

FUTURE OF GLOBAL OIL SUPPLY: SAUDI ARABIA INTRODUCTORY REMARKS OF ROBERT EBEL FEBRUARY 24, 2004

On February 24, Matthew Simmons, president of Simmons and Company International, and two Saudi Aramco executives, Mahmoud Abdul-Baqi, vice president, exploration, and Nansen Saleri, manager, reservoir management, analyzed the future of Saudi oil production at CSIS. Simmons questioned the long-term viability of Saudi oil reserves while Abdul-Baqi and Saleri discussed Aramco's management practices, future production capabilities, and the potential for discoveries in Saudi Arabia. "As the world's largest oil exporter, Saudi Arabia's ability to maintain or increase its supply is a key factor in maintaining the global oil market because there is no substitute for Saudi oil," said Robert Ebel, chairman of the CSIS Energy Program.

On behalf of CSIS, let me welcome you to this discussion of the future of Saudi oil production.

My name is Bob Ebel, and I chair the Energy Program at CSIS. Before we begin our program, let me describe how matters will proceed.

I will moderate the presentation by Matt Simmons. At the end of his remarks, we will then seat the Saudi Aramco representatives on the podium, and that portion of the program will be moderated by Frank Verrastro, who is Director of the CSIS Energy Program.

Once the Saudi Aramco presentation has concluded, Mr. Simmons will return to the podium and we will open the floor for questions.

You will note that a blank note card has been placed on each chair. If you have a question, please write it on the note card, raise your hand, and someone will pick it up. I will review the questions as they come in, and will pass them on to Mr. Verrastro when the question and answer period begins. Please, keep your questions short and to the point, and indicate to whom the question is to be directed.

Finally, there are several housekeeping items to bring to your attention. First, and most importantly, please turn off all cell phones, now. Don't wait until the first ring. Second, restrooms are located outside the meeting room, and to my left at the end of the hall.

Third, there will be a short break as the program moves from Mr. Simmons to Saudi Aramco. This change will take just a minute or two. This is not a formal coffee break, so please do not stray far from your seat. We have much ground to cover this morning, and we want to take full advantage of the presence of our speakers, and of your presence as well. Whether the global oil supply can keep pace with growing

world demand is being questioned in some circles. Some of you may have been present last June 17 when we hosted a workshop entitled "Cresting the Petroleum Peak: When Supply Can No Longer Meet Demand." The idea was to provide an opportunity for those who were convinced that the world was indeed cresting the petroleum peak to lay out their rationale, their arguments so that we could make our own judgments as to the validity of their findings.

We are following the same philosophy this morning as we look at the future of Saudi oil.

We need not dwell on the importance of Saudi oil, either to the United States or to the world oil market. But I would emphasize that the importance of Saudi oil is based as much on its spare producing capacity as it is on its position as the leading oil exporter. Even more so in times of supply disruptions, such as the military intervention in Iraq that took Iraqi oil off the market. Saudi Arabia advised the United States that its spare producing capacity—which at present is on the order of 2 million barrels per day—would be put to work, to offset the loss of Iraqi oil, and therefore the United States need not tap into its Strategic Petroleum Reserve.

They did, and we didn't.

Who might ever rival Saudi Arabia, in terms of production, exports and most importantly, spare capacity? Not Russia, even though Russian oil production this year is on track to exceed 9 million b/d, giving that country worldwide leadership. The prospect must be considered that Russia could displace Saudi Arabia, at some point in time, as the leading oil exporter as well. But Russia is unlikely ever to deliberately develop spare producing capacity.

But Iraq could replace Saudi Arabia, at least in the minds of the Iraqis I have met with. A broad and successful exploration and development program, plus raising the depletion rate, currently around 1%, to 4% to 5%, would do it, so they say, taking Iraqi oil to as much as 12 million b/d.

But when? Certainly not this decade, and not without foreign investment. Moreover, might Iraq ever financially justify the establishment of spare producing capacity? I find that outside the realm of reality.

Nations are prisoners of geography, and no one nation enjoys in unlimited fashion all of the fruits that geography can bestow. Some, by accident of nature, are rich in energy resources, but find themselves lacking in other strengths. Some are dynamic in all of the virtues we may respect, but poor in natural resources. This makes for a shrinking and increasingly interdependent world. At the same time, it also makes for conflicts among nations, as each seeks to maximize its

strength and minimize its weaknesses, while preserving and hopefully enhancing its stature among its peers.

It is out of this conflict that the issues of the past and of the future emerge.

Thank you.

Now to turn to the theme of this morning's gathering—the future of Saudi oil production--against the background of a somewhat worrisome thought: there is no substitute for Saudi oil.

It is my pleasure to introduce the first speaker of this morning, Matt Simmons. Matt is chairman and Chief Executive Officer of Simmons & Company International, a specialized energy investment banking firm. Founded in 1974, the firm enjoys a leading role as one of the largest banking groups in the world. The firm assists its energy client companies in executing a wide range of financial transactions from mergers and acquisitions to private and public funding.

I have had the pleasure of knowing Matt for some time, and I congratulate him on bringing a focus to a subject that has not been known for its transparency. Matt, the floor is yours.