Foreword

Deepened global macroeconomic uncertainties, heightened risks surrounding the international financial system, the sovereign debt crisis in the euro-zone, social unrest in many parts of the world, the natural disasters and ensuing nuclear catastrophe in Japan earlier this year, excessive oil price volatility, and increased speculator activity on the main commodity exchanges. It has been another challenging year.

The global economy continues to present the main challenge, for policymakers, industries, businesses and people across the world. While the massive fiscal and monetary support put in place by major economies after the Great Recession helped the global economy to recover more quickly than predicted in last year's World Oil Outlook (WOO), the positive effects of this support are now receding. Today, expanding fiscal deficits and ballooning sovereign debts are the most pressing concerns in many industrialized countries, particularly in the euro-zone. Two opposing factors are at play: the need for additional monetary and fiscal support and the need for fiscal consolidation.

All this has led to heightened downside risks for the world economy and the appearance of potentially damaging weaknesses in the banking system; something that may spread to the international financial system.

Moreover, the large emerging economies that witnessed strong growth rates over the past year or so are showing signs that they are not immune to the worsening economic conditions in the OECD region. They could be adversely affected through multiple channels; the main ones being trade and risks associated with the global financial system.

This year, two unforeseen events also had an impact on oil markets. Well-documented developments in parts of North Africa and the Middle East led to an interruption in the supply of high-quality crude. But to a large extent, the oil market promptly accommodated this situation. Moreover, events in Libya over the past month or two have given cause for optimism that there will be a speedy return to normal supply conditions. The country has excellent technical expertise and production is gradually being restored. It could be back up to 2010 levels in around 15 months or less.

The second unforeseen event was the result of the triple disaster that struck Japan in March, in the form of an earthquake, tsunami and nuclear catastrophe. This had an immediate effect on the oil market, as shut-in nuclear capacity was replaced by both oil- and gas-fired power generation. For oil markets, however, this was only a short-term impact.

These events are just some of the multiple challenges that the market has faced. It is important to stress, however, that the oil market has quickly adjusted to and been able to rapidly mitigate the resulting market disturbances. Once again, this demonstrates the resilience of oil markets, and the fact that oil is a reliable source of energy for meeting the world's energy needs. In this regard, the positive role that OPEC plays has again been amply demonstrated.

This year's WOO highlights that OPEC's role will be even more important in the future. Its Member Countries' daily efforts to provide adequate petroleum supplies to the market, coupled with the huge investments being made to maintain existing fields and infrastructure, develop new capacity, build pipelines and terminals, construct refineries and expand sea transportation fleets, are illustrations of the Organization's commitment to the market and consumers. The efforts will help satisfy demand for OPEC crude and provide a comfortable cushion of spare capacity, estimated to approach a level of 8 mb/d over the medium-term.

The WOO also shows that the world has enough oil resources to meet demand and satisfy consumer needs for decades to come. Estimates of ultimately recoverable resources continue to rise. Technology continues to extend its reach, with new areas and plays being opened to exploration and new countries becoming producers. There will be no shortage of oil for the foreseeable future.

Nevertheless, this year's publication emphasizes a number of challenges and uncertainties, in both the upstream and downstream, that could have implications for the industry.

Such challenges include the energy and environmental policies of consuming countries, many of which offer a hazy picture of their impact on future oil consumption, supply levels and overall energy demand. It is essential that predictability is enhanced. A better comprehension of what is feasible and realistic is vital. This will provide a better understanding of future oil demand and supply patterns, which, in turn, will allow investors to better plan future investments. Confidence is key. It is important to invest in a timely manner to meet future demand. It would be a damaging waste of resources to invest in capacity that is not needed.

Another challenge relates to the functioning of financial markets. Excessive volatility and excessive speculation remain a concern. Financial markets fulfil critical price discovery and risk transfer roles. But they can be distorted, so that they become detached from supply and demand fundamentals. This was seen in the early part of the year, when large price fluctuations were driven by speculative activity.

In addition, the WOO highlights continued concerns about the availability of skilled labour and trained manpower; an essential cog in driving the industry's innovation and future growth. And in the downstream, following the economic downturn, there is much talk about possible future capacity closures in certain regions of the world.

There is also the pressing issue of climate change, with the next United Nations Climate Change Conference set to take place in Durban, South Africa, in December 2011. This meeting comes at a crucial time; one year before the expiry of the first commitment period of the Kyoto Protocol. There are concerns about the willingness of developed countries to engage in a second commitment period, which means there are fears about the survival of the Kyoto Protocol itself.

If these negotiations are to succeed, it is important that the principles and provisions of the United Nations Framework Convention on Climate Change are fully taken into account; in particular, those principles relating to equity and common but differentiated responsibilities, with economic and social development and poverty eradication the first and overriding priorities of developing countries, as stipulated in the Convention. It is also essential that developed country commitments to minimize the adverse effects of mitigation response measures on developing countries are honoured. The establishment of a permanent forum to focus on the adverse impacts of response measures could be a move in the right direction.

Next year also sees the Rio+20 UN Conference on Sustainable Development in Brazil. It is vital that we look to reinforce the world's commitments to the UN Millennium Development Goals (MDGs). These shall be met. In line with this, it is important to emphasize that energy poverty remains widespread. It is imperative that the world finds sustainable and durable solutions to energy poverty; solutions that help move the poor up the energy ladder so that they may earn a sustainable income and escape the poverty trap. Improved access to energy, therefore, can facilitate the attainment of the MDGs.

The WOO 2011 illustrates OPEC's constantly-evolving analysis of the global oil market, over all timeframes, and further reinforces its commitment to market stability. The publication is not about making predictions. No-one has a crystal ball, and the evolution of the energy scene over the last decade has underlined the need for greater caution when looking into the future. Nevertheless, we believe that the publication is an important reference tool, offering insights into trends and possible developments in the years ahead. And we hope it makes a useful and positive contribution to global debate and understanding concerning the world's energy future.

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