

# Why the future of oil may be very different from its past

**“The Stone Age did not end for lack of stone, and the oil age will end long before the world runs out of oil” - Sheikh Ahmed Zaki Yamani, former Oil Minister of Saudi Arabia**



By Taiwo Oyedele

*In my view, Nigeria did not move away from oil, rather it was oil that moved away from us. The former would have meant that we have a diversified economy that is capable of generating sufficient non-oil revenue and foreign exchange to plug the hole created by dwindling oil prices.*

## The Crude State of Affairs

Oil price fell to about USD 26 per barrel some days ago, the lowest in almost 13 years. Gas has suffered a similar fate, trading around USD 1.97 per million British thermal units (MMBtu), a decline of almost 70% from its 2014 peak. The depressed price is largely blamed on oversupply due to shale oil and gas, new entrants, recent Iranian deal, and OPEC's refusal to cut output in order to keep market share. As supply continues to rise, demand seems to be on the decline due to slowing economic growth in many parts of the world. Two of the BRIC countries, Brazil and Russia are in recession, while growth has slowed considerably in China with only India living up to expectation. Growth in the EU is almost flat while the modest growth in the US is helping but not enough.

## Crude Reality

With total global oil supply at over 97 million barrels per day compared to global demand of about 96 million, price is not likely to recover significantly in the near to medium term as oil producing countries continue to fight for market share. Freezing output will also not solve the problem unless demand increases to match or exceed supply. But whether demand will rise in the long run should even be a bigger concern than the short term oversupply. And what if the world someday no longer needs oil? So here are some reasons why the future of oil may be very different from its past:

- 1) **Climate change** - As the world continues to produce more fossil fuel particularly crude oil and gas, with more discoveries and unexploited reserves, the increase in supply is set to intensify. On the other hand the awareness about climate change means movement away from oil. We have seen the world united against climate change which culminated in the recent Paris Accord. In addition, many countries are taking steps in this direction from Clean Power Act in America to various anti-emission laws in Australia, the EU, Asia and Africa. Also, the general rise in global temperature means relatively less energy is needed.



- 2) **Renewable energy** - At the recently concluded World Economic Forum in Davos, Denmark was celebrated for generating 40% of its energy need from wind. We have seen solar roads designed to generate power in France; energy to power homes from riding bicycles in Amsterdam; while Morocco is building the largest solar power plant the world has ever seen here in Africa among others.
- 3) **Technology** - Technology was a key factor in making shale oil and gas commercially viable. The United States is now self-sufficient and even considering exporting oil. Technology advancement like electric cars, solar powered airplanes and similar inventions will gradually but certainly reduce future demand for oil.
- 4) **Energy efficiency** – There is energy efficiency being gained in many areas. From energy saving bulbs, cars, generators to Xtreme Fuel Treatment products, energy consumption including those from oil will decrease.
- 5) **Population and global economic growth** – A counter argument is that world's population is growing which means more energy will be needed. However, growth in population is more in countries that consume very little energy per capita while growth is mostly stagnant or even negative in heavy energy consuming nations. Some analysts believe that low oil prices will actually trigger more demand letting loose consumption that was previously suppressed. While this may be true, it is definitely not a safe bet given that overall global economic growth is weak and may remain so for the near future.

### ***The Crude Strategy***

The challenges we are facing now present a unique opportunity for oil producing countries and energy companies to rethink their strategies. It requires thinking about the unthinkable such as if crude oil is no longer required as the main source of energy to power the global economy. It is conceivable that oil may become less important and perhaps its by-products will become mainstream. The knock-on effect would be a disruption not only to the oil

industry but also many sectors that depend on or provide services to the sector - but like the end of the Stone Age, new sectors and opportunities will emerge. While this scenario will take some decades to play out, it is increasingly becoming a question of when rather than if.

Low oil prices may not only become the new normal but may become desirable as the lesser of two evils for producing countries. Low or no margins would require oil producers to focus even more on cost cutting and overall efficiency. This could mean that oil companies may be less able to afford attractive compensations and perhaps even need less people but more machines.

Nigeria's GDP shows that the economy is diversified but many of the sectors are largely informal, uncompetitive and not very productive to earn tax revenues for government and generate foreign exchange receipts. Tourism for instance can create millions of jobs and generate billions of dollars for the economy but requires good infrastructure, better perception about the country, and addressing insecurity to thrive.

On the fiscal side, the failure to pass the Petroleum Industry Bill when the price of oil was high and oil companies were willing and able to invest was a missed opportunity. The continued price regulation of petrol even when the market price is naturally below the pump price will even be a bigger opportunity missed for the sector to be fully deregulated in order to attract private sector investments. There is also an opportunity to now charge tax on petroleum products based on existing laws. This can help government generate hundreds of billion naira without necessarily leading to higher prices at the pump especially for petrol.

After all is said and done, what would matter most will not be the current challenges we faced but rather how we reacted and planned ahead to survive the short term pain for long term benefits.

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