Eghtessad-e-Energy
Energy Economics

بسم الله الرحمن الرحیم

In The Name of God

June-July 2011 / No.139- 140

Published by:
IRANIAN ASSO - CIATION FOR ENERGY ECO-NOMICS
(IRAEE)
ISSN 15631133-

Director and Editor-in - Chief:
Seyed Gholamhossein Hassantash
Editorial Manager:
Saed Dabestani

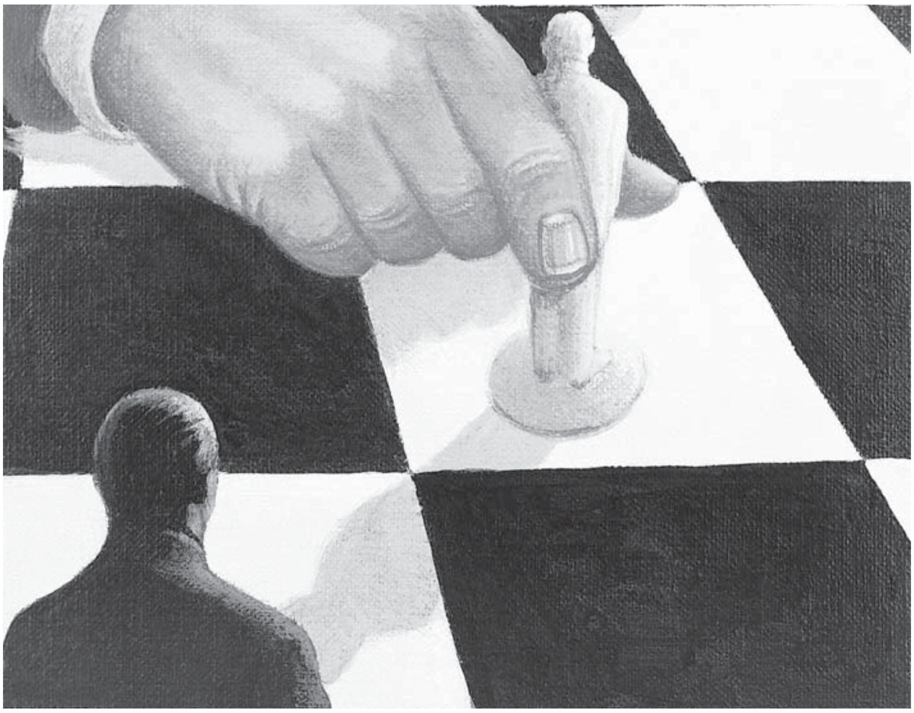
Translators: Mahyar Emami, Hamid Barimani

Subscription: Hamideh Noori

IRANIAN ASSOCIATION FOR ENERGY ECONOMICS
Unit 13, Fourth flour, No.177, Vahid Dastgerdi (Zafar) Ave., Tehran, Iran
Tel: (9821) 222620613-
Fax: (9821) 22262064
Web: www.IRAEE.org
E-mail: Publication@iraee.org

Articles on Oil & Gas in the English section,
in cooperation with IranOilGas.com

Lessons from Latest OPEC Meeting



The 159th meeting of OPEC Conference of June 8th in Vienna, Austria, was convened under special circumstances and reached certain conclusions, some aspects of which need to be analyzed.

The Conference was held under the Presidency of Iran with an atmosphere partially reminiscent of the stormy days of OPEC in the mid-1980s. In those days, skirmishes between the two opposing 'camps' of the Organization had taken shape. One, led by Iran, was in favor of reducing the production ceiling of OPEC so as to maintain the prevailing global price of crude oil, and the other, led by Saudi Arabia, favored lifting the production ceiling in order for OPEC to gain greater share of the global crude oil market.

Available statistics and information prior to the latest Conference indicated that the total actual crude oil production of OPEC (including that of Iraq) was about 28.8 million barrels per day (mbd). This included some 1.4 mbd of the over-the-quota output of the member countries as well. During the Conference, the Saudi oil minister was pushing to raise the production ceiling of OPEC to about 30.3 mbd, which would not only cover the over-the-quota barrels, but would also add an additional 1.5 mbd to the production ceiling of the Organization. Iran and several other members were against any change in the output ceiling, and hence the Conference ended without any fresh decision, which means the previous agreement on the output remained intact. That left Saudi Arabia and major oil importers unhappy.

Given the present economic situation of the world and the complexities of the oil market, Iran's stance could not be judged as wrong. Furthermore, that stance was in line with the country's foreign policy and will help the caretaker of Iran's ministry of petroleum to get the parliament's vote of confidence, if he is nominated as the future oil minister of Iran.

Nevertheless, in line with the intricacy of oil diplomacy, another two plausible scenarios could well have been entertained by Iran as the bases for its stance in OPEC; both of which would have benefited the country.

In both scenarios, it is being assumed that the industrial countries have generally accepted an oil price range of $ 70-80 per barrel, but no more than $ 90 and certainly no more than $ 100 per barrel, which was the result of the crisis in Libya that took its oil export out of the market.

It must also be remembered that the global price of oil is the main index for investment for the production of all sorts of energy carriers. Surveys based on international oil and energy conferences and the beliefs of economic experts of the industrial countries show that the oil price of $ 70-80 per barrel is regarded as the minimum range conducive to any adequate investment for the production of energy carriers. This has been substantiated by the experience gained when the shortage of capacity to produce energy surfaced during 2004-2008 period.

Back to the said two scenarios for Iran.

The first one is that Iran could propose to lift the production ceiling of OPEC altogether until further notice, or at least for as long as the Libyan oil is out of the market. This would allow every member to produce as much oil as they could. The proposal, if endorsed, would likely cause the oil price to drop by few Dollars for few days. However, about a month later the oil price would probably shoot up sharply. This is because there is no sustainable 'excess production capacity' (EPC) of oil available within OPEC (to compensate for the missing Libyan oil) and the said proposal would bring this to light. Consequently, any small shortage of oil would cause its price to jump because market elements would realize that there was no capacity to make up that shortage.

OPEC members either have no EPC left or, if they do, it consists of super heavy crude of high sulfur content that market does not want and cannot replace Libya's low sulfur light oil.

Experience has shown that when oil price is high, hardly any OPEC member adheres to its production quota, and hence one can (almost) safely claim that if there was any EPC left, that over-the-quota production would be much more than the current 1.4 mbd. One proof of this claim is the fact that Saudi Arabia (claiming to have the largest EPC) unilaterally raised its crude output by about 800,000 b/d in March this year to compensate for the loss of Libya's oil exports, but its production was reduced by the same amount two months later. This shows that either that rise was not sustainable or the produced oil (mostly of poor quality) had no lifter.

Another important proof is that just two weeks after the latest OPEC Conference, the International Energy Agency (IEA) announced on June 24th that it would release some 60 million barrels of its strategic petroleum reserves into the market within a month "to alleviate problems caused by the shutdown of Libyan crude exports".

Such an unprecedented move by IEA is indicative of two very important facts. The first one is that the economy of the industrial countries is at a critical stage and the concern about the impact of high price of oil on it has left them with no choice but to resort to the use of the strategic petroleum reserves (the name of which denotes its significance). The second one is that IEA is fully aware that there is no EPC left in OPEC. It must be remembered that when the OPEC Conference of June 8th ended, the Saudi oil minister said his country would unilaterally raise its oil production. If Saud Arabia was capable of fulfilling is claim and could "alleviate problems", IEA would naturally not embark on such an extraordinary action.

Whenever there is no EPC available in OPEC and it can have no impact on the market 'physically', Saudi Arabia tries to push OPEC to impact the market 'psychologically' and in favor of the industrial countries. Saudis reassure the market through OPEC that there is no problem in producing more oil and if need be OPEC will raise its oil production.

If this is actually the case and at present there is no EPC in OPEC, then why should it limit the production and be blamed by the industrial countries for not producing more and at the same time control the market "psychologically" and prevent the price of oil from rising sharply?

Iran could well take this argument to the Saudis and if they reject the reasoning, then the rejection itself would be a solid proof that they do not possess such an EPC.

During 2004 to 2008, when the price of oil had passed $ 100 per barrel and OPEC had no EPC to help the situation, Saudi oil minister used to repeatedly deny that OPEC had no EPC left and blamed the 'speculators' for the high price of oil. Ironically enough, in the OPEC Conference of June 8th, 2011, it was Iran and some other members who kept denying any shortage of supply and blamed the 'speculators' for the high price of oil!

Now, the second scenario.

Some experts may disagree with the argument that OPEC has no EPC left and find counting on that assumption risky. Then, Iran could have proposed that; the current actual 28.8 mbd of OPEC production (which includes the over-the-quota output) be taken as the new production ceiling of OPEC. Indications were that such a proposal would most likely be endorsed by the other member countries too. That way, Iran would be seen favoring unity of OPEC and the consumers would regard that as a green light too. This would also give Iran time to get more accurate information about the key question of whether there was any further excess production capacity within OPEC, which could then be used in future OPEC gatherings.

Such a stance would hardly cause much of a decrease in the price of oil because it would merely be recognizing what was actually taking place in reality. Perhaps it would drop the oil price by couple of dollars for just a few days, but not much beyond that.

An appropriate and wise position for Iran in the last OPEC Conference required adequate information about many key questions such as; the actual and excess oil production capacities of each OPEC member, the kind of oil that can be produced by each member country, the reason for Saudi Arabia to stop its extra crude production just two months after it had unilaterally increased its output and the reason for IEA to tap into its strategic crude oil stocks.

Given Iran's special geopolitical situation in a region known as the heartland of world's energy domain, it has to have a databank of the hydrocarbon fields of the world with a team to constantly update it so that adequate and appropriate information are made available to people in charge for drawing up short and long term energy strategies of the country.

There is one more point to note about the latest OPEC Conference. During the mid- 1980s, the OPEC Conferences used to be prolonged so that some sort of consensus would be reached. Then, although Saudi Arabia had a significant EPC and could singlehandedly change the market condition, yet it used the meetings of OPEC to convince other members. In sharp contrast, the last OPEC Conference ended quickly and the Saudi oil minister called it the worst conference of the organization and left it angrily because he had failed to even convince its Persian Gulf Arab allies to get on board with him. This proves that the situation has now changed and Saudi Arabia, as the staunch ally of the US, has lost the power it once used to have.

director

June-July 2011 139- 140 Eghtessad Energy

Can Unrest in Syria Affect Global Energy Market?

Syria, as a most strategically important country of the Middle-East, has been in serious political turmoil for the past few months and is likely to plunge into a civil war . So far, hundreds of citizens of Syria have been killed, wounded and jailed at the hand of the country's security forces and thousands more of this 22.5 million strong nation have been forced to flee to the south of Turkey and north of Lebanon.

Given that Syria is the only country from among Easter Mediterranean countries (of Israel, Jordan, Gaza and Lebanon) that has some volumes of oil and gas, it is time to examine the status of its energy sector and the likely impact of the ongoing disturbance on the global energy market.

Syria is known to possess an estimated 2.5 billion barrels of crude oil reserves and 8.5 trillion cubic feet of natural

gas (half of which are in the form of associated gases). Production of Syria's crude oil and condensate reached its peak of 600,000 barrels per day (bpd) in 1996, but kept dropping after that and ultimately shrank to about 400,000 bpd by 2009. Some 250,000 bpd of this were consumed domestically (Syrian refining capacity is about the same) and the remaining 150,000 bpd were exported, mainly to Western Europe. That means, Syria is the only oil exporting country of Eastern Mediterranean region.

The major oilfields of Syria are mostly located in its eastern part, near its border with Iraq. So far, there has been no news of any impact of the Syrian turmoil on the production and export of its crude oil.

Natural gas production of Syria started to decrease from

2004 and ultimately shrank to 208 billion cubic feet per day (bcfd) in 2008. But the country's domestic gas consumption was 213 bcfd in the same year, which means the deficit of 5 bcfd had to be imported. However, following the discovery of fresh gas fields in Syria and investment for their development, Syrian minister of oil and natural resources said in 2010 that the gas production of the country would reach 361 bcfd in April 2010 and would be raised to 412 bcfd by the end of that year. No further news of this has been available, and if that claim is true, then export of the Syrian energy will surely rise.

In 2008, some 2% of the gas produced in Syria was flared or wasted and about 35% of it was re-injected into oilfields to boost its crude oil production. The rest was used to feed the power plants of the country, though about half of Syrian power plants still ran on liquid fuels. If the planned rise in its gas output materializes, greater number of power plants of Syria will use gas as feed and export of the country's oil and oil products will be raised too.

Syria's position as an energy transiting country is equally important. Many years ago, parts of crude produced in Iraq's northern oilfields used to be exported in pipelines through Syrian territory to the latter's Mediterranean port of Bunyas. Use of these pipelines was stopped for various reasons years ago and ultimately because of wear and tear the facilities are no longer operational. Syria is also on the way of the Arab Gas Pipeline (AGP), which passes through Jordan and currently carries the gas produced by Egypt to Syria and Lebanon. Projects are underway to connect AGP also to Turkey this year. In 2008, Syria imported the gas it was short of through this pipeline and in the future will also be importing gas through Turkey as well.

Besides, Syria is also in negotiation for future import of gas from Iran and Iraq, and is hopeful of becoming a gas transit hub (and may even join Nabucco gas pipeline project) and earn some income that way.

The civil unrest in Syria does not seem to have yet impacted the oil market physically, but its psychological effect has no doubt been felt. Political crisis in an important country of the Middle-East, as the most sensitive oil region of the world, cannot fail to shape up expectations in the global oil market. Continuation of the crisis in Syria, particularly if it ultimately entails the victory of opponents of Bashar Assad's regime, may ignite the latent fire in oil rich countries like Saudi Arabia too . Besides, the ruling establishment in Syria seems to have become the 'balancing weight' between opposing political factions of the Middle-East, and no one wants it to go off balance. Perhaps that is the main reason why no international consensus has until now taken shape against Bashar Assad's regime, like the one against the regime in Libya.

SP phases 15&16 on stream by end of 2011

Mohammad-Ali Jafari, commander of the Army of the Guardians of the Islamic Revolution, revealed that South Pars development project of phases 15 and 16 would get on stream by the end of 2011 and said: "This project has already made about 75-80% headway," reported the Mehr news agency.

Jafari referred to SP development project of phases 22-24 and said: "This project has made favorable progress and will be completed within the specified time."

In June 2010, it had been said that Khatam HQ and Sepanir Oil & Gas Engineering Co. had moved out from South Pars phases 15 and 16.

Development project of phases 22-24 is being carried out by a consortium led by Petrosina Arya Co.

IOOC plans to invest $50 Bln in PG fields

Mahmoud Zirakchian Zadeh, managing director of Iranian Offshore Oil Co. (IOOC), stated that this company plans to invest about $ 50 Bln in the Persian Gulf oil and gas fields to produce 10 bcf/d of gas by the end of Iran's fifth 'Five-Year Development Plan' (2011-2016).

In an interview with Mashal weekly published by Iran oil ministry, Zirakchian Zadeh said: "This volume of gas will be produced from Kish, Farzad B, Forouz A & B, Balal, Lavan, Reshadat and several other gas fields."

He did not talk of IOOC's crude oil production figure by the end of fifth development plan. This is while IOOC's crude oil production had been supposed to reach 1 Mln bpd by the end of 'Fourth Development Plan' (Mar. 2010); however, IOOC's crude oil production did not only raise during the 4th plan, but it also had an almost declining trend. Last Iranian year, IOOC produced over 630,000 bpd of crude oil. Zirakchian Zadeh referred to the agreement signed between Iranian MAPNA and IOOC to convert gases from 'Forouz B' gas field to electricity as well as the MoU with Sepehr Energy - a subsidiary of Bank Saderat of Iran - to transform gases from Lavan gas field to petrochemical products and said: "Feasibility studies to transform Lavan gases to petrochemical products are underway."

He also referred to the development projects of the oilfields surrounding Qeshm Island and added: "There are 4 fields of Hormoz A, B, C and D around Qeshm Island and drilling permission for the first exploration well in 'Hormoz A' has been obtained from the board of National Iranian Oil Co. (NIOC)." Zirakchian Zadeh also talked of the other 2 fields around Qeshm Island and explained: "Tosan and Taftan fields are among the other fields of Qeshm region; at present, the master development plan (MDP) of Tosan oilfield is being prepared by Research Institute of Petroleum Industry (RIPI)."

32 new oil & gas exploration targets in Iran

"The Exploration Dept. of National Iranian Oil Co. (NIOC) is presently working on 32 exploration targets in different regions of Iran. Their preliminary studies have been ended and the access roads are being prepared or already constructed for drilling operations," said Mahmoud Mohaddes, director of Exploration Dept. at NIOC.

According to the news agency of Iran oil ministry, Mohaddes added: "Yadavaran, Hendorabi, Khartang, Pazanan, Gardan, Gikan, Dehloran, Sirri, West Kish, Dashtestan, Timab, Halegan, Shahini, Shour, Lar, Saman, Randi, Karand, Khorramshahr & Charak, Mousian, Shour, Moshtagh, Sepehr, Sim, Sohrab, Mehr, Delavaran, Attar and Farzad regions are the targets in which the drilling rigs are relocated to do the exploration operations."

NIOC exploration puts out drilling tender

The exploration directorate of National Iranian Oil Co. (NIOC) has invited qualified drilling companies to take part in a pre-qualification tender for drilling 12 exploratory onshore wells in various regions of the country. The project has been foreseen to take three years to complete. In order to drill 12 exploratory wells in different regions of Iran, the directorate has considered chartering two 2000HP onshore drilling rigs plus drilling technical services. Interested companies are due to submit their written applications and documents to NIOC exploration directorate not later than 19th July '11.

Iran, Iraq to discuss natural gas transfer to Europe: Ambassador

Iraqi Ambassador to Iran Mohammad Majeed al-Sheikh said Tuesday Tehran and Baghdad are set to discuss transferring Iran's natural gas to Europe via Iraq and Syria, the local Press TV reported.

Mohammad Majeed al-Sheikh said that the two sides will discuss the issue during a visit by Iran's First Vice President Mohammad- Reza Rahimi to Iraq, said the report.

Rahimi is scheduled to travel to Baghdad on Wednesday heading a delegation of senior Iranian officials.

The gas deal would allow Baghdad to use Iran's natural gas supplies; the ambassador was quoted as saying.

He added that the two sides are expected to sign 10 Memoranda of Understanding in economic, financial, cultural and customs sectors in the upcoming meeting, according to the report.

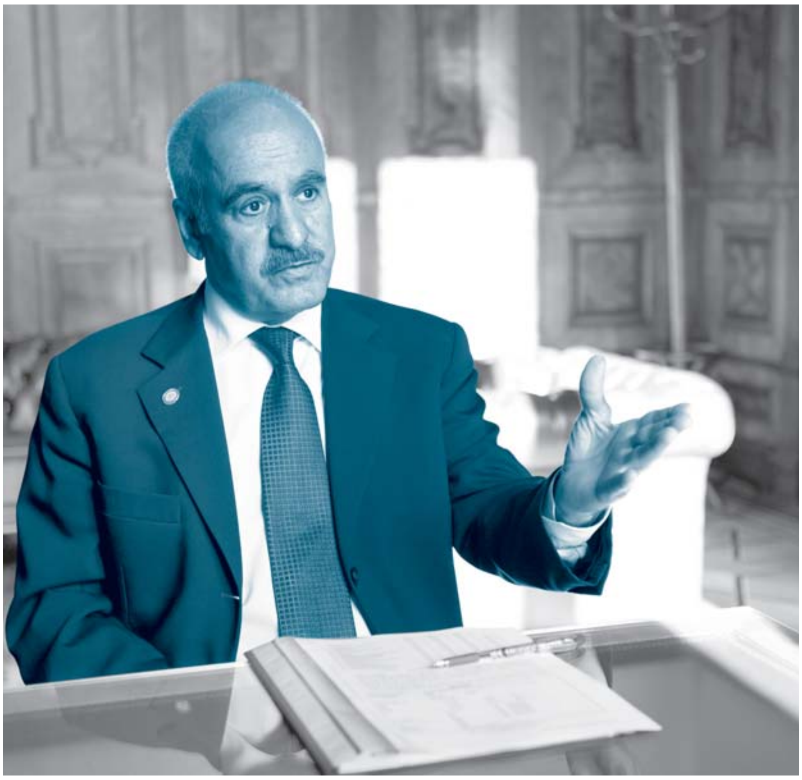
Indian refineries' debt paid, cash transfer still an issue: NIOC

Mohsen Ghamsari, director of International Affairs at National Iranian Oil Co. (NIOC), said that Indian refineries which purchased Iran's crude oil, have already put their debts to a joint account; however, Iran has problems to cash the amount, reported the website of NIOC.

"Indian refineries presently import an average of 400,000 bpd of crude oil from Iran, which with regards to its quality, they are keen on consistent consumption of Iranian oil," said Ghamsari.

June-July 2011 139- 140

Eghtessad Energy



Energy Poverty and OPEC

Interview with the Director-General of the OPEC Fund for International Development (OFID)

Photography; Rana Wintersteiner, from OFID

Thank you Mr. Al-Herbish taking time from your busy schedule to talk to us. On behalf of Iran's Association for Energy Economics, we are grateful for this opportunity to learn more about your organization. Let us start with the first question. Would you please explain the philosophy and objectives behind the creation of the OPEC Fund for International Development and the structure of OFID as an organization? How are the policies and decisions designed and carried out?

First of all let me again welcome you and thank you very much for giving me this opportunity to talk to your readership. As I understand, the Energy Economics Magazine is produced by the Iranian Chapter of the International Association for Energy Economics. The IAEE is of course a very prestigious organization, and I am honored to have attended one of their meetings in Vienna as a guest speaker. In fact, I recall that OFID sponsored the attendance of participants from developing countries at that meeting.

Going back to your question, which actually has three components, let me first address the philosophy and objectives behind the creation of the OPEC Fund for International Development, or OFID as we call it now. The best way to answer this is to refer you to our Articles of Agreement, which are signed by the Member Countries of the Organization of the Petroleum Exporting Countries (OPEC). Here, in the Preamble, you will find mention of the Solemn Declaration issued by the Sovereigns and Heads of State of OPEC Member Countries after their first summit in Algiers in March 1975. Among other things, this Declaration acknowledged the need to promote the economic development of all developing countries. In so doing, it sowed the very first seed of an idea that would eventually lead to the establishment of the OPEC Special Fund, as it was originally known. I should point out that there was no actual mention in the Declaration of something as concrete as a collective OPEC aid facility, but there is no doubt that the Algiers meeting did set the wheels in motion. This is why I always say that OFID was conceived but not established in Algiers.

I'll explain more about this, as some people are not familiar with the events that led to OFID's eventual establishment in January 1976. If you look at the Preamble, it says that OPEC Member Countries were conscious of the need for solidarity among all developing countries in the establishment of the New International Economic Order. This was in the early to mid-1970s, when most of the developing countries had gained their political independence and were bargaining a new relationship between themselves and the industrialized countries. In many ways, the term was just a slogan, but our Member Countries tried to make sense of it and create a new

economic order between them and other developing countries. I think the OPEC Special Fund was among one of the best manifestations of these efforts.

The Preamble goes on to highlight the importance of economic and financial cooperation between OPEC Member Countries and other developing countries and of the need to strengthen the collective financial institutions of developing countries. This, I believe, showed the political will of our Member Countries to work with fellow developing countries across the globe.

The next paragraph of the Preamble takes this political will and turns it into substantive action by stating that the Member Countries wish to establish "a collective financial facility to consolidate their assistance to other developing countries, in addition to the existing bilateral and multilateral channels through which they have individually extended financial cooperation to such other countries."

And so the OPEC Special Fund was founded on January 28, 1976. At this time it was nothing more than a temporary financial facility with resources of just US$800 million. It became a fully fledged and permanent international development institution on May 27, 1980, with the signature of a headquarters agreement with the Austrian government and changed its name to the OPEC Fund for International Development.

Now this answers the part of your question relating to the philosophy and objectives behind the creation of OFID. To complete this, I should refer you to Article Two of the Agreement, which states that the objective of the Fund was "to reinforce financial cooperation between OPEC Member Countries and other developing countries by providing financial support to assist the latter countries under appropriate terms in the economic and social development efforts."

I should point out that from the very beginning it was made clear that our own Member Countries were excluded from receiving assistance from the Fund. The main idea was to build bridges of solidarity and support with other, less privileged developing countries, not to serve ourselves.

Now, you asked about the organizational structure of OFID. In this regard, we are like any other organization. We have three organs. First, there is the Ministerial Council, which is the highest authority. It meets once a year and is entrusted with establishing the policies of the organization. One of the current priorities of the Council is enhancement of the institution's resources. In this regard, I am very happy to announce that, at its recent meeting in June (2011), the Council agreed additional resources of US$1 billion.

Then there is the Governing Board, which is similar to a board of directors. This meets four times a year and its main objective is to run the operations of OFID. We are a project-oriented organization, so one of the main items on the Board's agenda is the approval of projects in different countries. Finally, there is the OFID Management and, of course, the staff. Altogether, we are around 150 people of some 26 different nationalities. More than one-half are female. …

What is OFID doing to enhance its visibility globally?

Eight years ago, when I first came to OFID, I realized that there existed many misconceptions about the institution. Some people thought we were a branch of OPEC. Some were confused between us and OPEC, and some people had never heard of OFID. So my first priority when I came here was to launch an information campaign to help raise OFID's profile and clear up these misunderstandings.

However, before I answer your question in more detail, let me draw some parallels with OPEC. For a good 10 years after its establishment in September 1960, nobody cared to know anything about OPEC as an organization. The New York Times, for example, wrote at that time about a cartel being born and that it would likely not last. They then forgot all about it.

I remember attending one of OPEC's conferences in 1969 and there was no press coverage at all. Nobody cared about it. OPEC only became newsworthy and known when the price of oil jumped from US$1.80 to US$3 to US$11.51 per barrel in just a few years in the early 1970s. At around the same time, the production and pricing policies of oil changed hands from the oil companies to the governments. Thus the OPEC Member Countries became the policy-makers of their own resource. This put them on an equal footing with other countries, and so people started paying more attention. The third factor in the sudden public emergence of OPEC was the incident on December 22, 1975, when the terrorist Carlos and his gang occupied the OPEC Secretariat in Vienna. This incident attracted hundreds of journalists from all over the world, who came to Vienna to cover the OPEC hostage-taking. Many of them didn't even know what O P E C stood for. So, these were three developments that, in effect, put OPEC on the map

Now, when you compare OPEC and OFID, you have to remember that OPEC is a unique organization. OFID, on the other hand, is a development finance institution, just one of dozens of similar institutions in the world today, many of them much larger than OFID. So, in a way, it is hardly surprising that OFID slipped under the radar for so long. Nevertheless, I felt that this was an unacceptable situation. Our Member Countries and the institution itself deserve recognition for their many, many years of hard work in helping their fellow developing countries. And so we launched an information campaign.

Today, eight years later, we are now on our third such campaign, which has been developed as part of a new, integrated communications strategy. The campaigns have included new publications, an annual award and a scholarship program for outstanding students from developing countries who are interested in development. The campaigns have also seen the conceptualization of a new logo and corporate identity and, of course, the introduction of the acronym OFID, which is nothing more than the OPEC Fund for International Development, so I was surprised that people didn't think of it 30 years ago.

With regard to the scholarship program, this has been expanded this year to two scholarships per year. This year's OFID Scholars are from Uganda and Côte d'Ivoire. Previous winners include three Asian ladies and a young man from Ghana. Our annual award for development, which was instituted in 2006, has gone to charitable organizations and individual humanitarians, such as the Nobel Peace Prize winner Mohammad Younus. This year's award went to a philanthropist and ear surgeon from the United Arab Emirates who works with deaf children in Palestine.

Within the framework of the current campaign, we are sponsoring a number of important international events and conferences to keep OFID visible on the world stage. We are also enhancing the utilization of Information and

Communication Technologies to stay abreast of the latest developments in this area.

Another way of raising our profile is through our networking and cooperation with other institutions. In the last 12 months or so, we've signed important framework agreements with the World Bank, the International Fund for Agricultural Development and the Asian Development Bank, among others.

You have touched already my next question but which is; how can we define or interpret the relationship between OPEC and OFID?

That's a good question and again the relationship between the two organizations must be elaborated. Although they are essentially the same in terms of membership, they each have very different mandates. OPEC's business is oil: stabilizing the market, security of supply and demand and securing a fair and safe return on investment in the oil industry. OFID's business, on the other hand, is development: essentially, the provision of financial assistance to developing countries to aid them in their social and economic development.

One of the big issues of today is that of energy poverty alleviation. How important is this to developing countries? Do you think that OPEC countries in general and OFID in particular can help impoverished nations secure better access to energy?

It is really about addressing not only a major problem which poor countries are facing but also about giving the right instructions to do it. And, in fact, it is a problem that OFID has been tackling for 35 years already, as you can see from the huge amounts of financing we have channeled to the energy sector - 19 percent of our public sector resources have gone to build energy infrastructure. So, in some respects, this latest push is nothing new– it's actually just a scaling-up of what we have always been doing.

Like any other development institution, OFID is interested in the achievement of the Millennium Development Goals and these, if you go through them from one to eight, are all about addressing poverty. However, not one of the goals relates to energy poverty, which seems to be absent for no reason. So when our Member Countries gathered in Riyadh for the Third OPEC Summit in November 2007, the Declaration took a serious look at the energy problem. In fact, Chapter Two of the document is entitled "Energy for Sustainable Development." The Declaration emphasizes that "eradicating poverty should be the first and overriding global priority guiding local, regional and international efforts." It then goes on to resolve to continue to "align the programs of our aid institutions, including those of the OPEC Fund for International Development, with the objective of achieving sustainable development and eradication of energy poverty in the developing countries, and study ways and means of enhancing this endure, in association with the energy industry and other financial institutions."

This is the first time that we had somebody talking about the eradication of energy poverty. Now we took this as part of our mandate and, in June 2008, we organized a workshop in Abuja, Nigeria, to see how we could define the problem and contribute to its solution. We invited representatives from the energy industry, the global development community, government, the private sector and, of course

OPEC. They all came and we came to the conclusion that the market had failed to solve the problem of energy poverty in many different parts of the world, but especially in sub-Saharan Africa.

If you look at a map of our activities, you will see that by far the bulk of our aid to Africa goes to Sub-Sahara. The market has failed to solve the problem of energy poverty for the simple fact that there is no demand for it. Yes, there is a need, but there is no demand factor, because effective demand implies an ability to pay, and this is something that the poor people of sub-Saharan Africa simply don't have.

Shortly after our workshop, King Abdullah of Saudi Arabia called for a conference in Jeddah that was attended by Gordon Brown, the President of China and many other dignitaries and ministers. The King delivered a statement proclaiming the launch of an initiative which he called "Energy for the Poor." He called upon OFID and the World Bank to play a leading role in developing the program, and this is exactly what we have done. We have worked very hard to push energy poverty eradication up the international agenda, and I am proud to say that it is an objective now fully supported by the G8 and the G20 as well as the United Nations and the International Energy Agency. In fact, at its Ministerial Meeting in Cancun in March 2010, we even convinced the International Energy Forum to join us in promoting energy poverty eradication as the "missing ninth" MDG on the grounds that goals one to eight cannot be met without access to energy.

So this is our new mandate. And we already moving beyond words to action. Since November 2007, we have financed more than 37 energy projects. This scaling-up has seen our support to the energy sector increase to 26 percent of our commitments over the past three years. And we continue to be very vocal on the topic at conferences and other international events. In April, for instance, we hosted a high-level panel of the Crans Montana Forum on energy for Africa, and in June we were very active at the Vienna Energy Forum, which focused on ways to achieve universal energy access by 2030. Later this year, in November, we will co-host with the IEF a second energy workshop, this time in Venezuela, which will provide another occasion for the different stakeholders to get together and debate the issues. Then in December, we will be attending the World Petroleum Congress in Doha. So, you see, we are taking every opportunity to promote action towards energy poverty eradication.

Still on the subject of energy for the poor, would you like to share with us your views on energy for sustainable development as opposed to sustainable energy for development? Most industrialized countries are pushing for the latter, in other words, renewable forms of energy.

Well, they are in essence two different approaches, and although there is room for both, in my view we have to concentrate on delivering energy for sustainable development. The developing countries need reliable power supplies to fuel industry and commerce and enable public institutions such as hospitals, schools and other social services to function effectively. This will require massive investment in power generation, transmission and distribution, with diversified fossil fuels by necessity continuing to play a significant role. At the other end of the scale, we have the rural poor who face huge obstacles - not least their isolation and purchasing power - in accessing energy services. For them, the solutions have to be more innovative and immediate, and this is where renewable forms of energy come into play. These people cannot wait for years to be connected to the electricity grid and gain access to modern forms of energy, especially when you consider that 1.5 million women and children are dying each year from the inhalation of noxious fumes produced by burning biomass.

At OFID, we are tackling the problem and repercussions of energy poverty from both ends: top-down and bottom-up. In fact, just last month, the Ministerial Council approved a special grant program for energy poverty. This is to complement the large-scale projects we are financing and will be used to finance small, local schemes in rural communities where energy access through the grid is still a long way off. The first project under this program is already

Eghtessad Energy June-July 2011 139- 140

underway and involves the distribution of solar lamps to families in Kenya and Tanzania. Our partner in this is the Shell Foundation.

How does OFID actually go about delivering its assistance? And have your methods changed over the years?

Again, this is a good question. As your readers are aware, development is a dynamic process. Priorities shift and change over time from country to country. So, for OFID to remain relevant, we've had to be prepared to be flexible and to adjust to new demands as and when they come.

Our main instrument is concessional lending to the public sector. Sovereign loans for the construction of roads, energy, water supply and irrigation infrastructure, schools and hospitals, and so on, represent the bulk of our commitments. Then we have a Private Sector Facility, which was set up about 12 years ago in recognition of the transformational role played by private enterprise in productivity, job creation and economic growth. More recently, we have moved into trade financing as well, something that has proved especially beneficial to our partner countries throughout and in the wake of the global financial crisis. Last but not least is our grant program, which channels funding to social and humanitarian schemes for which loans are not an option. Also under the grant umbrella we have special accounts for Palestine and HIV/AIDS as well as emergency aid.

This is your eighth year as Director-General of OFID. Among your many achievements, which would you highlight as best fulfilling the objectives of OFID, and what direction do you see the institution taking over the next 20 years?

Thank you, this is a compliment not a question. However, I consider all accomplishments to be a team effort. Without the backing of Management and Staff as well as the Governing Board and, of course, the Ministerial Council and Member Countries, nothing OFID has achieved as an institution would have been possible. That said, it does give me great personal satisfaction to know that our resources are to be increased by US$1 billion over the next 10 years. This boost to OFID's resources is the first in over three decades and it will enable us to do so much more. Which leads me to the second part of your question about the future. OFID is an organization that is here to stay. We still have a job to do and as long as the need exists, we will be here to fill it in the best way we can. Our priority will always be the low-income countries as they are the ones at the heart of our mandate. The fresh funding will allow us to maintain and even increase our focus there, particularly with regard to energy poverty alleviation. But we will also continue working in the middle-income countries and keeping a close watch on our various financing mechanisms to see how they can best be developed to balance the needs of our partners with the long-term sustainability of the institution. Above all, and for the immediate future, we must concentrate on helping the developing countries to achieve the Millennium Development Goals by the target date of 2015. Last September's MDG Summit concluded that progress towards the goals is mixed with some countries still falling very short. Some fresh ideas and impetus are called for, and OFID will definitely have to do more.

Iranian and Saudi Oil Chess Play

Oil prices jumped 2% Wednesday on OPEC's indecision and on news of a 4.8 million barrel draw from crude inventory in the latest measured period, according to EIA. High hopes of production increase were fed by recent Saudi chatter, but Iranian dissent should have been transparent. The two nations played an interesting chess match over recent weeks, with both coming out ahead Wednesday, while the West bears economic pain as a result.

When OPEC met Wednesday to discuss the oil market at the highly anticipated 159th conference of the consortium; it was widely expected to increase production. Oil prices had receded well enough ahead of the meeting, led in this direction by Saudi speak regarding its vision of a need for greater production. The result of the meeting was a letdown West, as OPEC ministers failed to find consensus on the subject. Rather, oil's gatekeepers determined to watch the market over the next six months to get a better measure of its supply/demand balance. As we read between the lines, though, we see a clever Saudi, Iranian chess match at play, with each nation getting exactly what it wanted in the end.

Economic recovery started commodity markets, including energy, on the route of higher pricing. Supported by stalwart demand from emerging giants China and India, a floor held for oil long into economic downturn. Still, as the economic value destroying crises in the U.S., the U.K. and throughout Europe hit fever pitch in early 2009, oil joined all securities assets in panicked trading down to under $40. Thankfully, that panic was short lived, as stocks and commodities both swiftly started on recovery. Only real estate was left to languish further.

Through the early part of 2011, a political fervor gathered steam across North Africa and into the Middle East. This revolutionary movement set instability into the factor pool within the critical oil producing region. It started the already trending higher oil on a burst above $100 from about $90 at the turn of the year. On several occasions in April 2011, oil prices exceeded $120 a barrel, and gasoline prices at the pump in the United States touched $4, setting an unexpected new obstacle in place for a vulnerable economic recovery.

Within his opening remarks to the OPEC ministers, the Conference President and Acting Minister of Petroleum of the Islamic Republic of Iran HE Mohammad Aliabadi, attributed some of the volatility in oil prices through spring to Western trading speculators. He said that it was both the responsibility of supplier nations and consumer bodies to maintain balance and order in oil pricing. OPEC determined there was a speculative premium of at least $15 to $20 in oil. Aliabadi's accusative statement, not unexpected from an Iranian government representative, ignores the fundamental driver of the nascent volatility, namely civil unrest in Libya and Bahrain, and the risk of its spread to more major producers.

His statement, it seems, gives clue to the basis of Iranian dissent against increasing oil production. Some basis needed to be fit to a predetermined decision from the Iranians, and so why not blame the same group often targeted by the Europeans, speculating profiteers. This argument seemed to win some approval from a biased group – biased to favor higher oil prices. It gave broad reason to maintain current production over increasing levels of activity, an action that should ease some pressure from prices.

But the Iranians are transparent anyway, and have always favored whatever drives higher prices or harms the United States. They see rich pricing as a win/win, driving greater revenues and strangling a threatening West.

The Saudi strategy clearly illustrated the brilliant player, as it had vision, seeing moves ahead of the Iranians, and the Americans as well. Over recent weeks, Saudi Arabia, perhaps at the behest of the United States and other Westerners, began publicly declaring its view of need for increased oil production. While I suppose we could attribute the action to U.S. prodding or sincerity, I prefer conspiracy theory.

The Saudi's were humiliated by WikiLeaks exposing its suggestions to the United States to attack a devious Iran, and to "cut off the head of the snake." Since this disclosure, which was dangerously lost within the thousands of less lethal breaking news items, the Iranians see the intense interests and activity of their regional rival much more clearly. This, no doubt, played importantly in Iran's latest prodding of Saudi Arabian and Bahraini Shiites to rise up against their governors.

Besides its exposure to the eyes of the Iranians, Saudi PR has never been in more need of clean up with regard to U.S. relations, and so the peculiarly western allied Arabs become the good guys in the week's hopeless, predetermined losing battle. Nothing is lost in their positioning for production, but something is gained in the eyes and hearts of the west in seeming to seek it. Meanwhile, oil income streams are well preserved, at least for as long as demand destruction takes to destabilize the West. Finally, and perhaps most importantly to the Arabs, the Saudis must be grinning today, seeing the snake sticking its neck out a little further.