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News Release

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Deloitte: Current oil price fluctuations unlikely to impact industry trajectory

-Deloitte: OPEC's oil market share to fall by 5% by 2018
-Deloitte: New global patterns could threaten OPEC's position on global markets

5 July, 2015- The cyclicality of the oil and gas industry is unlikely to impact the long term trajectory of the sector. However the current fluctuations may speed up some of the trends that were already unfolding according to Deloitte's latest Oil and Gas Reality Check 2015 report.

The report outlines six of the major issues currently impacting the oil and gas industry (and the upstream market in particular). These issues include an anticipated shift in supply-demand fundamentals, the emergence of new trading patterns, consideration of OPEC's role in the market, falling LNG prices, the long-term costs of complex projects and evolving dynamics between integrated oil companies (IOCs) and national oil companies (NOCs).

"The oil and gas industry has been built on long-term investments and has successfully emerged from cyclical downturns in the past. As these trends play out, companies across the board need to adapt and remain agile to emerge a leaner, fitter business. At the same time, it's worth remembering that weaker price signals spur innovation and market consolidation across the value chain. With that in mind, it's not unreasonable to expect that lagging oil prices will spur greater R&D investment in innovation, M&A and scenario-based energy strategy development," said Salam Awawdeh, partner and Energy & Resources leader for Deloitte Middle East.

"Global markets are also shifting their supply-demand fundamentals. For instance, while the Middle East can meet its current needs, demand for both oil and gas in the region is growing. A number of emerging, and re-emerging major suppliers can also potentially change energy market dynamics. Output from Southern Iraq and Iraqi Kurdistan could ramp up, for example, despite the security issues that currently plague the region," he added.

The report highlights the following key trends:

Shift in supply-demand fundamentals

Fluctuating industry dynamics are fuelling a power play between traditional and new oil suppliers. For example, the Middle East has seen its US market share fall, for both crude and refined products, and is now struggling to work out the fundamentals of how to operate in a market awash with oil. To this end, Middle Eastern producers are aiming to redirect their flow of oil east to Asia, rather than west to the Americas, while simultaneously increasing their share of European consumption.

New trading patterns emerging

As oil and gas supply and demand fundamentals continue to evolve, new global trade patterns are emerging. As a result, this could threaten OPEC's traditional position on global markets, although this is not a likely outcome in the short-term. What is certain is that OPEC will be seeking new buyers as North

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America increasingly meets its own demand, and it may aim to pick up market share from Western Europe.

OPEC: under pressure

The OPEC organization currently supplies approximately 32% of the world's crude oil. However, OPEC's oil market share will fall by 5%[1] by 2018 as the supply of US tight oil picks up. While that share may recover over the long term as supply patterns shift (particularly if US production flattens), OPEC will cede power in the interim.

LNG prices: a buyer's market

The price of LNG was once a model for stability, it is less so now. Until prices stabilize, natural gas will trade in more geographically proximate regions. That means Australian LNG will likely retain its north/south advantage, providing supply to Singapore, Taiwan, Japan and South Korea. Conversely, North American producers have a more natural trading advantage with Europe. The most cost efficient producers are the ones most likely to win global market share, especially as supply-demand economics kick in. This may ultimately give the United States (and perhaps Canada) a competitive advantage, as their breakeven points on LNG projects are typically lower

Investing in innovation: the cost of complexity

Capital spending is likely to fall off in the near term; however megaprojects will still be required to meet long-term global energy demand. To avoid the cost and time overruns that have typically characterized these projects, companies will likely want to explore a range of strategies, including pre-project planning, integrated project delivery, lean project management, modularization and talent management. They may also want to invest in advanced analytics to enable agile project monitoring and evaluation.

National and integrated oil companies: evolving dynamics

It is currently hard to foresee a future where IOCs don't play a pivotal role in oil and gas exploration and production. Yet, in areas where the IOCs' traditional strengths are not required, it is possible to envision IOCs losing market share to large OFS players and to NOCs, particularly for non-technical projects. To prevent this slow erosion, IOCs will need to guard against the instinct to engage in mass layoffs while commodity prices remain soft. While there is always room for heightened cost consciousness, IOCs may want to avoid putting themselves into a position where they lack the talent and momentum they need not only to ramp production back up once prices recover, but to maintain their edge in a shifting competitive landscape.

To view the whole report, go to: http://bit.ly/1R6OkZj

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[1] OPEC's World Oil Outlook for 2014

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Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is the first Arab professional services firm established in the Middle East region with uninterrupted presence since 1926.

Deloitte is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with around 3,000 partners, directors and staff. It is a Tier 1 Tax advisor in the GCC region since 2010 (according to the International Tax Review World Tax Rankings). It has received numerous awards in the last few years which include Best Employer in the Middle East, best consulting firm, and the Middle East Training & Development Excellence Award by the Institute of Chartered Accountants in England and Wales (ICAEW).