

Push for renewable energy may destabilise oil market

February 16, 2009

A drive by major oil consumers to expand the use of biofuels and other renewable energy sources at the expense of crude supplies could destabilise the oil market in the long run, according to the Arab World's main oil group.

The Organisation of Arab Petroleum Exporting Countries (OAPEC) said its members welcome global efforts to diversify sources of energy but stressed this should be done in accordance with economic and market fundamentals.

"The insistence of key consuming countries on supporting renewable energy, mainly biofuels, for purely political reasons that have nothing to do with market factors could adversely affect the oil market stability in the long term," the 10-nation OAPEC said in a study obtained by Emirates Business yesterday. "We believe this will deprive the traditional energy sector, including oil and gas, from funding needed for capacity expansions as massive funds will be channelled into the development of renewable energy sources... this will also increase the uncertainty surrounding demand for OAPEC's oil."

The study, published in OAPEC's Arab Oil and Co-operation magazine, said the consumers' "hectic" rush to replace conventional fuel such as petrol and diesel with ethanol and biodiesel constitutes "the biggest concern" for OAPEC member countries on the grounds "it assaults their oil inside its own home".

It said another issue of concern is the intensifying campaign by consumers to lessen reliance on oil for environmental reasons, adding this should prompt stronger co-ordination within OAPEC and with other oil producers. "The climatic changes and other issues need co-operation among all countries to reach rational solutions but not at the expense of oil and gas exports... in this respect, we refer to such technologies as carbon capture, which largely reduces environmental damage caused by crude oil," the study said.

It said plans announced by Saudi Arabia and other Gulf states in 2007 to create a fund to finance research on cleaner energy is a welcome move that should be followed by other producers and consumers.

"The developments being witnessed in the renewable energy sector require some contemplation by OAPEC countries, where oil and gas revenues are almost the only source of income... members also should not ignore the policies of major consumers, which have adopted long-term plans to increase their reliance on renewable energy and take more measures to rationalise their consumption of energy, mainly crude oil," OAPEC said.

"These consumers have even gone further by announcing that their main objective of encouraging renewable energy is to reduce their dependence on crude oil, mainly from the Middle East... this should constitute an important message to member states that the world will sooner or later stop its reliance on oil as a key source of energy... this in turn should prompt them to intensify their programmes to diversify their economies and lessen reliance on oil sales."

The study said OAPEC nations should be encouraged to embark on renewable energy projects but added such programmes must be intended to offset the gradual decline in oil production in some members.

"In members which have large oil resources, such programmes could be aimed at increasing oil and gas exports by cutting sales to the local market."

{ Emirates Business 24/7 }