Energy and the State: The Impact of Low Oil Prices Overview

by Laura El-Katiri, Theme Editor

The GCC states form a historical core part of the world's largest oil producing region, the Middle East. Combined, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) hold around 30 percent of proven world crude oil and around a fifth of global gas reserves. Saudi Arabia alone holds the world's second largest oil reserves—with around 268 billion barrels—and is the world's third largest producer of total petroleum liquids. Kuwait, Qatar, Saudi Arabia and the UAE also form an important backbone of the group of Arab producers within the Organization of the Petroleum Exporting Countries (OPEC), whose production policies continue to be important influencing factors on global oil markets.

In addition to oil, the Gulf region is also home to other significant energy sources. Qatar holds the world's fourth largest dry gas reserves, and is its largest producer and exporter of liquefied natural gas (LNG). The region is rich in solar resources as well: with a hot and arid climate, the GCC enjoys a reliable supply of sunshine throughout the year. While the latter remains largely underutilized in the Gulf, oil and natural gas remain at the heart of the GCC states' modern-day economies. Fossil fuel export revenues account for more than 90 percent of government revenue across the GCC, rendering the region exceptionally vulnerable to fluctuations in global oil prices.

The past few years have been an eventful time for Gulf energy producers. Not only were Europe and North America affected by one of the worst financial crises in post-World War history, reducing demand growth from these primary energy markets, but political crises in many parts of the Arab world also impacted several oil producers outside the Gulf, including Libya and Iraq. For several years, international sanctions against Iran also removed substantial volumes of oil from international markets. At the same time, thanks to new technologies, US unconventional ("shale") oil and gas production skyrocketed, and America emerged as a new super producer of oil and gas, pouring large volumes onto international markets.

The international market dynamics that unfolded since the beginning of this decade include a period of exceptionally high and stable oil prices for over three years, stability which lasted until prices gradually began to collapse in the summer of 2014. GCC oil and gas producers have felt the impact of these changing global dynamics directly through record windfall export revenues followed by the worst decline since the oil price crisis of 1998.

The GCC states' rising prosperity has meanwhile begun to confront the region's policymakers with a parallel challenge: the GCC economies' own surging energy demand. Having been a marginal energy consumer compared with other major world economic regions, the GCC has in recent years evolved as a major driver of regional demand growth for energy in its own right. Led by the region's rapidly growing populations, highly energy-intensive industrialization, and high living standards, this trend is expected to continue well into the 2030s.

The GCC economies' vulnerabilities to global oil price fluctuations and growing energy needs imply that regional policy makers face many challenges beyond just international oil and gas strategies. Decision makers must increasingly include questions about the long-term management of domestic energy markets, as well.

In search of strategies for a more sustainable energy future within the region, a number of GCC members have started to explore alternative energy sources such as solar power, a technology that is relatively new to the region and in the past held little attraction based on economic considerations. Another strategic line has been the more proactive management of domestic energy demand. This has included the reform of several GCC members' domestic prices for energy, which have historically been among the lowest in the world.

This issue of *Gulf Affairs* explores some of the imminent questions facing the GCC economies' energy markets. How have different energy producers in the Gulf reacted to the precipitous drop in oil prices since mid-2014, specifically in terms of their fiscal situations? Has the shale revolution really "changed the game" for energy producers in the Gulf? How are the role of energy subsidies and reforms evolving in the GCC? Do the new "price realities" call for a renegotiation of the social contract in GCC states? How is domestic energy consumption developing among GCC states? What can be done to alter this trajectory? And finally, "To cut or not to cut?" That is the question.

The articles are written by distinguished scholars, practitioners and officials of energy policy in the Gulf. They represent a broad range of opinions and perspectives and shed light on some of the contemporary challenges and prospects facing the GCC region amid low oil prices.

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