



THE JAMES A. BAKER III
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The Changing Role of National Oil Companies in International Energy
Markets: Implications for the Middle East

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When I joined the Baker Institute as its founding director in 1995, I knew that energy issues would be an important piece of our institute's work. We were located in Houston, the energy capital of the world. Secretary Baker and I, with our long experience in the Middle East, understood first hand the importance of the vital links in the energy market supply chain. Like many who were in public service in the 1970s, we understood the direct impact secure energy supplies have on daily life and prosperity in America and abroad.

It was against this knowledge of the importance of the issue that the Baker Institute began its research program in 1995 with a major inquiry into the future of the Gulf and global energy markets. Today, more than a decade later, we revisit this important topic, looking more specifically at the important role of national oil companies of the Middle East.

The International Energy Agency projects that, over the next thirty years, \$2.2 trillion in new investments will be needed in the global oil sector to meeting rising demand for oil. But despite the tremendous challenge facing us in implementing these investments, many governments, including our own, continue to intervene in energy markets in a manner that is slowing --or even discouraging--this needed investment.

The question of who will be responsible for making these massive investments to fuel the future world economy is a critical one and one that is evolving with time.

Over the past thirty years, privately-held Western international oil companies with publicly traded shares were responsible for a majority of the world's oil production. Some 40% of new oil production over the past three decades came from within the OECD industrialized countries, with the majority of investment made by these international oil companies. However, the IEA now projects that over 90% of new hydrocarbon supplies will come from the developing world in the next twenty years. The investment for this new oil production will come mainly from national oil companies --either traditional government-owned monopolies or emerging hybrid firms that are part state-owned and partially or recently privatized.

This change will represent a major shift for international energy markets -- one that deserves our careful attention.

The growing importance of NOCs to the global supply-demand balance raises questions about their emerging policies, objectives and priorities. It also raises questions about the role governments play in the day to day management of their NOCs. National oil companies have important responsibilities to play in their home nations. They play a role in redistributing national wealth from domestic energy resources. They also play a strong role in the pursuit of national energy security and domestic industrial and economic development. In some cases, NOCs are a tool of foreign discourse. But all these objectives, while extremely important to national goals, can have a huge impact on an NOC's ability to expand its oil and gas production.

Finally, the rising importance of NOCs will raise questions inside energy consumer nations like the United States on how to best respond to the aspirations of national oil companies and to ensure that global energy markets remain resilient and competitive.

The Baker Institute, together with our long and fruitful research partnership with the Japan Petroleum Energy Center (JPEC) has undertaken a major, two-year study analyzing the strategies, objectives and performance of NOCs. The study consists of 13 case studies of different NOCs and economic modeling studies aimed at assessing their operational efficiency.

Today, we are very honored to release the finding of this study. Over the course of the day, you will hear from the academic scholars who have been researching this study over the past two years. We have brought together top experts to share their insights into the political and business culture of important NOCs, and to discuss the geopolitical implications of the strategies of these entities.

We also have brought together important leaders from the Middle East to speak today on this critical topic. And so, I would like to offer our deepest appreciation to:

- His Highness Sheikh Mohammed bin Rashid Al Maktoum, Ruler of Dubai and Prime Minister of the United Arab Emirates,
- His Excellency Abdullah bin Hamad Al-Attiyah, Second Deputy Prime Minister and Minister of Energy and Industry of the State of Qatar,
- His Excellency Mohammed bin Dha'en al-Hamli, Minister of Energy of the United Arab Emirates, and
- Sheikh Nawaf Saud Nasir Al-Sabah, Deputy Managing Director and General Counsel, Kuwait Petroleum Corporation.

We are fortunate to have the presence today of these leaders, and we look forward to the opportunity to learn their authoritative views.

Today's speakers will emphasize the Middle East, home to some of the world's most important NOCs. But their viewpoints reflect only a part of the complete study. The full set of study papers is available upon request or on the Baker Institute's Energy Forum's website.

This study would not have been possible without the generous support and partnership of the Japan Petroleum Energy Center and Accenture. I would also like to thank the Baker Institute Energy Forum for its support and participation in this program. It is this sharing of insights that has made our research so relevant and timely in considering future energy policy.

Finally, I would like to thank our conference sponsors, Baker Botts L.L.P., Saudi Aramco, Accenture, JPEC, Morgan Stanley for their generous support and participation and extend congratulations to Amy Myers Jaffe for leading this effort and commend our Baker Institute fellows and staff in putting this meaningful study and conference together.

It is now my privilege to introduce the Honorary Chair of the Baker Institute who is well known to all of you. Amongst his many important positions in public service he served twice as White House Chief of Staff to Presidents Reagan and President George Herbert Walker Bush; served as the 67th Secretary of the Treasury under President Reagan and 61st Secretary of State under President George Herbert Walker Bush. He recently was co-chair with Congressman Lee Hamilton of the bi-partisan Iraq Study Group.

Ladies and Gentlemen and distinguished guests, join me in welcoming the Honorable James A. Baker III to the podium.