

Oil prices and the economic impact for the UK

Professor Paul Stevens
Distinguished Fellow, Chatham House
Professor Emeritus, University of Dundee
Visiting Professor, University College London (Australia)

The IEEJ 50th /APEREC 20th Anniversary Joint Symposium
Tokyo 11th June 2015

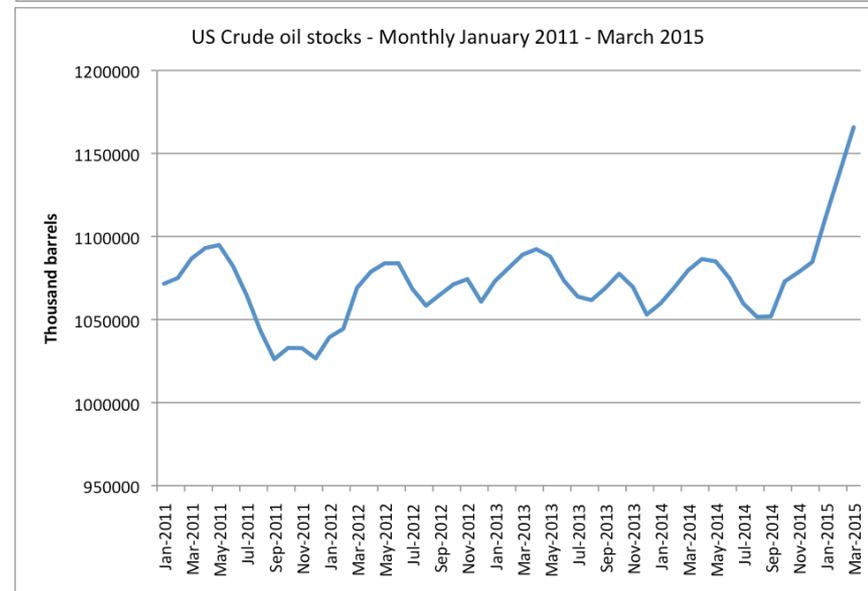
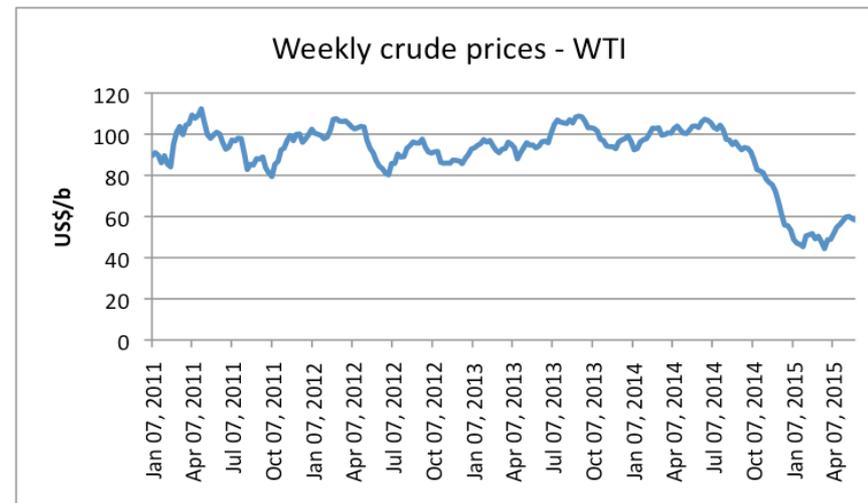
Presentation Outline

- **Oil price prospects**
- **Oil and gas context in the UK**
- **The impact of a low price world on the UK?**

Oil price prospects

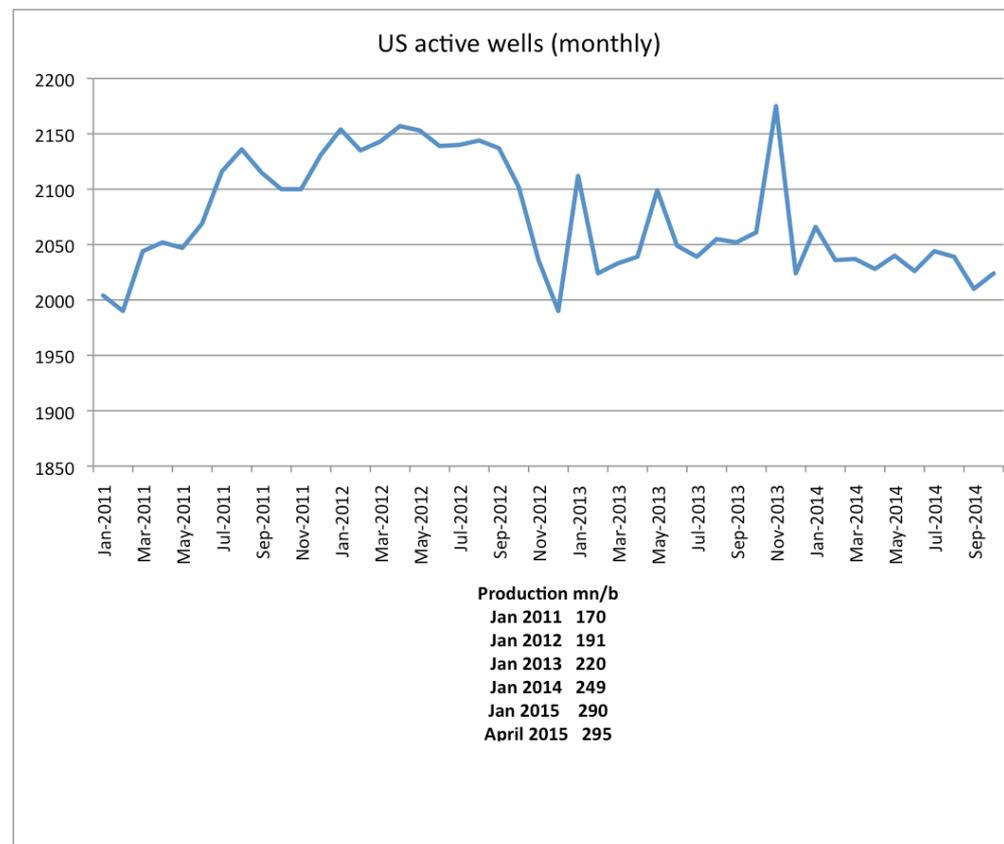
Crude prices and US crude oil stocks

- Price collapse after June 2014 reflecting over-supply and rising inventories
- There remains a huge stock overhang
- Possibly more supply to come – Iran – Libya – Iraq?
- Price “recovery” since January because of some geo-politics + lots of “talk”



Oil price prospects What of USA supply?

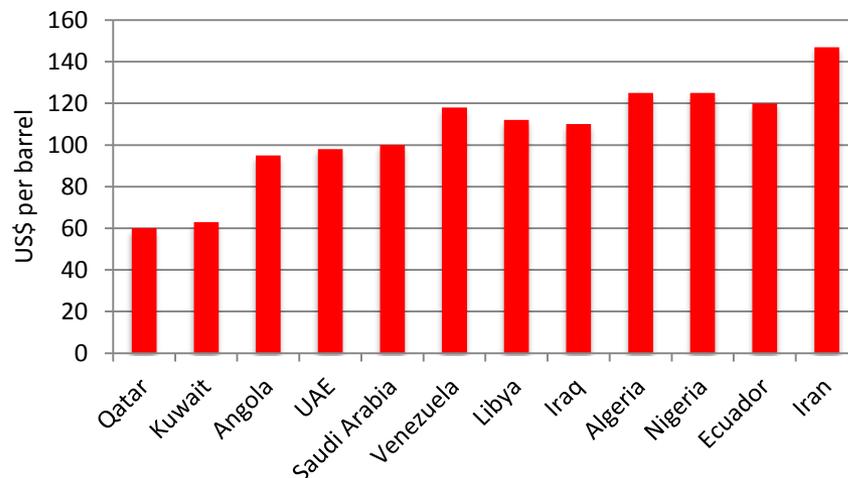
- In the US, rig counts = a very poor lead indicator
- There is also a very large “fracklog” to act as a ceiling on price
- Remember the floor price in a competitive market = short run marginal cost of highest cost producer - <\$40 pb



Oil price prospects Other factors?

- Lower oil revenues and political unrest?
- Prospects for demand?
 - Lower price and global GDP?
 - Price reform and “OECD Disease”?
- Always remember the threat of geo-politics

OPEC Median Budgetary Break-Even Price



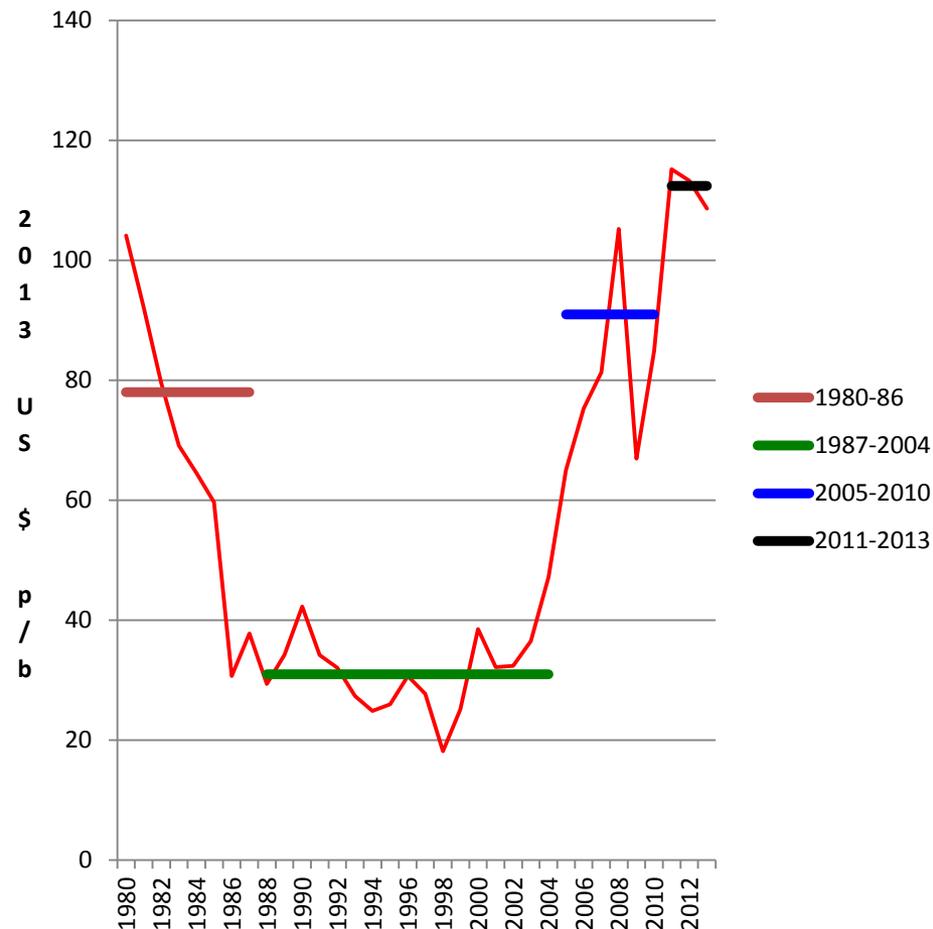
Source: Ali Aissaoui Apicorp Economic Commentary Vol 9 NO. 708 July- August 2014

Oil price prospects

Likely to be “low” for “some time”

- What does “low” mean?
- What does “some time” mean?

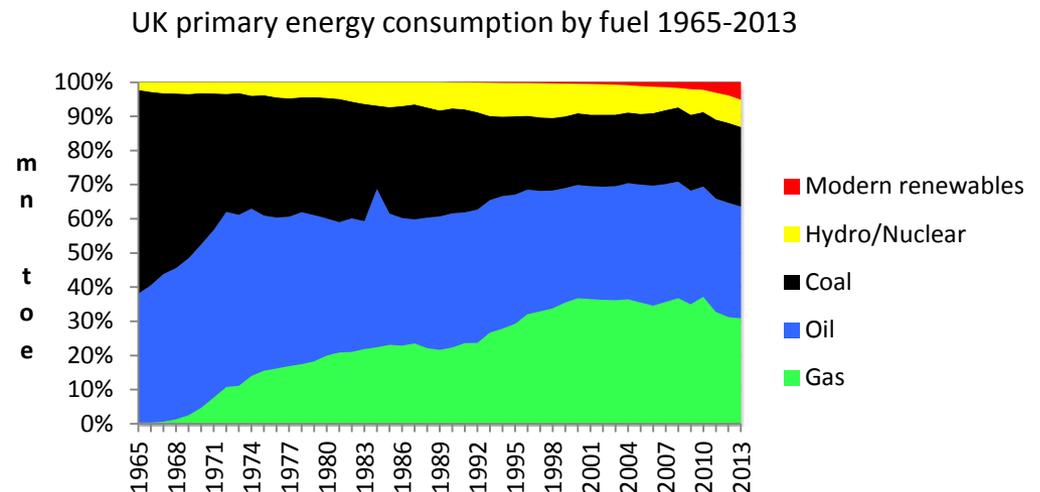
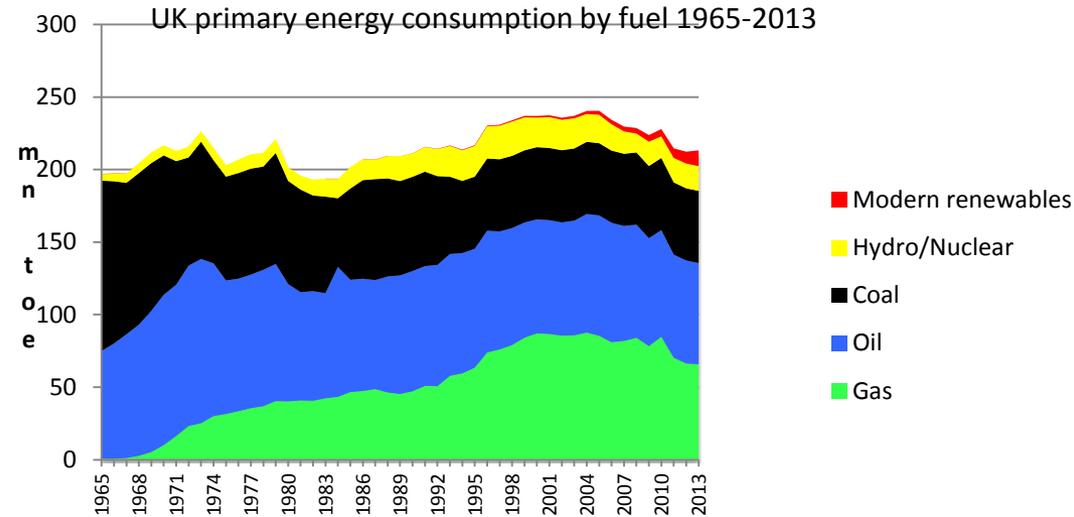
Annual average prices (Brent 2013 US\$) 1980-2013



Oil and gas context in the UK

Energy Mix 1965-2013

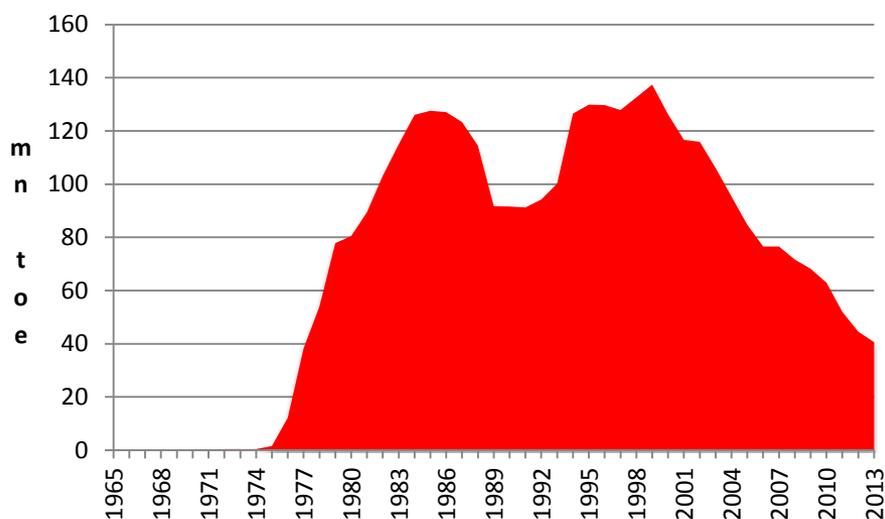
- Dash for gas
- Declining role for coal
- Renewables remain small in the overall mix
- Energy demand has “peaked”



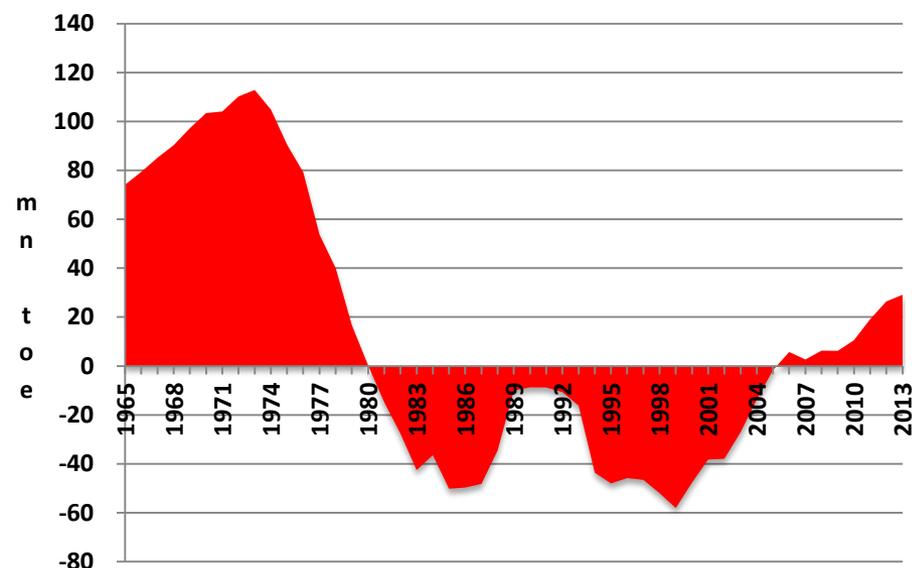
What about oil production and trade?

- Since 2000, North Sea is clearly on decline leading to rising oil imports since 2005

UK oil production 1965-2013



UK oil trade 1965-2013 (+=imports -=exports)



Prospects for North Sea oil?

- **Low prices will seriously inhibit investment in North Sea production**
- **What of costs?**
 - Operators already squeezing costs
 - Shale technology revolution will also reduce costs
 - But there are large numbers of layoffs losing scarce talent
- **What of the fiscal system?**
 - Limited options if very poor profitability
 - **BUT THE NORTH SEA FACES A SPECIFIC CHALLENGE**

The Fiscal System: North Sea Oil is special

- The economics of future production is a function of access to EXISTING infrastructure
- EXISTING infrastructure rapidly reaching its “sell by date”
 - For example – The Forties pipeline system carries 30 percent of UK oil from some 50 fields. It is over 25 year old. The average lifespan of a pipeline network is 33 years (Pipeline and Gas Journal January 2015)
- Implication is that oil not recovered in the next 5 to 10 years will never be produced
- Government policy options?

Thank you
