# Majid Jafar
## Chief Executive Officer
## Crescent Petroleum

**Gulf Affairs: What is Crescent Petroleum's vision and business strategy?**

**Majid Jafar:** We at Crescent Petroleum are proud to be the oldest private oil and gas company in the region. We have been operating for about 45 years now across the wider Middle East and worldwide from our headquarters in the UAE and also from offices in Iraq, Egypt, the UK, and elsewhere. Our strategy is really focused on where we have our advantages, which are the ability to move quickly, putting deals together, partnering with national or foreign oil companies, project management implementation, and a keen understanding of the commercial drivers, realities and socio-economic needs of the markets in which we operate. So for example, whereas oil majors may be focused on just export out of the region, whether it is oil or gas through LNG, we are very focused on what the local market and community needs and how we can leverage energy resources to meet these needs in a value-adding manner, whether it is power generation or industry. So by being local in our understanding and focus but global in our perspective and experience, we differentiate ourselves while adding value to our host economies.

**Gulf Affairs: How is Crescent Petroleum adapting to the current oil price realities? Does this new environment provide opportunities as well as challenges?**

**Jafar:** In the 45 years that we have been around, we have seen several oil cycles. We're on about $40 per barrel now, which is not low by historical standards. I remember, even in the late 1990s, oil was at $9 per barrel. We were screening projects at $6 per barrel when I was at Shell. But what has been impactful was the sudden decline by over 70 percent after four years of stable oil prices above $100 to $110. So that has obviously had an impact on government budgets, spending plans, and indeed on investment across the oil and gas sector.

Looking worldwide we've seen bankruptcies in places like the North Sea or the US, but also we've seen some companies in those basins that are able to adjust their cost base, tighten their belts, and still be sustainable, or at least weather the storm. In our part of the world, it is not a cost of production issue. Most of the oil and gas basins with few exceptions—such as if it is really sour or complex—still make money for the governments at these oil prices. Our challenges tend to be above the ground: changing deal terms or not respecting contracts, or late payments, or sometimes security issues—but sometimes that gets exaggerated. So you know, sometimes the basic business risks can be more important than the external security and other risks. Also, we have the challenges of underperforming even though we have half of the world's oil and gas resources. We have less than one-third of the world's oil exports and one-sixth of the world's gas exports, and that's because of subsidies, and because of insufficient investment. We have national oil companies, monopolies that are focused on oil production, but there has not been as much investment in downstream refining, exploration and gas. Compare our region, which should be number one, to the US: Nobody thought it would be a new big producer and exporter, but thanks to the power of its private sector and market-based policies, it is now competing with our region again in both oil and now gas. So, I firmly believe that our region can do so much more, but it will take some economic reforms to get us there.

**Gulf Affairs: Amid low oil prices, it is widely reported that GCC countries are in disagreement with other oil exporting countries on cutting back production to recover from the decline. What is your view on this?**

**Jafar:** You know we mentioned that $110 was amazingly stable for four to five years despite all the changes that were going on, and that's because we had a surge of new supply of about 10 million barrels a day in additional supply over a five to six year period. Half of that was from North America, mainly the US, and then about two million from Saudi Arabia, two million from Iraq, and about 1 million from Russia.

But at the same time, we lost production from Iran because of sanctions, and from Syria and so on, while China was growing in demand, so it remained remarkably in balance. In many ways, the US was taking up the slack and acting as the swing producer, or the US private sector was. And then we had a slowdown, particularly from China, and in many ways I think the supply gets too much focus in OPEC politics whereas we actually should be looking more at the demand. China's GDP growth—official growth—is now below seven percent after having been north of 11 percent for years, and some people think that the true number is four or five percent, plus the energy intensity of that growth is about half of what it was 10 or 15 years ago. So that's like going from 11 percent down to one or two percent in terms of the effective growth rate, in terms of energy intensity. That's a huge change. The nature of China's growth is changing. And we know that the growth in energy demand is not really from the West anymore (from the OECD), it's from countries like China and India, and from the Middle East itself—we are actually one of the biggest growing markets in terms of energy.

The challenge for Gulf states is on the budget side. The oil is still very profitable, but obviously it is not earning as much as it was when oil was $110 and spending plans had been getting used to $80 and $90 and higher in terms of oil price. Now, my reading of the decision of OPEC two years ago, particularly the Gulf states, not to cut is that it wasn't really so political, it was really driven by economics. There was a memory of what happened in the 1980s, when Saudi Arabia in particular chased down the oil price and cut down to two million barrels per day and the price collapsed anyway. Now this time around the attitude was more "we're the low cost producer and rationally speaking we should be the last out of the market" and we should really see how resilient this shale oil and other higher cost producers are. And of course the Gulf states by and large, particularly the big energy producers, have savings in the hundreds of billions that can be sustained for many years. I think people underestimated how far the oil price would go, but I think you're seeing it has come back a lot from $26-27 in January; we are already at close to $50. So, the oil price will recover. The question is how far and how fast.

**Gulf Affairs: How do you see energy relations between the GCC states and Iran evolving over the coming decade?**

**Jafar:** Obviously there are geopolitical tensions at the moment between Iran and the GCC, but they are also neighbors that share an important waterway for energy and energy producers. In terms of inter-regional gas and electricity trade, there should be opportunities for that because there is counter-cyclical demand. The GCC states have a surge of demand in the summer for air conditioning and less in the winter, whereas Iran being mountainous and cold has a demand in the winter for heating, so you would think that there would be opportunities for collaboration, since Iran has the world's highest gas reserves according to BP. And there is a deficit, as we know, in every Gulf state with the exception of Qatar. Having said that, you need trust. And the trust is just not political trust, it's the commercial and legal trust.

In addition, Iran has not managed to really get enough investment because of sanctions but also because it is a national oil company monopoly, and there is sort of an aversion to private sector investment in Iran. The constitution doesn't allow for the private ownership of oil and gas in Iran. As a result, despite having the world's highest gas reserves, they are actually a net importer of gas today and have massive investment needs even to get to the oil production that they had a few years ago, let alone what they were back in the 1970s before the revolution. So, there is an economic logic, but I don't think it's going to be an easy path.

**Gulf Affairs: What are your views on both planned and realized developments linked to the fiscal challenges facing GCC states (e.g. energy price reforms, privatization, VAT inter alia)? In your view, are they prompting a reconfiguration of the social contract?**

**Jafar:** What we see historically in our region is that economic reforms always come through necessity. I suppose this is worldwide to some extent. The necessity comes when oil prices are lower and budgets are tightened. In one sense, if we can get through a period of lower oil prices and take advantage of it to enact some of these reforms we're going to have much more competitive and sustainable economies. In many ways $110 oil, while it earned a lot of revenues, was creating some distorted effects on the economies. Salaries and housing prices were going up. It was becoming hard for companies to operate in the region and it was crowding out other sectors of the economy. This gives an opportunity for diversification and energy subsidy reform because the gap between the subsidized price and the actual price is less. So in many ways it can be a big opportunity. In terms of the social contract, I think that it is continuously evolving. Technology is probably even a bigger part of that than the oil price, such as social media, which has deep penetration. And you're seeing a new generation of leaders who are able to use that, like e-government services that you're seeing in Dubai and elsewhere. Competition within the region you know, governments taking the best innovations from each other to improve is great. It leads to an improvement in services across the board.

**Gulf Affairs: Following the agreement reached at the Paris Climate Conference (COP21), what role do you see for renewable energy and the drive toward more energy efficiency in the GCC region in the coming years?**

**Jafar**: Renewables have their part to play, particularly with the cost of solar coming down, and we've seen some very competitive bids in Dubai, for example. But worldwide, let's be clear, still over 80 percent of the world's energy comes from fossil fuels. You wouldn't think it when you look at some of the ads that oil companies put out there, but that's the reality. And the other 20 percent of it is mostly things like nuclear and hydro, and not new renewables like wind and solar which actually just make up a few percent. There is a lot of money going into it but it's still small in terms of the actual output. So, fossil fuels are going to remain a big part of the energy mix for decades to come, and that means the importance of the Middle East and the GCC in particular is going to continue.

When it comes to the GCC and sustainable energy policy and diversification, including other sources of energy on the supply side is important. But even more important is controlling the demand side. We have the fastest growing energy demand in some countries in the region, which also means the most inefficient. Countries like the UAE and Qatar see large per capita energy demands because of huge air conditioning needs and fast growing populations. And there is a lot of waste of energy because of the subsidies.

The IMF, when oil prices were high, estimated that nearly half of the world's energy subsidies—$225 billion out of $500 billion—were in our region. So tackling the demand is important—and you're seeing that with new green building codes, information, and educating the next generation. But above all, the subsidies have to be dealt with. If you alter the price, people turn air conditioning off when they go out, or lights off, and the government doesn't waste so much energy. You know, using less energy is the only totally clean form of energy. And then the move from coal to gas. That's how the US, going from over 50 percent coal to about one-third now thanks to the shale gas revolution, has the lowest emissions in over 20 years, the lowest energy costs in over 20 years, and a competitive industrial economy that is bringing back investment in petrochemicals because of moving from coal to gas. We don't have that many countries in the region that burn coal, but we have countries that burn crude oil for power. So developing and utilizing our natural gas for power generation is, I think, a key area where our region can improve the climate change agenda for ourselves and the world while increasing our economic competitiveness. This is why natural gas is a key focus for Crescent Petroleum, has been for decades, and is continuing to grow.

**Gulf Affairs: Is there in your view a role for unconventional oil and gas as a game-changer for the industry, including in the Gulf?**

**Jafar:** There is potential for that in many countries across the region. Jordan is one where there isn't much conventional, but there may be unconventional. At $40 it may not make much sense, but when oil prices go back up, and I'm sure they will, it may make more sense. We are already active in this space, and we're doing a study with the government of Sharjah. But our region has a lot of conventional oil and gas to be developed too. The reason the US went for unconventional is because it produced most of the conventional. We still have a lot of conventional—countries like Iraq haven't even been properly explored. It's just a few thousand wells compared to ten times as many in Saudi Arabia or a million wells just in the state of Texas. There is still a lot of conventional oil and gas to be produced in our region. However, in tandem we should certainly be looking at using the latest technology to tap some of the unconventional and other sources of energy that we have.