net importer of oil, with demand rising by more than 40 percent in the past 5 years (Energy Information Agency).

While demand for Middle East crude in North America is on the decline, future demand growth, for both oil products and crude, will come from Asia. As

Asian markets increasingly absorb more of the Middle East oil supplies, oil trade is being divided into Eastern and Western hemispheres. The growing trade interdependence between the Middle East and Asia is fundamentally changing the geopolitics of oil.² Gulf exporters are concerned about security of demand and markets, and this is driving closer energy relationships with their Asian customers.

“The **growing trade interdependence between the Middle East and Asia** is fundamentally changing the **geopolitics of oil.**”

² John Mitchell, “What Next for the Oil and Gas Industry?”, Chatham House report, October 2012

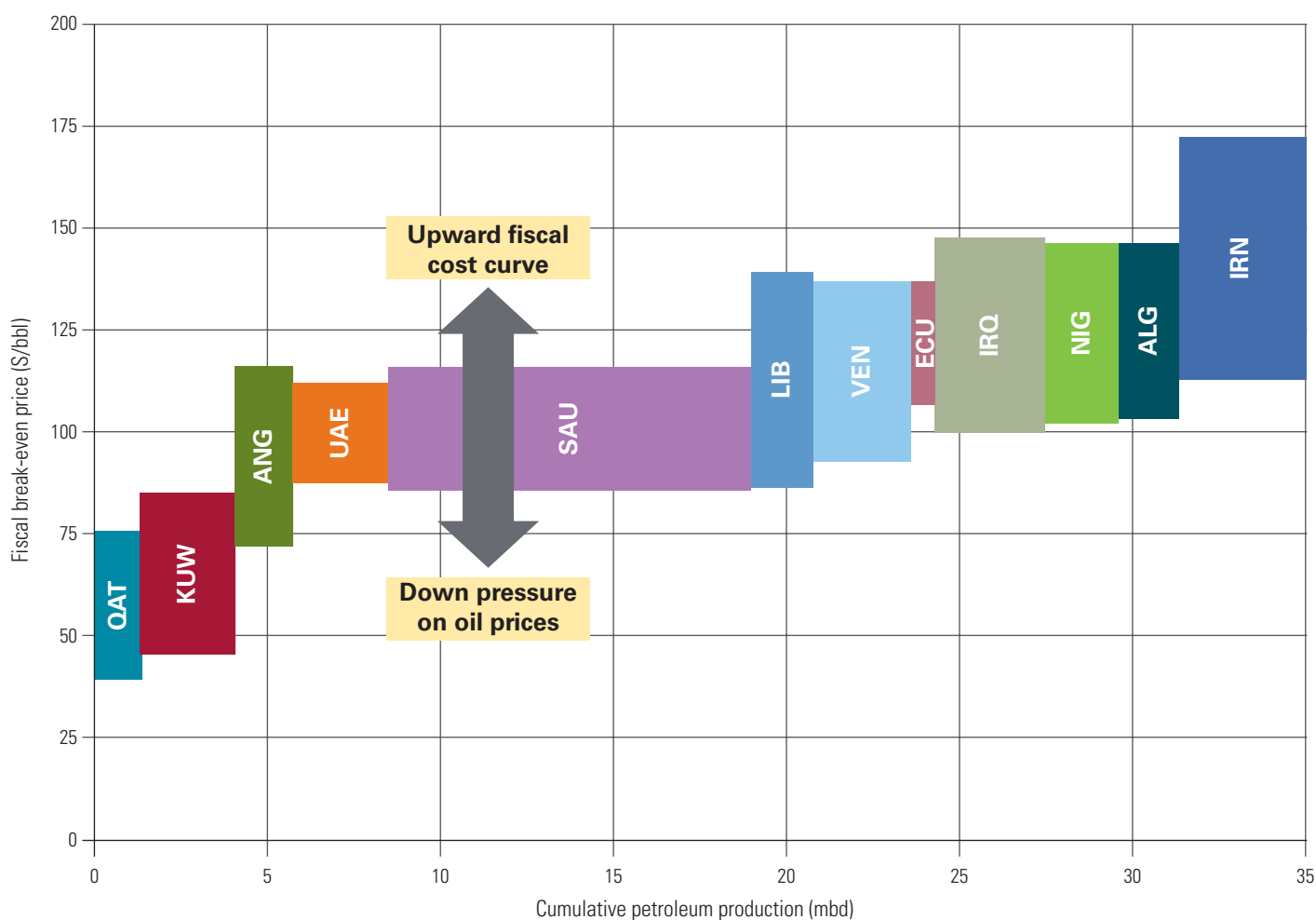
Economic challenges loom

Another set of trends affecting the energy industry in the Gulf is the structural weakness of its labor force and rising fiscal break-even prices (refer to Figure 2).

These economic challenges may surprise, since the GCC has seen mostly high rates of economic growth, thanks to high oil prices and higher production levels. But this positive data hides economic difficulties faced by

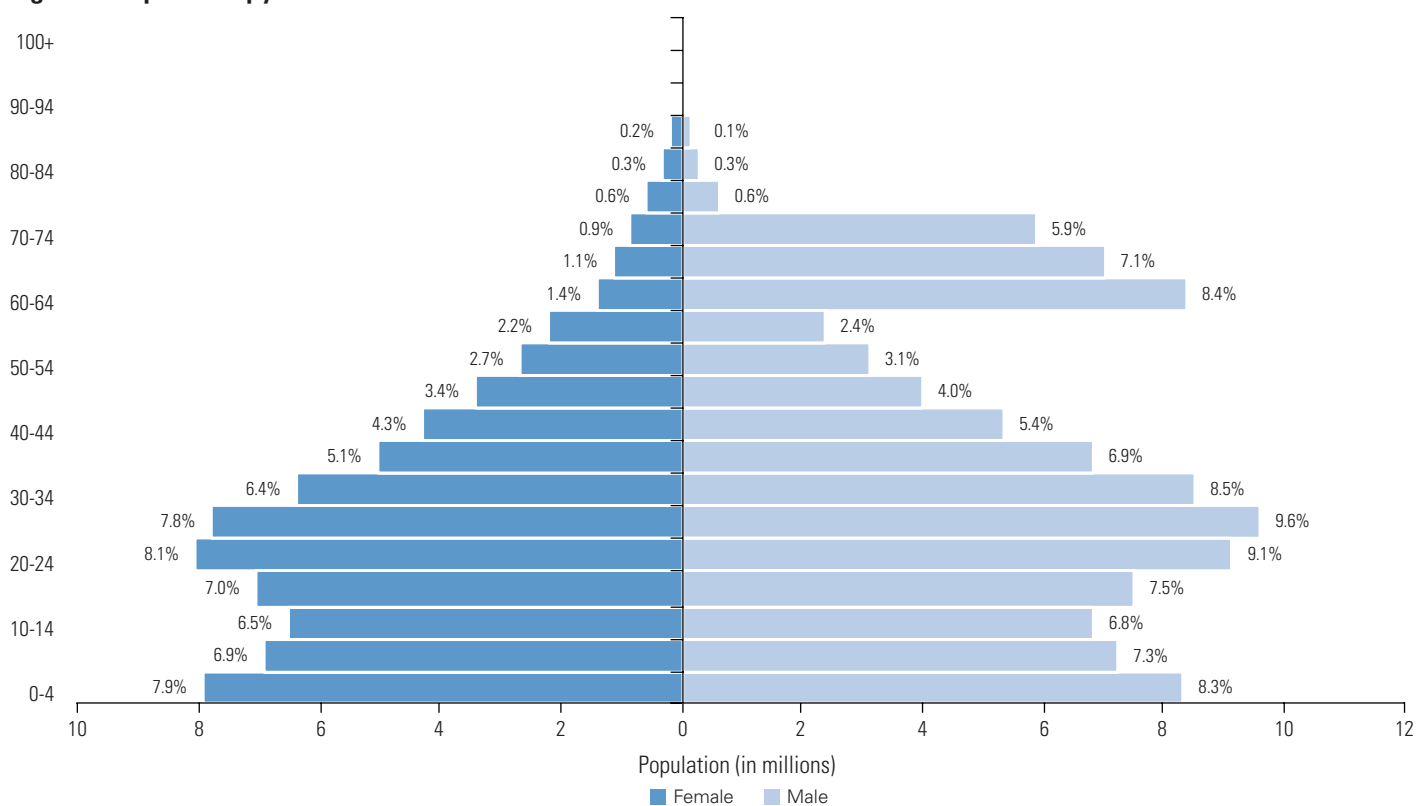
nationals. From 1970 to 2011, GCC per capita income in real terms has declined, from approximately US\$40,000 to US\$28,000.³ The region's demographic profile is extremely young, as Figure 3 shows. Large numbers of young people enter the workforce every year and do not find jobs (see Figure 4). The private sector has shown strong job creation, but participation of nationals in the workforce is limited.

Figure 2: Fiscal break-even oil prices and fiscal cost curve

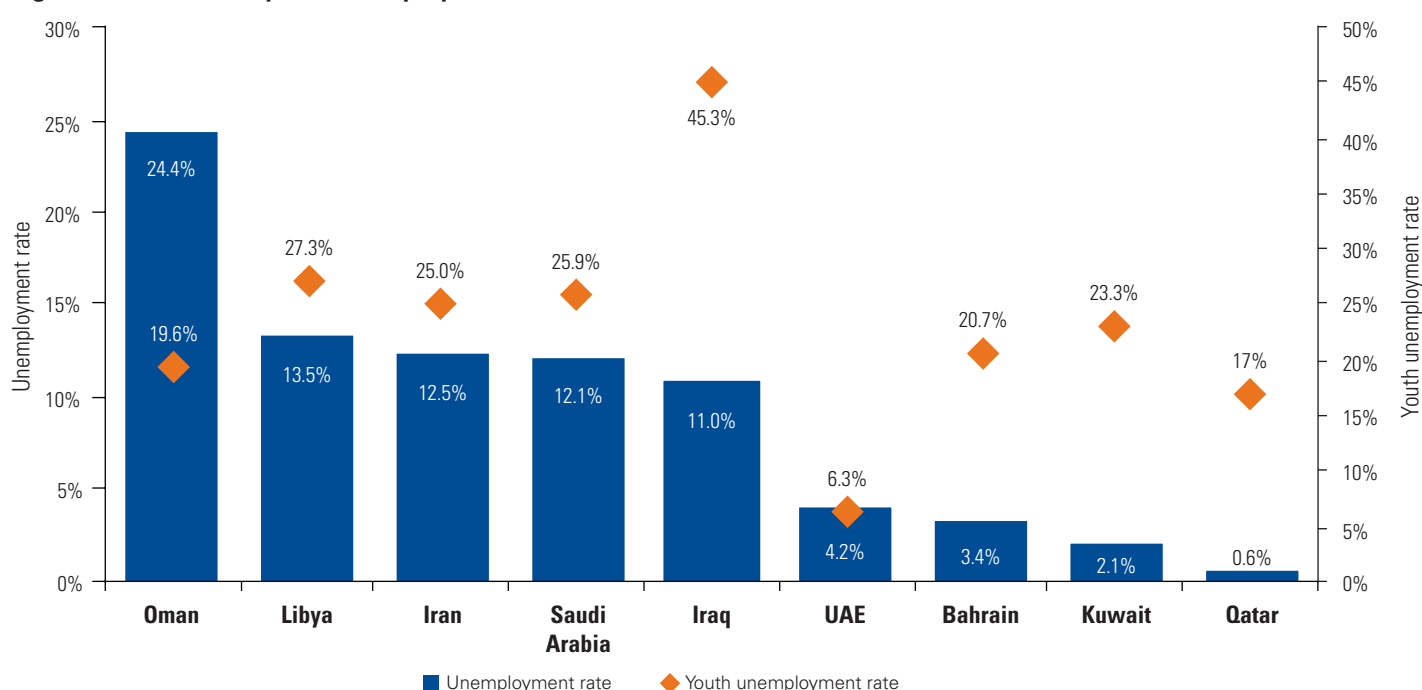


Source: Ali Aissaoui, "Modeling OPEC Fiscal Break-even Oil Prices: New Findings and Policy Insights", APICORP's *Economic Commentary*, September–October 2013.

³ Reyadh Faras, Presentation at the Natural Resource Charter Annual Conference, Kuwait City, 29 May 2013.

Figure 3: Population pyramid for GCC

Source: "Population by Five-year Age Group and Sex," United Nations, Department of Economic and Social Affairs website, http://esa.un.org/unpd/wpp/unpp/panel_indicators.htm, accessed October 2013

Figure 4: General and youth unemployment rates in select countries

Sources:

"World Economic Outlook Database, April 2013," IMF website,

"UAE—2013 Article IV Consultation," IMF website, <http://www.imf.org/external/pubs/ft/scr/2013/cr13239.pdf>, accessed September 2013

"Iraq—2013 Article IV Consultation," IMF website, <http://www.imf.org/external/pubs/ft/scr/2013/cr13217.pdf>, accessed September 2013

"Libya—2013 Article IV Consultation," IMF website, <http://www.imf.org/external/pubs/ft/scr/2013/cr13150.pdf>, accessed September 2013

"Job Creation in the Arab Economies: Navigating Through Difficult Waters," Arab Human Development Report website, <http://www.arab-hdr.org/publications/other/ahdrps/paper03-en.pdf>, accessed October 2013

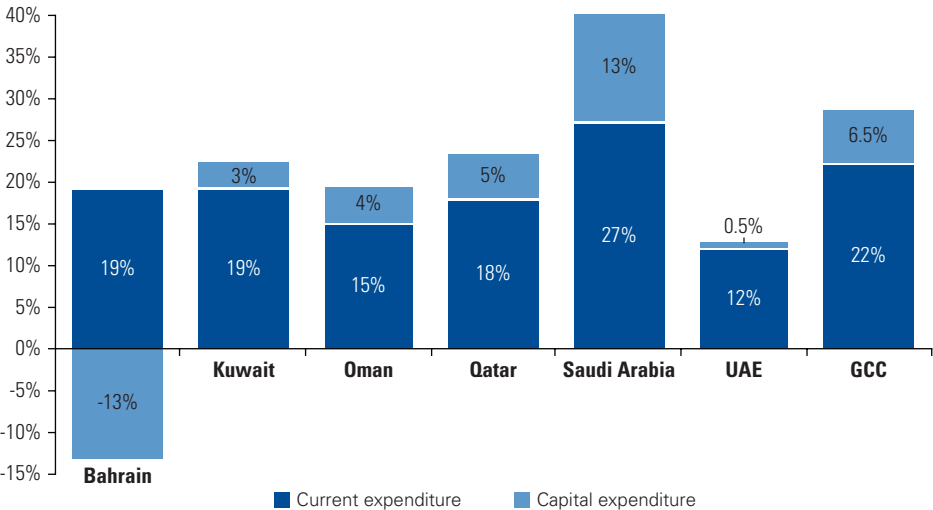
“The International Monetary Fund estimated that public spending in the GCC increased by 20 percent in 2011 from the previous year.”

Governments, shaken by the strong tides of the Arab Spring throughout the region, have employed more young nationals in the public sector. The International Monetary Fund estimated that public spending in the GCC increased by 20 percent in 2011 from the previous year. Figure 5 illustrates increased public spending across the region, with wages accounting for most of the increase in current expenditure. It follows from this spending spree that the price of the

barrel needed to balance budgets is at a historic high and rising further.

This economic strain impacts the national energy industry in two ways. First, the obvious remedy to the budget crunch is to pump more oil and gas, which can pose a technical challenge to the NOCs. Second, the energy industry is called on to create more jobs for nationals and opportunities for the private sector.

Figure 5: Government expenditure growth, 2011
(Contributions to total, percentage points, US\$ terms)



Source: Country authorities, Bloomberg, IMF staff calculations (in “Economic Prospects and Policy Challenges for the GCC Countries”, IMF, October 2012)



The challenges of increasing production and addressing unemployment

Increasing production can be a challenge because, as the ‘easy oil’ reserves dwindle throughout the region, companies must tap new types of reserves and invest in enhanced oil recovery. NOCs in the region are mature and competent (and Saudi Aramco is probably the world leader in increasing recovery rates from mature reservoirs), but most need to bring in foreign oil companies and oil service companies to develop their more geologically challenging oil and gas reserves. As for Baghdad, it also needs investments in infrastructure, both to support the development of the petroleum sector and to meet the primary needs of its citizens. The infrastructure needed to produce and export its petroleum is in disrepair and Iraq’s electric power system is chronically unable to meet demand.⁴

Throughout the region, meeting the challenge of increasing exports is complicated by the high levels of growth in domestic demand for oil and gas, which averages 6 percent per year. In fact, if fuel demand were to continue rising as it has over the last decade, it would double by 2024.⁵ Much of this is feedstock for industrial and power generation demand. A recent Chatham House report demonstrated that simple policy measures can translate into huge savings: with planned clean energy introduction and basic efficiency

measures, Saudi Arabia could save between 1.5 to 2 million barrels of oil equivalent per day in 2025.⁶

It is the government’s prerogative to act through public policy, and so the focus among many of the region’s NOCs is naturally on increasing natural gas production to substitute oil in power generation and free their more lucrative commodity for export markets. Saudi Aramco, for instance, has been investing in earnest in developing its shale gas reserves.

Some countries are targeting upstream investors that can also address some of their unemployment concerns. Many see industrial development in ancillary sectors around the petroleum sector as a potential remedy to unemployment. Saudi Arabia, for one, wants foreign investment in the petrochemical and refining sectors, and this investment drive is clearly framed by the Ministry of Petroleum and Mineral Resources and Saudi Aramco as a job creator. The government and Saudi Aramco have also sought foreign investment in research and technology, in the hope of creating high-tech hubs. A similar development is taking place in Abu Dhabi. Masdar City, in particular, is a huge gamble by the small Emirate in favor of pioneering research on renewable energies.

“Many see **industrial development** in ancillary sectors around the **petroleum sector** as a **potential remedy to unemployment**.”

⁴ These requirements are laid out in Iraq’s \$620bn Integrated National Energy Strategy for 2012–2030, released last June.

⁵ G. Lahn, P. Stevens, F. Preston, “Saving Oil and Gas in the Gulf”, Chatham House report, August 2013

⁶ *Ibid.*



A new paradigm for **cooperation**

“ This type of **investment** is better suited to **Asian NOCs**, which are able to manage **large-scale projects** and have a **lower cost of capital**. ”

Against this backdrop, GCC producers are increasingly interested in energy investments that do more than produce energy. The national development needs of most Persian Gulf producers go well beyond the classic CSR programs. The idea coined in 2011 by the CEO of Aramco at the International Energy Forum meeting was to invite partners to consider a ‘new paradigm for cooperation’. He pointed to the need for activities that promote local economic development and job creation.

In a price environment where host governments are able to demand more from investors, the idea is on the rise globally of leveraging access to the upstream against investments in national development. This type of investment is better suited to Asian NOCs, which are able to manage large-scale projects and have a lower cost of capital. They are also able to partner with manufacturing and service companies from their home country.

New players in the Gulf

We should expect a closer and stronger relationship between Asian NOCs and their Gulf counterparts. It makes sense in a context where Gulf exporters want to lock in their growth markets, maximize economic development windfalls from investments in the oil sector, and yet offer limited financial incentives to investors. There is a complementarity of objectives. But it is still uncertain what shape these partnerships will take in the future.

In Iraq, the oil majors have complained about their slim margins on existing service contracts, as well as infrastructure and security problems and delays in securing bureaucratic approval. But Chinese companies have not. ExxonMobil appeared disenchanted when it risked losing its large contract with the federal government for West Qurna I by signing production-sharing contracts for smaller fields in the Kurdish region. Others have tested these waters too. When oil companies have tried to sell their stakes in giant fields, they found

the Chinese NOCs the only ones willing and able to take on large stakes in service contracts of this scale. The interest of Asian companies for opportunities in Iraq is not new. As Figure 6 demonstrates, all four auctions for oil and gas fields in Iraq rewarded 'new players' from Asia.

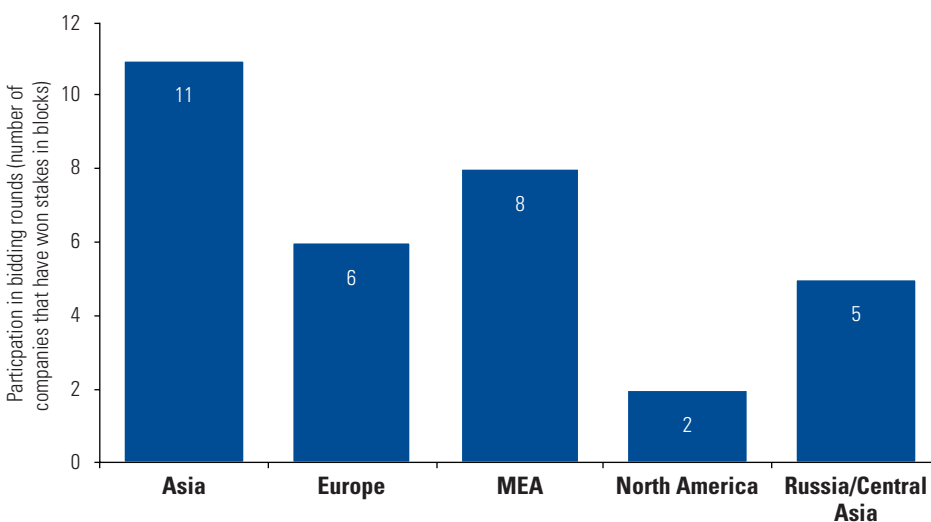
In Abu Dhabi, too, Asian companies are hopeful of new deals. Abu Dhabi National Oil Company's (ADNOC's) historic partners anxiously await the renewal of the concession agreements due in 2014 and 2018. There are growing signs that the political leadership wants to forge relationships with new partners. While the US has long been a crucial ally for Abu Dhabi, the Emirate has also built a strategic relationship in the energy industry with Japan and more recently with South Korea. Amidst uncertainty about concession renewal, Japanese and Korean companies received positive indications about their prospects (see Box 1).

“There is a **complementarity** of objectives. But it is still **uncertain** what **shape** these **partnerships** will take in the **future**.”

Box 1 – Early winners in Abu Dhabi's concession renewal

A Japanese consortium led by Cosmo Oil saw its concession for 3 small fields (due to expire in 2012) renewed and the Emirate said it would consider favorably Tokyo's request to renew Japan Oil Development Company Limited's (JODCO's) concessions, too (Middle East Economic Survey, MEES, 17 January 2011). South Korea has also been forging strong political and economic ties with Abu Dhabi. A Korean-led consortium is building nuclear reactors in the Emirate. Leaders of both countries agreed to develop closer energy ties, including a plan for Korea to build a storage facility for Abu Dhabi crude in Korea. Abu Dhabi has also offered Korean National Oil Corporation (KNOC) three minor blocks. While South Korea hopes to be awarded more upstream opportunities, Korean companies do not have the necessary experience for the Emirate's mature or sour fields, and there are factions in the ruling family that do not favor a Korean presence in the oil sector (MEES, 16 May 2011).

Figure 6: Nationality of companies winning licenses in Iraq (2008, 2009, 2010, 2012)



Note: MEA refers to Middle East and Africa
Source: EIA, 2012



Cross investments

“To lock in **demand** from **Asia**, the **Gulf exporting** countries are indeed investing in **large-scale export** refineries there and at **home**.”

A tried and tested form of partnership thus far has involved Northeast Asian and GCC NOCs investing in the downstream together. To lock in demand from Asia, the Gulf exporting countries are indeed investing in large-scale export refineries there and at home.

More recently, we have seen South Asian companies expressing interest in Gulf refineries and Gulf NOCs investing in downstream and marketing in Southeast Asia (refer to Box 2). Southeast Asia is emerging as the new investment frontier. The Association of Southeast Asian Nations (ASEAN)

member countries, which account for 9 percent of the world's population and whose economies together would rank eighth in importance if one country, are increasingly in the headlights of Gulf NOCs—notably for investments in refining. Increased interest in Islamic financing in the Gulf also offers opportunities for Southeast Asian investors (e.g. Indonesia, Malaysia), which have a well-established Islamic banking sector. Typically, 20 percent of financing for downstream joint ventures (JVs) in the GCC is done via Sukuk.

Box 2—Cross investments between companies from GCC+Iraq and Asia**GCC+Iraq investing in the Northeast Asia downstream:**

- Saudi Aramco partnered with Sinopec in the Fujian complex refinery in China
- Saudi Aramco partnered with CNPC in the Yunnan complex refinery in China
- Saudi Aramco holds a 15 percent stake in the Japanese refiner, Showa Shell
- Saudi Aramco is the largest stakeholder of South Korean refiner, S-Oil
- Saudi Basic Industries Corporate (SABIC) operates 10 manufacturing sites in China, Southeast Asia, South Korea and Japan
- KPC (KPI) has an agreement with Sinopec for the Guangdong complex refinery
- ADNOC has a crude storage facility in Japan
- South Korea and Iraq signed a Memorandum of Understanding (MoU) for crude storage in South Korea

GCC+Iraq investing in the Northeast Asia upstream:

- KPC (KUFPEC) has a 49 percent stake in the Yacheng offshore gas field in the South China Sea

Northeast Asian companies investing in the GCC+Iraq downstream:

- Sinopec partnered with Saudi Aramco in the Yanbu refinery
- Korea LNG has a 5 percent stake in Oman LNG
- KNOC partnered with ADNOC in a 30-year concession for three onshore and offshore oil drilling areas in Tufala, UAE

Northeast Asian companies investing in the GCC+Iraq upstream:

- CNPC, CNOOC, PetroChina Company, PETRONAS, Korea Gas Corp (KOGAS), JAPEX, INPEX, Samsung Group and PT Pertamina (Persero) hold stakes in service contracts in Iraq
- Sinopec partnered with Saudi Aramco to explore and develop gas reservoirs as part of the Kingdom of Saudi Arabia's Upstream Gas Offering
- CNPC holds oil and gas assets and interests in Oman
- PTTEP holds an Exploration and Production Sharing Agreement for Block 44 in Oman
- INPEX holds a 12 percent stake in Upper Zakum, Lower Zakum and Umm Shaif fields in the UAE
- China Sonangol, a JV between Angola's NOC, Sonangol and a Hong Kong-based private conglomerate, China International Fund (CIF), signed an agreement in September 2013 to build a refinery in the UAE

GCC+Iraq investing in South and Southeast Asia downstream:

- KPC (KPI) holds a 35.1 percent stake in the Nghi Son Refinery and Petrochemical Limited in Vietnam
- QP (QPI) partnered with Shell in Singapore to build a petrochemical plant
- QP (QPI), Shell and PetroChina signed an agreement to build a refinery in Jiangsu, China
- India and Iraq have signed an energy cooperation agreement to increase India's oil imports from Iraq

GCC+Iraq investing in the South and Southeast Asia upstream:

- KPC (KUFPEC) operates Jati block in Pakistan
- KPC (KUFPEC) holds stakes in the Philippines, Indonesia, Malaysia and Vietnam

South and Southeast Asian companies investing in the GCC+Iraq downstream:

- Reliance short-listed for integrated Nassiriya project in Iraq
- KOGAS has several long-term supply agreements with RasGas, Qatar and Oman LNG

South and Southeast Asian companies investing in the GCC+Iraq upstream:

- PETRONAS and Pakistan Energy hold stakes in service contracts in Iraq
- ONGC short-listed for integrated Nassiriya project in Iraq
- PETRONAS, PTTEP and Reliance hold stakes in Oman

“This **multifaceted** diplomatic, financial and industrial **relationship between Japan and Abu Dhabi** may be a harbinger of **future ties** between the **Gulf exporters** and their **Asian customers**.”

Box 2 on the previous page demonstrates that Saudi Aramco, and to a lesser extent KPC, has been most aggressive in pursuing downstream opportunities in Asia.⁷ This strategy of forward integration has been laborious at times. Access to the downstream markets have been somewhat frustrated by domestically regulated prices and market control by national operators. Saudi Aramco and KPC investment plans recently fell through in Indonesia because of tax disagreements, for instance. Also, no significant ‘cross investments’ have materialized: the partnerships in the downstream have not given Asian companies reciprocal access to the upstream in Kuwait or Saudi Arabia.

There are greater upstream opportunities for Asian players in Iraq and Abu Dhabi, as mentioned earlier, and the Emirates have developed cross-investments with Japan. Japanese companies’ prospects for upstream deals in the Emirate are supported by multiple loans from the state-run JBIC to ADNOC. The loans are meant to guarantee long-term crude

exports to Japan. ADNOC also signed an agreement with Tokyo to store crude in Japan and market it to its Asian customers. Describing Abu Dhabi as already an ‘extremely important country’ for Japan’s resource strategy, JBIC said the Emirate’s ‘strategic importance’ is increasing further with the latest partial start-up of the Fujairah oil pipeline last year, enabling the export of crude oil without passing through the Strait of Hormuz.⁸ Parallel to this, Abu Dhabi’s IPIC took a 20 percent stake in Cosmo Oil in 2007. And state-owned Japan Oil, Gas and Metals National Corporation, signed a memorandum of understanding on technological cooperation with ADNOC, which includes JOGMEC taking on 500 trainees from ADNOC over 5 years. This multifaceted diplomatic, financial and industrial relationship between Japan and Abu Dhabi may be a harbinger of future ties between the Gulf exporters and their Asian customers.

⁷ “Japan’s Showa Shell Cuts Iran Oil Imports, Renews Deal-sources”, Reuters website, <http://www.reuters.com/article/2012/04/18/japan-iran-showa-idUSL3E8F12SL20120418>, accessed October 2013; “SABIC IN ASIA PACIFIC,” SABIC website, <http://www.sabic.com/asia/en/ourcompany/sabic-in-asia-pacific>, accessed October 2013; “KUFPEC to Acquire Additional 34.3% Interest In Yacheng Gas Field, Offshore China, from BP for US\$308 Million”, Research Views website, <http://www.researchviews.com/energy/oil-gas/DealReport.aspx?sector=oil%20gas&DealID=211120>, accessed October 2013; “Oman LNG”, Oman LNG website, <http://www.omanlng.com/tabid/124/Default.aspx>, accessed October 2013; “Overview of Nghi Son Refinery and Petrochemical LLC, Idemitsu website, <http://www.idemitsu.com/content/100513977.pdf>; accessed October 2013; “KUFPEC Now an Operator in Pakistan”, KUFPEC website, <http://www.kufpec.com/AboutKUFPEC/KUFPECNews/Pages/In%20Pakistan.aspx#myAnchor>, accessed October 2013; “South East Asia”, KUFPEC website, <http://www.kufpec.com/Operations/Pages/SEAsia.aspx#myAnchor>, accessed October 2013; “Saudi Aramco, Pertamina To Set Up \$8b Oil Refinery in Indonesia”, Saudi Gazette website, <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20130205151950>, accessed October 2013; “South Korea–GCC Economic Relations: An Overview”, Gulf Research Center website, http://www.grc.net/data/contents/uploads/GCC-ROK_Paper_final_6-11-2012_8858.pdf, accessed October 2013; “Iraq, South Korea Ink Strategic Crude Storage Deal, International Oil Daily, 16 September 2013”, via Factiva, accessed October 2013; “India, Iraq Ink Energy Pact To Boost Oil Imports, The Financial Express, 24 August 2013”, via Factiva, accessed October 2013; “Kuwait Petroleum, SK Energy Ink MoU To Develop Oil Refinery, Middle East North Africa Financial Network (MENAFN), 6 September 2013”, via Factiva, accessed October 2013

⁸ Platts, 12 February 2013

Bundled investments

A more strategic approach to the relationship is likely to emerge in both the Gulf and Asia. First, a strategic approach could involve Asian governments requiring reciprocal upstream access for their companies in Saudi Arabia and Kuwait against access to their downstream. Another could involve the Gulf countries requiring Asian partners to meet a wider range of policy and industry objectives in parallel with deals in the upstream. For instance, in view of the interest in job creation and infrastructure development in the Gulf, we may see more bundled investments by Asian NOCs, of the sort which some African producers have attracted in the last decade. Asian NOCs are better designed to make these investments in national development profitable—they do this kind of thing at home. Asian NOCs can also partner with service companies and EPC providers from home to deliver integrated projects.

A big challenge in this regard is how to structure those deals so they bring local employment and create local supply chains. Mega energy projects are capital intensive, but do not contribute many direct jobs. Saudi Aramco and SABIC have tried to remedy this by developing tertiary industries around projects (e.g. downstream industrial parks in the Saudi

Aramco/Dow JV ‘Sadara’ and in the industrial cities of Jubail and Yanbu). They also need markets for these products, which free trade agreements can support—as will the GCC—Singapore Free Trade Agreement, which came into effect in September 2013.

Broadly speaking, there have been few instances of bundled investments in the Gulf so far. Looking to the example of Iraq, opportunities were missed in its successive licensing rounds to coordinate upstream, midstream and downstream development. Now, faced with bottlenecks in transport and export facilities, company upstream plans are held back.

The offering for the giant Nassiriya field is different. It will be put up for auction by Baghdad as part of an integrated development tying the upstream and downstream. Several Indian companies have expressed a keen interest in Nassiriya and India is considering offering Iraq a stake in state-run Indian Oil Corporation’s upcoming refinery in Eastern India. These overtures are backed up by diplomacy, as a long-term energy cooperation agreement on oil exploration and refining was signed during Prime Minister Nouri al-Maliki’s visit to India last summer.

“Looking to the **example of Iraq, opportunities were missed** in its successive licensing rounds to **coordinate upstream, midstream and downstream development**. Now, faced with **bottlenecks** in transport and export facilities, company **upstream plans are held back.**”

Mutual interest in upstream research

“**Research and training** is another area which may be **further explored for partnerships.**”

Research and training is another area which may be further explored for partnerships. Both Gulf NOCs and Asian NOCs have interests in developing technologies for shale or finding solutions to environmental challenges, for instance. Saudi Aramco, Masdar, the Chinese NOCs, PETRONAS and the Japanese oil companies have well-established research and development programs.

There has been a degree of competition between Asian and Gulf capitals to establish themselves as research hubs. But collaborating on research and development projects could prove to be beneficial. Refer to Box 3 for a list of bilateral research programs.⁹

Box 3 — Research collaboration between Gulf–Asia

- Agreement between Saudi Aramco and the Korea Advanced Institute of Science & Technology (KAIST) to establish a joint CO2 Research Center. Their aim is to collaborate on research and development of innovative technologies and solutions for carbon management.
- Saudi Aramco research center in Beijing, China. The center undertakes marketing, JV coordination, procurement, inspection, research and development, project management, human resources development and communications in the region.
- Agreement between the UAE and China on energy cooperation. The aim is to collaborate further towards the development and deployment of the renewable energy and clean technologies.
- Agreement between the UAE and Singapore to facilitate information exchange and sharing of experiences in areas such as energy efficiency and conservation, regulation of electricity, renewable energy and liquefied natural gas.
- SABIC runs six Technology & Innovation Centers in China, South Korea, Japan and India.
- JOGMEC and QP have signed an MoU for bilateral technical cooperation on areas such as technologies used in oil and gas upstream developments and the development of human resources through training.

⁹ “Saudi Aramco To Open 3 US Research Centers”, Rigzone website, http://www.rigzone.com/news/oil_gas/a/126337/Saudi_Aramco_to_Open_3_US_Research_Centers, accessed October 2013; “Jogmec-QP MoU, LNG Intelligence, 3 September 2013”, via Factiva, accessed October 2013



Conclusion

Oil trade and investment between the Gulf and Asia are becoming mutually strategic and attracting diplomatic focus from both sides. We expect business and diplomacy to be increasingly intertwined. Bilateral trade and investment agreements will impose partners on NOCs in both Asia and the Gulf. This development is unlikely to please the NOCs in the Gulf, which have strived to establish their commercial autonomy from political interference. They will struggle to control as much as possible the terms and the delivery of deals made with their Asian NOC counterparts.

GCC exporters want better access to the Asian downstream markets and more crude storage facilities there. Saudi Aramco's CEO, Khalid Al-Falih, characterized the Saudi-Chinese interdependent energy relationship as an "energy superhighway" and expressed the hope that China would further deregulate its energy industry and favor foreign investments.¹⁰ Recent refining project cancellations in Indonesia demonstrate access to the downstream is an issue in Southeast Asia as well.

Neither the GCC exporters nor the Asian importers can afford to shy away from their trade partners. The growth in demand for oil has reversed in the OECD, but not so in Asia. Middle East exporters will be increasingly dependent on markets eastward. By 2030, something like 60 percent of the world's oil trade will take place within the Asia region and between Asia and the Middle East.¹¹

Asian importers, too, are well aware of their own dependence. Over half of the oil consumed in the Asia-Pacific region is imported from the Middle East (compared with 10 percent for the Atlantic basin countries). They strive to diversify imports to the extent possible, and are building strategic petroleum reserves. They are also competing with each other for investments in crude storage facilities and refining and for access to equity oil internationally. This intra-Asian competition will undoubtedly benefit the Gulf countries' ability to ask Asian NOCs for investments that 'do more'.

¹⁰ China Development Forum, Beijing, 21 March 2011

¹¹ John Mitchell, "What Next for the Oil and Gas Industry?", Chatham House report, October 2012

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Launched in 2007, the GEI is a worldwide knowledge-sharing forum on current and emerging industry issues. This vehicle for accessing thought leadership, events, webcasts and podcasts about key industry topics and trends provides a way for you to share your perspectives on the challenges and opportunities facing the energy industry – arming you with new tools to better navigate the changes in this dynamic area.

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