



INTERNATIONAL SECURITY - ENERGY - ANALYSIS

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Analysis: Mideast struggles to power area

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WASHINGTON, Aug. 17 (UPI) -- An economically burgeoning Middle East is facing stark choices as it decides how to fuel its growth, despite sitting on two-thirds of the world's proven oil reserves.

Countries in the region are facing rising demands on electricity, natural gas and fuel oil as their economies experience rapid development.

While the Middle East's overall 5.7 percent growth rate in 2006 is only half of China's dizzying 11.1 percent growth, it exceeds that of advanced economies, including the United States, Europe and Japan, which together averaged 3.1 percent, according to the International Monetary Fund.

It is this rapid growth that is putting a strain on the region's power infrastructure.

"The recent economic boom in the Gulf, fueled by higher oil prices, brought its own problems: higher inflation rates, larger income gap between the rich and the poor, more expatriate workers, and traffic congestion. Higher income, growing populations, increased number of expatriates, economic cities, and expansion of petrochemicals have increased the demand for electricity to unprecedented levels," according to A. F. Alhajji, a professor of energy economics at Ohio Northern University and expert on Middle East energy markets.

Some countries in the region are turning to natural gas to solve their electricity shortages, but gas carries its own downside.

"Natural gas might not solve the problem as some people may expect. Here is why: Huge amounts of natural gas are used for reinjection in the oil fields to maintain or increase production. If natural gas is diverted to produce electricity, oil production would decline. As a result, oil revenues, and consequently economic growth, will decline. Therefore, fuel oil is the answer. The problem is that the current refining capacity does not support the growing demand. The planned projects in Saudi Arabia, Kuwait, and Iran might not come on stream within a suitable time, leading to increased imports," Alhajji said.

The demand has been anticipated in the region, but rising construction costs have led many countries to delay refinery expansion.

Cambridge Energy Research Associates, an international energy advising company, predicts that despite costs, Middle Eastern countries are still planning to build refineries, just not at previous levels.

"Due to rising costs, equipment and human resource constraints, and other issues, CERA believes that only 3.3 mb/d of the planned 7 mb/d of refining capacity will be built by 2015. However, our projected rate of increase in Middle East refining capacity is still more than twice that seen in the past decade," a CERA report on refining capacity in the region said.

The International Energy Agency, at a time when it is trying to convince the Organization of Petroleum Exporting Countries to increase production, has warned the Middle East may soon face a shortage of fuel oil at a time when its production of crude oil is limited. This all comes at a time when the Energy Information Administration, the data arm of the U.S. Department of Energy, predicts OPEC will maintain a low surplus, making quick corrections difficult.

OPEC includes eight of the largest oil producing nations in the Middle East -- Iran, Iraq, Kuwait, Saudi Arabia, United Arab Emirates, Qatar, Libya, Algeria -- as well as Angola, Indonesia, Nigeria and Venezuela.

Despite this, many experts believe OPEC will not raise its production during an upcoming Sept. 11 meeting.

"Most likely it will keep the same ceiling," Alhajji said.

In this atmosphere, many Middle Eastern countries have looked beyond petroleum products to satisfy their growing thirst for electricity.

The governments of Egypt and Saudi Arabia have been pursuing solar and wind power. And in the capitals of Saudi Arabia, Egypt, Turkey, Libya, Jordan, Algeria, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates, leaders have controversially expressed an interest in nuclear power. Iran, long facing shortages of gasoline, has fully embraced nuclear power, somewhat to the chagrin of the international community.

Despite the options on the table, the Middle East is likely to go through some hardship as it struggles to decide how to fuel its own growth.

"Even without the fuel oil problem, the region will experience electricity shortages, brownouts, and blackouts. Electricity shortages will hinder economic growth and stall efforts to diversify their economies. Tourism in some places such as Dubai might suffer greatly from electricity shortages, especially that these shortages happen at the height of the summer season," Alhajji said.

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