



Organization of the Petroleum Exporting Countries



OPEC

LONG-TERM STRATEGY



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OPEC is a permanent, intergovernmental organization established in Baghdad, Iraq, 10–14 September 1960. The Organization comprises 12 Member Countries: Algeria, Angola, Ecuador, Islamic Republic of Iran, Iraq, Kuwait, Socialist People’s Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. The Organization has its headquarters in Vienna, Austria.

OPEC’s objective is to coordinate and unify petroleum policies among Member Countries in order to secure a steady income to producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the petroleum industry.



Foreword

The OPEC Ministerial Conference adopted a comprehensive new Long-Term Strategy (LTS) in Vienna on 14 October 2010. This coincided with the celebration of OPEC's 50th Anniversary.

The development of the LTS was entrusted to Member Countries' Deputy Ministers of Energy/Petroleum under the Chairmanship of HRH Prince Abdulaziz Bin Salman Bin Abdulaziz Al-Saud, Assistant Minister of Petroleum Affairs, Kingdom of Saudi Arabia; the Alternate Chairmanship of HE Dr. Bernard Mommer, OPEC Governor for the Bolivarian Republic of Venezuela; and with the participation of HE Abdalla Salem El-Badri, Secretary General of OPEC, and staff of the OPEC Secretariat.

The LTS, which has been prepared over the past year, incorporates extensive research and analysis, and provides a clear and consistent framework for the Organization's future. It defines three overall objectives, identifies the key challenges that the Organization faces now and in the future, explores a number of scenarios that depict plausible,

consistent and contrasting futures of the energy scene, and formulates the elements of strategy to successfully attain its objectives and adequately address the identified challenges.

The LTS builds on OPEC's 50 years of experience in the global oil market. It will be instrumental for OPEC to continue fuelling world prosperity and ensuring market stability for the benefit of all, while safeguarding the legitimate interests of its Member Countries. It is the second LTS approved by the Organization, following the adoption of the first by the 137th Meeting of the OPEC Conference in September 2005.

Vienna

December 2010

Introduction

OPEC's new LTS is timely, given the major upheavals the world and the oil market have faced in recent years. The onset of the global financial crisis in 2008 and the ensuing economic recession, which was the deepest and most widespread in more than six decades, have clearly had — and continue to have — significant major impacts upon the oil market. In fact, global demand for oil declined in two successive years (2008 and 2009), a situation not seen since the early 1980s.

Moreover, prices have witnessed a rollercoaster ride — particularly toward the end of 2007, throughout 2008 and into early 2009 — as oil has increasingly emerged as an asset class, with excessive speculation adding appreciably to market volatility, and with significant changes underway in terms of financial regulations. Additionally, other factors have contributed to heightened uncertainty with regard to future oil demand requirements, including an expansion in non-crude fuels in some regions, and the ambiguity

of energy and environmental policies — often with evidently over-ambitious targets — in a number of consuming countries.

The development of the LTS involved defining the objectives that the Organization will strive to collectively achieve, and identifying and analyzing the key challenges facing OPEC that may hinder the attainment of those objectives. Three overall scenarios were subsequently developed, depicting plausible contrasting futures of the energy scene, in order to gain a better, deeper and broader understanding of the possible unfolding of key drivers shaping the future of energy. This also provided an opportunity to further assess the implications of potential technological developments and climate change mitigation policies and measures under various long-term atmospheric greenhouse gas concentration targets and emission paths.

This document provides an overview of the key issues addressed, discussed and analyzed in putting together the Strategy.

The LTS objectives

The LTS sets objectives in relation to the long-term petroleum revenues of OPEC Member Countries; fair and stable prices; the role of oil in meeting future energy demand; OPEC's share of world oil supply; the stability of the world oil market; the security of a regular supply to consumers; the security of world oil demand for producers; and in seeking to secure and enhance the collective interests of Member Countries in global negotiations and future multilateral agreements.

These objectives are fully compatible with and supportive of the aims of the Organization as stipulated in its Statute. These include the determination of the best means for safeguarding OPEC Member Country interests, individually and collectively, and ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations, with due regard given at all times to the interests of the producing nations and to the necessity of securing a steady income for producing

countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

Considerable uncertainty over future oil demand

Perhaps the most notable event since the previously published LTS has been the global financial crisis and the ensuing economic recession. The financial crisis was unparalleled, not only in terms of the amount of losses incurred by the financial sector, but also because of the strong contractionary effects that this had on the real economy. In turn, this had major negative implications for oil demand. In the coming years, one of the main questions that will need to be answered is: what medium- and long-term effects remain on the world economy and how will this impact potential growth?

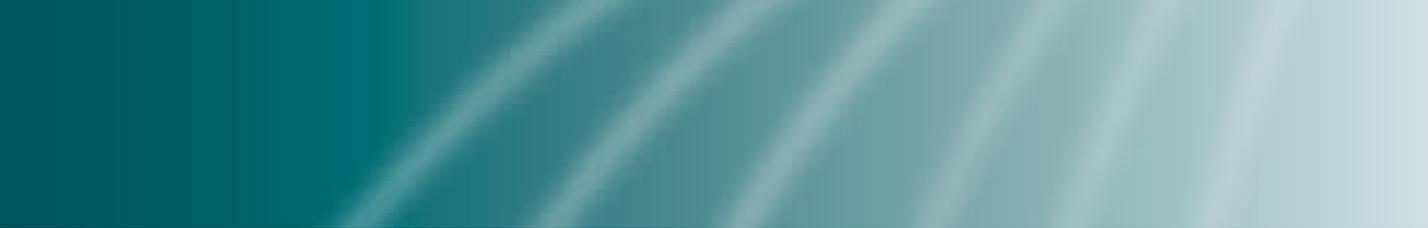
In the Dynamics-as-Usual (DAU) scenario, the long-term assumption for the world economy sees a robust expansion in global gross domestic product over the next two decades, with Asian economic growth continuing to dominate.

Concerns over future economic growth and non-OPEC supply, as well

as the need to consider both upside and downside potential, are reflected in alternative scenarios, the Prolonged Soft Market (PSM) and Protracted Market Tightness (PMT).

The PSM scenario reflects downside risks to the world economy. The prevention of a total collapse of the global financial system and the buoying of advanced economies required large expansions in the balance sheets of central banks and the growth of huge fiscal deficits. The economic prospects of countries burdened by heavy government debt might be hampered if fiscal consolidation is not properly managed. In this scenario, it is also assumed that demand is strongly affected by new policies in developed — as well as in major developing — countries. Calls for measures to mitigate climate change place further downward pressure on all forms of fossil fuel demand in this scenario. These are typically policies that, *inter alia*, encourage the pursuit of technologies focused on increasing the efficiency and use of alternative energies in the transportation sector.

The PMT scenario, on the other hand, sees geopolitical and economic conditions as conducive to improved economic growth prospects. This scenario reflects optimism over the impact of the massive response of governments to the global financial crisis, as well as strong competition between banks and, arguably, the fading prospects of protectionism, leading to significantly stronger world economic growth than in the DAU — particularly in emerging economies that are not as financially constrained as major OECD regions.

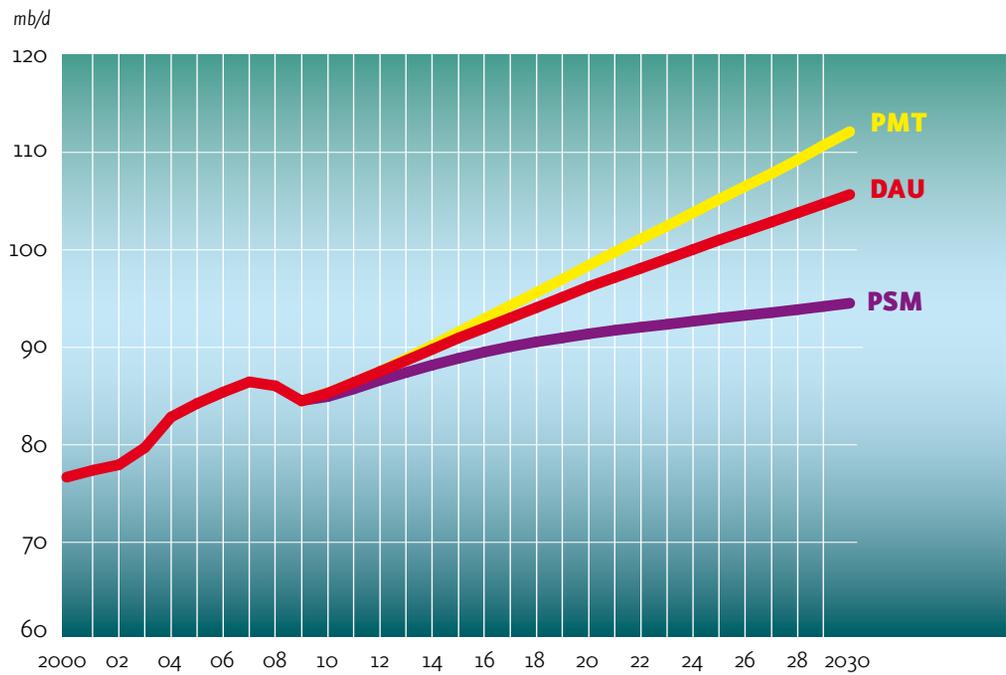


A wide range of global oil demand in the three scenarios

In the DAU scenario, global oil demand reaches just over 105 million barrels a day (mb/d) by 2030, an increase of 21 mb/d from 2009. The figure represents an average annual increase in oil demand of 1 mb/d over 2009–2030. In contrast, in the PSM scenario, demand reaches around 94 mb/d by 2030, reflecting an annual growth of only 0.5 mb/d. The PMT scenario sees demand reach 112 mb/d by 2030. In all scenarios, OECD oil demand peaked in 2005.

The projections show that future demand levels are well below what was expected at the time of the previous LTS (released in 2005), a consequence of the impacts of the global economic recession and the introduction of new policies that have reduced expectations for oil demand growth. However, growing supply needs in emerging markets will continue to fuel development, especially as the axis of the global economy increasingly shifts towards developing Asia.

World oil demand in the three scenarios

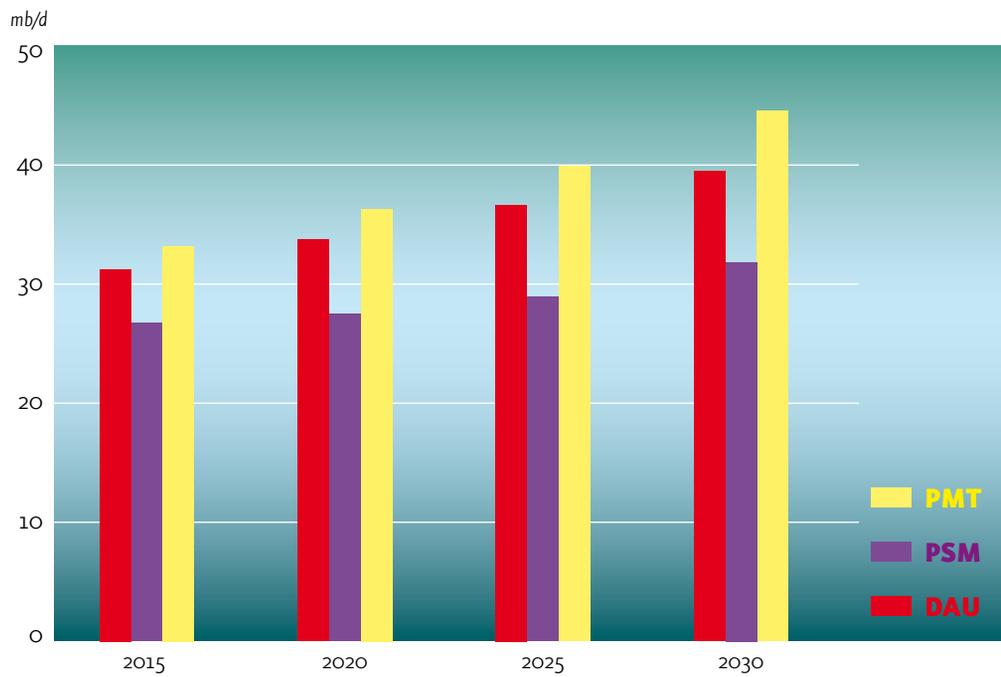


Non-OPEC supply also sees a wide range of possible future paths

In addition to global oil demand levels, the amount of supply that OPEC will be asked to provide will also be affected by future volumes of non-OPEC oil. In all three scenarios, there will be a wide range of sources to satisfy demand, including both conventional and non-conventional liquids. In the DAU, non-OPEC liquids supply continues to grow throughout the entire period, largely due to strong supply increases from oil sands, biofuels and natural gas liquids (NGLs).

However, total supply from non-OPEC countries will be affected by a number of drivers, particularly the development of oil prices, legal and fiscal conditions, and technological progress. While non-OPEC supply is expected to be larger in 2030 than in 2010, growth is expected to eventually slow in all three scenarios. However, there is a wide range of uncertainty associated with this.

The broad range of possible required OPEC supply across the three scenarios



So what will be the upstream investment needs in OPEC?

Despite the acknowledged uncertainties regarding the evolution of oil demand and non-OPEC supply, it is widely recognized that remaining resources are sufficient to satisfy demand. Availability is not an issue. It is deliverability that matters, particularly in an industry with long lead times and pay-back periods. The scenarios — which are regarded as feasible, realistic and by no means extreme — show that, although the incremental barrel will increasingly come from OPEC, there is a wide range of how much supply will actually be needed from Member Countries.

While the need for OPEC supply in the DAU scenario rises to 39 mb/d by 2030, it is almost 8 mb/d lower in the PSM scenario. The PMT scenario, however, sees OPEC supply more than 5 mb/d higher than in the DAU by 2030.

This further demonstrates the importance of security of demand to producers.

Indeed, the demand range implies that cumulative upstream investments to 2020 could range from less than \$200 billion to around \$400 billion. Thus, a central challenge for OPEC will be the need to adapt investment plans to these evolving uncertainties in order to satisfy demand increases, offer ample spare capacity and avoid either under- or over-investing.

A regional shift in the downstream is emerging

The substantial decline in crude oil demand — as a result of the global economic downturn, coupled with the wave of new refining capacity that has come on stream in the past few years — has significantly impacted refining sector fundamentals.

In the medium-term, low utilization rates and depressed profitability are likely, especially in the Atlantic basin. Consequently, there is increasing potential for refinery closures in the US, Europe and Japan.

In the longer term, the proportion of crude oil that needs to be refined per barrel of incremental product declines further as the percentage share of biofuels, gas-to-liquids, coal-to-liquids, NGLs and other non-crudes in total supply continues to rise. Combined with projected developments on the demand side, this will limit future requirements for additional distillation capacity.

From a regional perspective, new capacity — driven by a further shift

towards middle distillates and light products — will be needed primarily in the Asia-Pacific and Middle East regions. This underscores the emerging contrast between the Atlantic and Asia-Pacific basins. The former of these, dominated by Europe and the US, is the centre of the refining surplus. Conversely, the Asia-Pacific basin is the hub of capacity growth. Therefore, the prospect is for a substantial reshaping of the oil downstream and a regional shift toward Asia.

Elements of the Strategy

OPEC's LTS reflects a proactive, flexible and balanced approach in responding to changing oil market conditions and energy prospects, and meeting the challenge of supplying the world with the crude oil it needs in a timely manner and at fair and stable prices, while safeguarding the interests of OPEC's Member Countries whose economies are highly dependent on the production and export of oil.

Market stability remains the Organization's underlying ethos, helping to continually guide its policies. This is reiterated in the LTS. Fair and stable prices are essential to investments, to the economic and social development of OPEC Member Countries, and, at the same time, to sustained global economic growth.

The emergence of oil as an asset class has transformed the oil market, which is now far more exposed to the broader financial markets. As a result, the oil market has experienced greater volatility and the price of crude has been impacted by a growing number of factors that are

not directly related to supply and demand fundamentals. These factors include exchange rate fluctuations, portfolio management and risk hedging strategies on the part of non-commercial market participants, and arbitrage between various assets. It is thus essential to deepen the analysis and understanding of the behaviour and determinants of crude oil prices, as well as the linkages between physical and financial markets.

At the same time, OPEC needs to continue its positive and focused communications efforts, including the sharing of data and analysis; explaining the rationale of OPEC's decisions and positions; and expressing the Organization's views about what it considers to be a fair and reasonable price. Moreover, it should reiterate continuously its policy stance that oil prices that are too high or too low are detrimental to both producers and consumers; that oil has a continuing and important role in the global economy and in OPEC Member Countries, in particular; that the oil industry is capital-intensive by nature and

involves long-lead times; and that oil is an exhaustible, non-renewable natural resource.

The ongoing impacts of the financial crisis and economic downturn, the changing structure of world oil markets, and developments in policies and technologies all directly affect oil supply and demand. In this regard, the close monitoring of these issues — with a clear and well-defined set of ‘leading indicators’ — will be instrumental in ensuring that proactive and timely policy decisions are taken in support of market order and stability.

OPEC Member Countries have always satisfied demand for their oil. The aim has been to ensure that the physical market is adequately supplied. This will continue.

Moreover, in supporting market stability and security of supply to consumers, OPEC Member Countries will continue to expand their

production capacity in order to meet demand for their crude and offer an adequate level of spare production capacity.

However, the uncertainties surrounding future demand and the need for OPEC crude — particularly in terms of policies — translate into large financial and investment risks for OPEC Member Countries in both the medium- and long-term. Security of demand is vital to ensure that appropriate investments are made for more supply. Efforts to ensure more predictability in consuming country energy policies, as well as a better understanding of their impact on oil demand, should be further advanced and include efforts to ensure non-discrimination against crude oil.

Technology is one of the key drivers of future energy supply and its use. OPEC supports the development and promotion of technologies that advance the environmental performance of oil and advocates the continuous improvement in standards for exploration and development

activities — as well as more stringent fuel quality specifications — in order to minimize the industry’s environmental footprint. It promotes the development and deployment of technologies that address climate change concerns, such as carbon capture and storage, which should be eligible for the Kyoto Protocol’s Clean Development Mechanism.

OPEC National Oil Companies should further enhance technology-based cooperation among themselves, as well as with other international institutions. For example, research and development collaboration among Member Countries should be encouraged to rapidly develop a portfolio of projects in such areas as oil-use efficiency, as well as in advancing research into the production of cleaner crude oil-based transportation fuels.

In climate change-related multilateral fora, OPEC Member Countries will continue to play an active role. In this regard it is essential that the international community ensures the full and sustained

implementation of the principles and provisions included in the United Nations (UN) Framework Convention on Climate Change, such as the principles of 'equity' and 'common but differentiated responsibilities'. Equally important is its ongoing commitment to minimize the adverse impacts of policies and measures on developing countries, whose economies are heavily dependent on the production and export of fossil fuels; the use of flexible mechanisms and sinks such as forests; the provision of additional, sustained and adequate financial resources for adaptation; and the transfer of technology.

The active engagement of OPEC in global trade negotiations is also important. In this respect, it is crucial to constantly adhere to the principle of the permanent sovereignty of nations over their natural resources, and the use of the comparative advantage provided by this resource.

In an increasingly interdependent world, more focused and in-depth dialogue among all related parties is imperative in enhancing cooperation

on a broad range of issues of mutual concern — such as market stability, security of energy supply and demand, upstream and downstream investments, technology, the availability of skilled manpower, energy poverty and sustainable development. OPEC will continue to expand and strengthen its dialogue with all producing and consuming countries, as well as regional groups, UN institutions and other energy-related international organizations. The OPEC Fund for International Development OFID and other Member Country aid institutions could constitute a further means to facilitate cooperation on a number of issues.

Effective communication channels and interaction with the media should be pursued to broaden and expand public understanding of OPEC's positive role — not only in the global energy community, but in the world at large.

Achievement of the objectives of the LTS could be facilitated by expanding cooperation among Member Countries through, for example,

networking among universities and research centres, and benefitting from potential complementarities. While cohesion among Member Countries is of crucial importance, enhancing their resilience through economic diversification could also contribute significantly to the attainment of the Strategy's objectives.

Concluding remarks

Publication of OPEC's LTS coincides with the Organization's 50th anniversary and serves to reaffirm its longstanding commitment to market stability. Its actions, based on consensus-building, are a testament to its accomplishments over the past five decades and, in this respect, its positive role and achievements have been widely acknowledged.

Looking into the future — and despite the many challenges that lie ahead — OPEC remains steadfast in its determination to stand by its policy of striving for market stability, which is underscored throughout the LTS. The Organization will continue making investments to expand its production capacity to not only meet perceived demand for its crude, but also maintain an adequate level of spare capacity. While reiterating the importance that OPEC places on security of supply to consumers, it is equally important to stress security of demand to producers and OPEC in particular.

Oil is the leading energy source. Given its characteristics — liquid, high energy density, easy to store and transport, affordability — oil is a fuel of choice. It will continue to support the economic development of nations, contributing to an improvement in living standards and helping to lift millions of people out of poverty.

The protection of the environment — an important pillar of sustainable development, intertwined with and mutually supportive of the two other pillars, economic development and social progress — is also vital and achievable. The use of crude oil is not the problem; it is part of the solution.

OPEC's new LTS clearly demonstrates the great significance that the Organization attaches to the responsibilities it has in providing a key energy source to the world. It underlines how important oil is to Member Countries, in terms of their own socio-economic development, and to the world in general. An increasingly interdependent world calls

for an inclusive approach and genuine dialogue if the many diverse and increasingly complex global challenges, as well as opportunities, are to be met efficiently and effectively.





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