Ladies and gentlemen:

Let me begin by extending to all of you a warm welcome to this conference on the changing role of national oil companies in international energy markets.

This audience includes some of the best-informed and most influential figures in the world of energy today. Some of you come from government. Others work in the private sector. But all of you are united by a common commitment to developing the Arab Gulf's potential as a premier supplier of oil and gas to the world market.

I would like to join Ambassador Djerejian in

offering my special note of gratitude to those who have assisted us in this effort and to those who are speaking today Some of the world's brightest minds are gathered with us today to share their thoughts on this important subject.

I am especially pleased to welcome:

- **His Highness Sheikh Mohammed bin Rashid Al Maktoum,**
- **His Excellency Abdullah bin Hamad Al-Attiyah,**
- **His Excellency Mohammed bin Dha'en al-Hamli, and**
- **Sheikh Nawaf Saud Nasir Al-Sabah.**

Your presence will contribute greatly to our understanding of the importance of national oil

companies in international energy markets.

Ladies and gentlemen, the topic we are here today to discuss makes one thing very clear: NOCs are a complicated phenomenon. Certainly, the best-known NOCs are based in exporting countries like Saudi Arabia, Kuwait, and Venezuela. But NOCs of importing countries – most notably China and India – are increasing the financial scale and geographic scope of their operations. NOCs often work in both international and local markets.

They run the gamut of up- and down-stream activities. Their decision-making reflects an effort – sometimes successful, sometimes not –

to balance economic and social objectives with commercial imperatives. And they embody a broad spectrum in terms of efficiency, profitability, and governance.

In economic terms, NOCs play and important and increasing role in world energy markets. Today, NOCs hold nearly 80 percent of total global reserves of oil. They dominate oil production.

Of the top 20 oil producers worldwide, 14 are NOCs or newly- privatized NOCs. International oil companies (IOCs), the world's largest petroleum producers throughout the 20th

century, have been relegated to second-tier status. NOCs are increasing their importance in the 21st century. And assessing their emerging policies and priorities is critical to understanding the future of the energy industry.

The challenge of meeting growing demand for oil is daunting. Consumption is expected to rise by more than 20 million barrels per day by 2030.

The investment required to produce this volume could run to two trillion dollars or more. NOCs will be responsible for a lion's share of this increased output and investment. The

picture is similar when it comes to natural gas.

NOCs or state-owned gas companies already play a substantial part in international markets. And their role will become even more critical as Liquefied Natural Gas (LNG) expands its share of global gas supply.

If NOCs are important in economic terms, they are also major commercial actors.

They compete with each other and major IOCs, not just in their home countries but, increasingly, around the world. They vie for contracts, for finance, and for the full array of support services, equipment, and technology

that are an intrinsic part of the contemporary energy scene.

When Saudi Arabia opened the bidding for foreign investors in its natural gas sector, NOCs outbid U.S.-based IOCs for major projects.

NOCs are also making significant investments in refining and marketing in Asia and in the United States.

Significantly, NOCs have overtaken the major IOCs in the value of their stock shares traded on Wall Street.

Not least, NOCs are also instruments of state power. Many serve as an important symbol of national unity and independence.

At home, they are used – with widely varying success – as tools of economic development, employment generation, and social welfare. As such, they are often bulwarks of state legitimacy.

Abroad, NOCS can and have been used as instruments of foreign policy.

Some governments see their NOCs as a means to enhance their international prominence, increase their influence, and foster strategic alliances.

These three dimensions – call them economic, commercial, and strategic – are all

elements of the growing importance of NOCs. And all three have raised profound questions.

In terms of economics, for instance, many observers are concerned about the ability of NOCs to meet the growing global demand for hydrocarbons.

I have already touched on the staggering amount of investment required over the course of the next twenty-five years. And, to be honest, the skeptics have a point. After all, OPEC production, which represents most NOC output, is lower today than it was in 1979.

Moreover, there are serious questions about

the capability of NOCs to use their resources efficiently, risking underproduction and higher prices. Bloated workforces, expensive consumer fuel subsidies, and debilitating political interference remain features of a number of major NOCS.

All reduce their ability to return the maximum production per investment dollar. Still, we should not oversimplify.

As I have mentioned, there are many highly effective NOCs, including several represented here today, like (Please insert names of 2....Saudi Aramco and KPC?)

But the broader point remains: unless NOCs as a group increase their efficiency, world energy markets may be headed for a rocky future.

There are also worries in the commercial arena.

Here concern has focused on the extent to which NOCs, through their close links with governments, might represent unfair competition to IOCs. In terms of proven reserves, traditional IOCs are already modest players: ExxonMobil, BP, Chevron, and the Royal Dutch Shell rank 14th, 17th, 19th, and 25th, respectively.

I might note that IOCs have come into harsh criticism in the United States for their relatively low investment during the run-up in oil prices over the last five years. The reasons for IOCs' investment decisions are complex.

But one of them may well be the paucity of large-scale opportunities in hydrocarbon-rich areas where access is limited to NOCs.

Last, there is increasing concern about the role of NOCs as instruments of state power. Some observers see them as means by which governments can stave off domestic political and economic reforms. Others view NOCs as lifelines for rogue regimes such as Burma and Sudan. More generally, there is concern that the expanded international activities of NOCs mark the beginning of global conflict over hydrocarbon resources, as great powers scramble to gain assets and access that they can tap in a crisis.

None of these concerns is groundless.

There are real economic, commercial, and political challenges associated with the changing role of NOCs. But I believe that they can be overcome.

There is much to do, for instance, in improving the performance of NOCs. Partial privatization is one option. But there are many other ways to increase the efficiency of NOCs. Greater transparency, improved governance, and the institution of good business practices can do much to enhance the effectiveness of NOCs.

Consumer fuel subsidies remain a difficult issue in many countries. At a minimum, their cost should be made clear. At best, subsidies should be phased out. If poorer citizens need income support, it should be provided through the government's general tax and expenditure regime.

As the study shows, countries whose NOCs dedicate too much revenue towards redistribution of wealth through subsidies and social spending may sacrifice their ability to reap the full benefit of their oil resources in the

medium- to long run.

Today, some countries are experiencing difficulty in affording inefficient fuel subsidies that promote corruption, smuggling, and other criminality. Mismanagement in this area has even turned some OPEC oil exporters into importers.

I believe that commercial concerns about NOCs can also be addressed. Internal reforms are an important first step. The more transparent and business-like NOCs become, the less likely it is that their governments will be able to use them to pursue geopolitical and other

non-commercial objectives.

There is also vast potential for cooperation between IOCs and NOCs. The world, I am convinced, is big enough for both. And both have critical parts to play in meeting future global demand for hydrocarbons. Indeed, one of the topics of today's conference is the increasing scope for innovative collaborations between NOCs and IOCs. Qatar's miraculous rise as the world's most important seller of LNG is an impressive case in point. Its world class resources and business acumen, together with the project management and marketing skills of its IOC partners, enhance international market supply and stability.

Cooperation will also be crucial to confronting the strategic challenges of NOCs. There needs to be much broader discussion at the governmental level of the global challenges we face in the energy arena and the best means to achieve energy security.

If consuming countries feel more confident about the ability of international energy markets to supply their economies, they will feel less inclined to hedge their bets by using NOCs to build alliances with unsavory regimes.

Likewise, producing countries will be less

apt to use their energy resources to coerce neighbor states or trading partners if they feel secure in their access to important consumer markets abroad and confident that the global system will bring a better life for their citizens.

There is scope, surely, for more debate on the role of energy in the emerging global regime of liberalized trade and investment. And the United States, as a champion of freer trade and investment, must play a part in it.

Above all, we need to remember that energy is only part of the broader international picture.

Healthy relations between countries permit the resolution of differences – in the energy

arena and elsewhere – through negotiation and compromise.

But if those relations deteriorate, all bets are off. Then the actions of NOCs can become subject to more deeply rooted bilateral problems.

The challenge of meeting the world's energy needs goes beyond the debate about the future of NOCs or IOCs. Global climate change has raised profound questions about our energy usage.

I remain totally unconvinced that the Kyoto

Accord, for any number of reasons, is the best way to move forward. But consuming countries – the United States first among them – can and should do more.

Let me be clear: hydrocarbons, including oil and gas, will remain the backbone of global energy consumption for decades to come. And we must be wary of environmental policies that damage economic growth.

But renewable resources are going to have to represent an increasing share of energy production.

Here the United Arab Emirates is showing true leadership through its commitment to solar

energy and clean power. Just last month, Abu Dhabi announced the creation of a Renewable Energy Institute, a joint effort between Abu Dhabi Future Energy Company and the Massachusetts Institute of Technology.

In conclusion, let me stress my confidence in our ability to meet the challenges I have discussed today.

I am convinced that there exists broad scope for global cooperation in ensuring a steady supply of hydrocarbons to international markets.

This cooperation may begin with governments like the United States and those here in the Gulf – who share a common interest in regional security and economic growth. But it must also include NOCs and IOCs joining together to bring their unique capabilities to bear in innovative and profitable ways.

My message this morning is simple: it is in the vital interest of importing and exporting countries alike that our energy future be based on partnership, not conflict. We cannot allow the Middle East, already home to tragic violence, to become the scene of great power confrontation over energy.

Countries and companies alike have a vast stake in the efficient and environmentally sound development of the world's hydrocarbon resources, especially here in the Gulf.

Our task is to appreciate those stakes and to seek practical, productive ways to advance our common interests. I see today's conference as a first – and important – step in what I hope will be a long and fruitful partnership.

Now, it's my privilege and pleasure to introduce our next speaker.

As Qatar's Minister of Energy and Industry, Abdullah bin Hamad Al-Attiyah has placed his country at the very forefront of the world energy scene.

Already a major supplier of natural gas, Qatar is poised to assume an even larger role in global energy markets as it increases production, expands its LNG facilities, and embarks on an ambitious plan to exploit breakthroughs in gas-to-liquids technology. Qatar has also forged innovative collaborations with IOCs, a key subject of today's conference. Here, as in much else, Qatar has been a trailblazer.

And our speaker has led the way.

His appointment as Minister of Energy and Industry in 1992 and Second Deputy Prime Minister in 2003 marked the culmination of a long and distinguished career in government and industry.

He is a figure held in immense respect by government officials and business leaders alike.

And he combines a broad strategic vision with a pragmatism born of decades of hands-on experience.

Indeed, I am hard-pressed to think of any

individual better qualified to discuss his topic this morning: *Energy Markets, Security of Supply and Successful Collaborations between NOCs and IOCs.*

He is also, I am proud to say, a good friend of the Baker Institute. He's been a frequent visitor to Houston and a popular speaker at institute events. And we look forward to seeing him again in the future.

The reason is simple: he is one of the most authoritative speakers on global energy markets in the world today.

Ladies and gentlemen: I have the honor to

present Second Deputy Prime Minister and Minister of Energy and Industry of the State of Qatar, His Excellency Abdullah bin Hamad Al-Attiyah.

Your Excellency –

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