

# GMF: WEF 2023, Davos

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## Q&A-Expect tighter oil markets in 2023; Russia faces long term production challenges beyond sanctions: Fatih Birol, International Energy Agency



Energy markets could be tighter in 2023 as Chinese demands rises and Russian oil production is constrained, **Fatih Birol, head of the International Energy Agency** told the Reuters Global Markets Forum on Thursday, January 19.

"I wouldn't be too relaxed about the markets and 2023 may well be a year where we see tighter markets than some colleagues may think," he said.

On Russia, Birol said there were many question marks over its ability to export because of Western sanctions, but also longer term because of its own challenges including the exit of international firms that had helped Russian oilfields become productive.

Following are edited excerpts from the conversation:

### **Q: Do you share the opinion of Saudi Arabia and the UAE that the oil market is balanced?**

A: I agree that we don't see tightness in the oil market right now but I want to underline two potential issues. The first one is China. Last year, China's oil and gas consumption declined for the first time since 40 years, and let's not forget that China is the largest oil importer of the world. If Chinese economy rebounds this year, which many financial institutions expect, then we may see demand to be very strong and put pressure on the markets. The second is Russia. There are a lot of questions about Russia's ability to export because of their own challenges as well as the sanctions put on Russia. So putting these two things together, I wouldn't be too relaxed about the markets and 2023 may well be a year where we see tighter markets than some colleagues may think.

### **Q: What does this do to prices? Do you think something between \$75 to \$80 per barrel is a comfortable point before global growth is affected?**

A: I am sure you have heard in Davos the global economy is in a very fragile state. Many countries around the world, their economies are flirting with recession. We don't hear much from the emerging and developing countries, but their state is even worse compared to the Western countries. For those countries the price of energy is extremely important for inflation, for growth and others. Therefore, I very much hope in 2023, energy prices, especially oil prices, don't go up significantly, and that they would not push those countries in a much more difficult situation than they are in now. There is a job for everybody to do, including the major oil exporters. By law I cannot make oil price predictions, but I really hope that the prices do not go even higher than we have now because it will put many energy import reliant developing countries at risk of recession. I think if we have a shortage of supply we may well see that it will put additional upward pressure on the prices and this may mean that the economies, especially those in developing world, will be in difficulty.

### **Q: The IEA overestimated the impact Western sanctions would have on Russian oil export volumes at the start of its invasion of Ukraine by a vast margin. How did Russia prove so adept at keeping its flows going and did the experience make the IEA wary of predicting the impact of sanctions on Russia in future?**

A: Oil exports of Russian oil seem to be more resilient than we thought, but we were completely right in terms of the direction of the travel. Russia's oil exports are declining now, as we have forecasted, and will decline further in the first quarter of this year and beyond.



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But more importantly, looking a bit longer term, I believe Russia's oil industry will face huge challenges. Leave aside the sanctions, price caps, in order to deal with the decline rates of the existing fields. Because it was the international technology companies who helped the Russian oil fields to be productive, and they all left Russia now. So, in the short-term we will see exports go down, but in the medium- and longer-term, there will also be a serious impact on Russian oil production levels as a result of lack of appropriate technology.

**Q: Do you have new estimates for Russian exports?**

A: We always come with new estimates, looking at the markets, looking at the data. But I believe our estimates will be in the same direction, namely, the Russia's exports set to decline compared to prior levels.

**Q: Are you worried about countries like India and China upping their imports of Russian oil?**

A: I think there will still be Russian oil exports coming to China or India or other countries, and of course, at significantly discounted prices, which is of course good news for India and other countries' economies. I wouldn't say that the Russian exports will come to zero, but it will decline and this oil will mainly find homes in Asia.

**Q: Do you feel criticism from OPEC+ that the IEA is politicized is justified?**

A: I think making such political comments is not justified because we always look at the data and we make our judgment on the basis of data. What we are seeing is that Russia's oil exports will decline mainly as a result of (it being) not easy to find a home. The same applies to natural gas as well. They lost by far the biggest client which was Europe. If you have such a big client, such as Europe, where you sent 75% of your gas to Europe, and 55% of your oil to Europe, and from one day to another, that client doesn't want to work with you anymore, then you have a difficulty. So there is nothing political there. If there is one political issue here, this is the Russia's invasion of Ukraine.

**Q: Are you worried about supplies from OPEC+?**

A: When we look at the past practices of a couple of decades, the key Middle East countries have (been) taking a very responsible position when the global economy is in difficulty. They took steps to comfort the markets and I hope that they will continue this tradition in the future.

**Q: What impact does the IEA see of looming price caps on Russian oil products? Is the mechanism too complicated by fluctuating prices for the multiple targeted products to be effective, and does it risk undermining the energy security of Europe in particular?**

A: Compared to crude oil price cap and the product price cap, I don't know how the countries are going to formulate it, but it looks a bit more complicated, and I hope that it will not lead to challenges and tightness in the product markets especially for these.

**Q: How was your meeting with Greta Thunberg, and what made you decide to do so?**

A: I received this invitation from Greta Thunberg to talk about climate issues. Here in Davos, I met several government leaders, several business executives, and I think it is only fair to hear the voice of youth - the climate activists. I have great respect for what they are doing, and I feel that if we take the climate change challenge seriously, we have to build a grand coalition of the governments, industry, the investors, and civil society, who genuinely want to tackle the climate change issue.

**Q: Do you think big energy companies need more of a seat at the table in discussing climate changes solutions?**

A: I really hope that the energy companies in the Western world, energy companies in the Middle East, in Asia, in Latin America and everywhere will be a part of the clean energy transition. I believe it is also good for their businesses, and I think they have a responsibility as well. I really hope so.

**Q: How is China's reopening going to affect supply-demand tensions in 2023? If consumption in Asia improves this year, what are the challenges European buyers of LNG would face?**

A: China is not any country. China is the number one oil importer of the world, number one LNG importer of the world. For the first time in the year 2022, Chinese oil demand declined, Chinese natural gas demand declined. And in 2023, with the reopening, we will see a gradual improvement of the economy, which will end up with the increase in oil and natural gas imports. 2023 is a year, when it comes to natural gas, a very peculiar year for two reasons. One is that Russia's natural gas exports to Europe will be either very little or zero. Second, may be even more importantly, according to IEA analysis, the amount of new addition liquid natural gas (LNG) capacity coming to market this year will be one of the lowest in history. So, if China

comes as a major LNG importer, with very little LNG coming to global markets, it may put additional pressure on the global gas markets, especially that of LNG.

Russia's exports to China will be limited. It will not have a major global impact at this stage. One has to see if it all happens. The pipeline capacity has to increase, new pipelines to be built. and it's really not a matter of tomorrow.

**Q: Sultan Ahmed Al Jaber's appointment as COP28 president was questioned, what are your thoughts?**

A: Sultan Jaber is a very experienced and able energy leader. He has an important role to play in this very year to help the world, but especially the Middle East countries to transform their economies from a oil-based economy to a much more diverse economy. I wish him all the best and International Energy Agency will be able to support the COP28 president in this endeavor.

**Q: What are some developments you would like to see addressed at COP28?**

A: There are many, many issues that I would like to get, but one has to be realistic. If I have to pick up two things, one, the determination of the countries and their reaffirmation of their commitment to the 1.5 degrees target. And the second one is that, since it is taking place in a Middle East country, I hope it will give the Middle East countries the very impetus that that is now high time for them to diversify their economies, going from oil-based economies to a much more diverse and future oriented economy, it is important for the world and important for their people, for their economies in the future.

**Q: Is the 1.5 degree target achievable?**

A: I believe it is very difficult, but it is still achievable. To write the obituary of the 1.5 degrees target is far too early, it is factually wrong and politically irresponsible.

## Global Markets Forum

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