



The Ascent of Middle East Food and Energy Demand

Posted by [Gail the Actuary](#) on August 17, 2010 - 10:35am

Topic: [Demand/Consumption](#)

Tags: [gregor macdonald](#) [[list all tags](#)]

This is a guest post by Gregor MacDonald. Gregor is an oil analyst and energy sector investor, who, in his words, "also focuses on the coming transition to alternatives". This post was previously published on [Gregor.us](#).

At the EIA's [International Energy Outlook](#) (IEO) presentation this May the issue of future oil exports from OPEC nations came up, and in an interesting way. Readers may be familiar with the phenomenon of declining net exports, from major oil producing nations, as a result of internal demand from growing, domestic populations. The phenomenon was modelled last decade by Jeffrey Brown and Samuel Foucher. Their [Export-Land Model](#) showed that the rate of decline from oil exporters can become quite accelerated. While that may seem obvious, it was a point worth making last decade when it was widely presumed that gross production from large oil producing nations was largely available for export. The tipping, of both the UK and Indonesia, from net oil exporters to net oil importers should have put an end to such a presumption. More importantly, the rise of domestic oil consumption in Saudi Arabia was also a warning. Saudi oil exports have declined now *for five years*.

Given that Saudi Arabia's exports have already been in decline for some time, it was surprising to hear EIA Deputy Administrator Howard Gruenspecht not only fail to acknowledge that fact, but forecast a rather sanguine outlook on future OPEC export supply in the IEO May press conference. It is particularly noteworthy that he gave such an empty and meaningless answer to the questioner, James Schlesinger former Energy Secretary under Carter, who made a point of probing in this exact area. | see: dialogue starting after the 37:00 minute mark of [Video: International Energy Outlook 2010](#).

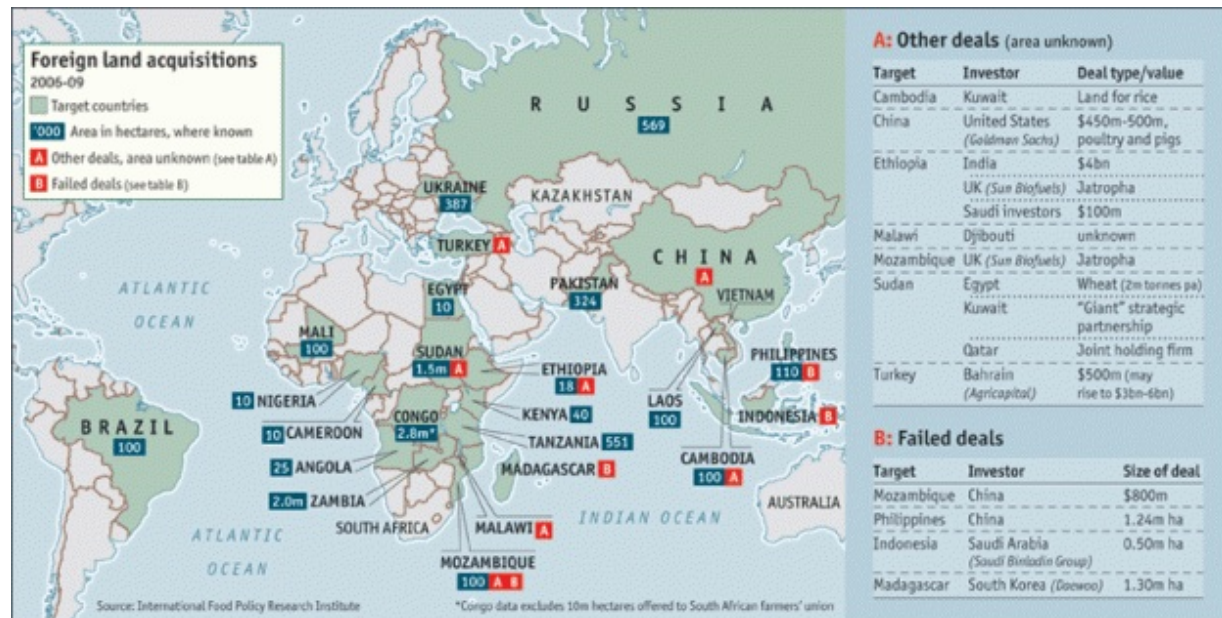
Secretary Schlesinger: *...we see the growth of demand within the OPEC countries, domestic demand, and some of the projections show internal demand in Saudi Arabia rising to 8-9 million barrels a day as opposed to your top projection of 15 million barrels per day...similarly with other OPEC nations ...the consequences being less oil available for export to the international market. Have you factored that into your projections, and what might the implications be?*

Howard Gruenspecht: *...we think that in the OPEC region, there will be an interest in substituting natural gas for the growth in domestic oil demand in the mid-east region, which does tend to free up oil for the world market.*

And there you have it. An answer that only a post-war economist could give: soaring domestic demand for oil in OPEC nations, already cutting into exports, will dial back in the years ahead and

convert to natural gas—in order to free up oil for exports...to us here in the West! I had to replay the exchange several times, to get the full measure of Greunspecht's ridiculous answer. Readers are encouraged to listen to the exchange to get a full measure of the cavalier manner in which Gruenspecht, who is clearly out of his depth, answered Schlesinger's other questions.

While the EIA's future projections remain a largely theatrical exercise, and are demonstrably unserious, there is another critical resource balance coming into play between Middle East states and the rest of the world in the area of food, and agricultural land. As you might imagine, arable land in the Middle East is not exactly found in an *optimal ratio* to those growing populations. And this is why Kuwait, Qatar, Bahrain, and Saudi investors have gone into Africa. Below is a very good graphic published last year by the Economist Magazine, which accompanied their article: [Outsourcing's Third Wave](#).



According to the Arab Organization for Agricultural Development (AOAD), the *Arab nations are suffering from a persistent shortage in all types of farm products and the gap has steadily worsened over the past two decades*. Food imports into the Middle East have soared to new highs, and are now running above \$25 billion a year on a net basis. There is a particular need, and shortage, of cereals and grains. Is it any wonder that central and eastern Africa has become a target for Middle East nations, looking to lease easily improved farmland?

While the EIA's IEO 2010 correctly notes the trend to further world reliance on OPEC oil as Non-OPEC oil production growth stalls out, clearly the demographic trends as expressed by food demand are another way to see how wrong the EIA's forecast has become, about future oil available for export. Also according to the AOAD: *The Arab population was estimated at nearly 351 million at the end of 2009. Since 1990, it has grown by nearly 2.34 per cent annually compared with global growth of about 1.16 per cent.*

Accordingly, not only will Middle East nations need more of their own fossil fuels to fund domestic construction, but the improvement of leased, foreign farmland to match their above trend population growth will also require fossil fuels. To the declining oil export model of Brown and Foucher, it appears we will need a new model of Increasing Agricultural Imports to the Middle East. As for the EIA's call that these nations will somehow level off their demand for oil, and switch to natural gas? That makes no sense at all. On a number of levels. The Middle East is not going to voluntarily transition away from oil, even marginally. And, the natural gas that our flaky

EIA in Washington imagines will be used to “substitute for oil” will instead be used for new power generation and to make fertilizer.

-Gregor



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](https://creativecommons.org/licenses/by-sa/3.0/).