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Deloitte Middle East

This month, we get the inside scoop on OPEC cuts, shale production and the outlook for 2019

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What are some of the key factors that impacted the oil price in 2018?

We've seen the oil price go up and down, but we need to look at it in the long run, which means looking at supply and demand around the world, but also the economic impact in different countries. What is the growth we see in China? In India? Because that really drives the market, and that is less affected by short-term things like pipelines that burst or supply shortages, for example. We need to look at it in the long run. I'm a lot less interested in the fluctuation day-to-day, month-by-month, but rather where is the oil price going overall.

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OPEC+ plans to cut output by 1.2mn bpd in 2019. What long-term effect are you expecting?

In the long term, the effect will be mitigated. Even though cuts are done by OPEC, the impact that it has is significantly less than before. The reason for it is because of the new player that has come into the market, which is the US, which with unconventional oil and gas, there are relatively small operating units and it is relatively easy to turn production on and off. Any time there is a reduction in OPEC, it will be countered by an increase in production from the US. You can take large government-driven policies for reduction, like ones by OPEC, but there are small operators in the US that start producing.

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What are some of the key factors we should pay attention to going into 2019?

It might not have the full impact that the region would like to see, but any reduction by OPEC will have an impact on price because it will never be fully balanced by production increases in the US. But there is one thing to pay attention to, the debate around the slowing down of the world economy, and spending in the US. The biggest driver for oil consumption is what happens in the US, China, India and Europe. If that doesn't continue in the same growth track as in the past few years there will be a slowdown in economic growth and that will have an impact on the oil price. One of the reasons that prices have been rising again is because of strong economic growth, and if we don't see that, we'll see lower prices.

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1.37 **What is the forecast for US production, which is playing a larger role in the global energy landscape?**
One of the factors that we see with unconventional is that the base of that growth has always been access to knowledge which very much centres around

Houston, land rights, the way basically people that own the land actually benefit from the natural resources in it, and cheap capital. One of the things we see now is capital availability in the US is reducing, which makes it more difficult for unconventional operators to invest, and as a result we'll see probably less growth going forward in unconventional than we've seen in the past.

Still, the US is forecast to produce 12mn barrels per day on average in 2019; do you think it will still have that strong, disruptive impact on OPEC cuts?

It is still growing, but it is not growing at the pace and the disruptive impact that it had in 2014, when it really came to market, so relatively speaking not that much of an impact. Is the US a significant force in all of this? Yes, and that is why we have seen with reductions from OPEC, we have not really seen the impact on the oil price that the region would have wanted and that would have really benefited the Middle East region.

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