OPEC’s perspective on oil market developments

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7th APEC Energy Ministers’ Meeting

19 October 2005
Gyeongju, Republic of Korea
World economic growth & APEC economies

- As the most economically dynamic region in the world, the Asia-Pacific now accounts ~ 60% of global energy demand.
- The first 3 largest oil consumers are within APEC

Strong growth in APEC economies (e.g., China): growing faster than the world with significant contribution to the global GDP

Globalization process (export-led growth, increasing role of FDI)
2004 was the highest oil demand growth in 25 years.

Last 3 years avg: 1.9
Last 10 years avg: 1.4
Last 20 years avg: 1.2

Per capita oil demand ratios

<table>
<thead>
<tr>
<th>Country</th>
<th>India</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>UK</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>USA</td>
<td>34</td>
<td>16</td>
</tr>
</tbody>
</table>
While growth in non-OPEC supply up to 2003 were exceeding that of demand, since then had been significantly below demand growth.

However, Non-OPEC supply in 2005 has been affected by unplanned shut-downs & a lower rate of growth from Russia.

Gradual recovery & growth in West Africa, Brazil, Canada & FSU.
OPEC crude oil production 2002-2005, mb/d
(based on secondary sources)

Note: OPEC production excludes OPEC NGL & non-conventional oil (estimated to be 4.3 mb/d in 2005).

* Based on actual OPEC production until September and then maintaining September levels for the rest of the year.

OPEC response:
- Additional supplies on the market by using the spare capacity (>4 mb/d)
- Accelerated projects to expand production capacity to meet rising demand & maintain spare capacity
Cumulative increase: Demand, OPEC, Non-OPEC (mb/d)

Source: OPEC
OPEC-10 capacity expansion (by country)

(end 2004 – end 2005)

(end 2005 – end 2006)

Source: OPEC
Non-OPEC supply:
Increase in non-OPEC supply up to 2010 is expected to be ~5 mb/d, or even more according to some other sources.

- Accordingly, increase in total oil supply capacity is expected to reach ~12 mb/d, or more.

In 2010 required OPEC volumes estimated 32-35 mb/d.
Refinery utilization trend: shrinking refinery spare capacity!

Overloading of Refining Industry

Shrinking Refining Spare Capacity in key refinery regions

Increasing Refinery Utilization Rate in key markets

*Asia = Japan, South Korea, China, India and Singapore. For some Asian countries May is estimated.
significant investment requirements (> $130 billion over the next decade)

OPEC is attending to rising product demand both domestic & Asia-pacific region, as well as to meet higher product specifications.

Pursue global downstream investments, particularly in Asia-pacific region.

By implementing these plans, they would be able to install over 4.6 mb/d new capacity (i.e. about 3.8 mb/d refinery capacity and 800,000 b/d condensate splitter).

Major part of these new capacities will be invested by Saudi Arabia and Kuwait. Similarly most of these projects would be either in the Middle East or in Asia.
Gains from US gasoline price rises

Components of Retail Gasoline Prices

The Washington Post issue of 25 September 2005 calculated that, in the USA, when the average price of a gallon of regular gasoline peaked at $3.07 recently, the nation’s refiners were getting more than three times the amount they earned the year before, when the same gasoline sold for $1.87. However, the companies that pumped oil from the ground gained only 46%.

Source: API statistics
Incremental product demand compared with crude and refining capacity expansion

Sources: Capacity estimates based on published reports by different sources as well as Secretariat assessment.
Growing use of oil futures as a form of financial instrument

- NYMEX hit a record high in 2005 surpassing the record in 2004. The average volume of contracts rose in 2005 to 237 million contracts compared to 179 million contracts in 2003.
- OPEN interest also shows a higher record in 2005 of 792 million contracts compared to 542 million contracts in 2003.
The price of oil: distinguishing between nominal and real, (US$/b)

Although reaching historical highs in nominal terms, the real value are still well below levels reached in early 1980s.

Steady decline in oil intensities!
The strategy recognises important role of oil:
- in world economy
- for socio-economic development of OPEC Member Countries

It defines specific objectives, identifies key challenges and explores scenarios for energy scene

It is designed to be robust and adaptive

It provides coherent and consistent vision and framework for OPEC’s future
OPEC Long-Term Strategy

Objectives relate to:
- long-term petroleum revenues of Member Countries
- fair and stable prices
- role of oil in meeting future energy demand
- stability of oil market
- security of regular supplies to consumers
- security of oil demand
- legitimate interests of Member Countries in multilateral agreements

The identified key challenges concern:
- uncertainties surrounding future oil demand (world economy, consuming countries’ policies, technological developments, etc.)
- supply side, taking into account: resources, potential non-OPEC production, extent and timing of required investment, together with associated uncertainties
### Oil Demand Outlook, mb/d

<table>
<thead>
<tr>
<th>Reference</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>51.4</td>
<td>52.7</td>
<td>53.8</td>
<td>54.7</td>
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<tr>
<td>DCs</td>
<td>34.4</td>
<td>40.3</td>
<td>46.4</td>
<td>52.8</td>
</tr>
<tr>
<td>Transition economies</td>
<td>5.1</td>
<td>5.4</td>
<td>5.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Total World</td>
<td>90.9</td>
<td>98.4</td>
<td>105.9</td>
<td>113.4</td>
</tr>
<tr>
<td>Tight market scenario</td>
<td>93.1</td>
<td>101.9</td>
<td>111.2</td>
<td></td>
</tr>
<tr>
<td>Soft market scenario</td>
<td>89.2</td>
<td>94.4</td>
<td>99.0</td>
<td></td>
</tr>
</tbody>
</table>

“Four-fifths of the increase in demand of 30 mb/d over the period 2005–2025 comes from developing countries.

Transportation continues to be the dominant source of growth (~60 %)

Many uncertainties: GDP, technology, policy – substantial downside risks
### Oil production outlook, mb/d

**Reference** | 2005 | 2010 | 2020 | 2025
--- | --- | --- | --- | ---
OECD | 20.9 | 20.9 | 19.9 | 19.3
DCs excl. OPEC | 16.1 | 18.2 | 19.4 | 18.9
Russia & Caspian | 11.7 | 13.1 | 14.9 | 15.3
Non-OPEC | 50.5 | 54.3 | 56.8 | 56.4
OPEC (incl. NGLs) | 33.1 | 36.6 | 49.1 | 57.0
World | 83.6 | 90.9 | 105.9 | 113.4

**OPEC Market Share %**

|  | 2005 | 2010 | 2020 | 2025 |
--- | --- | --- | --- | ---
OPEC (incl. NGLs) | 40 | 40 | 46 | 50

**OPEC (incl. NGLs)**

- **Tight market scenario**
  - 2005: 33.7
  - 2010: 40.4
  - 2020: 53.9

- **Soft market scenario**
  - 2005: 32.6
  - 2010: 32.7
  - 2020: 42.6

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- **Key sources of non-OPEC increase**: Latin America, Africa, Russia and Caspian
- **OPEC increasingly supplies incremental barrel**
- **Significant medium- to long-term uncertainties**
Oil resources and availability

Proven reserves 891 billion barrels 78% of world figure
Production > 30 million barrels a day ~ 40% of world figure
Exports > 21 million barrels a day ~50% of world figure

Cheaper to exploit than non-OPEC oil
Increasing call on OPEC oil in coming years
>50% world oil market projected for 2025
Continued cooperation & genuine dialogue: underlying consensus on handling major issues of mutual concern for the benefit of all.

International Energy Forum; International Energy Agency; APEC; EU-OPEC Energy Dialogue; Euro-Mediterranean Dialogue; EU-Gulf Cooperation Council; Asian Oil and Gas Ministers Round Table; Non-OPEC at OPEC Conferences; OPEC & Non-OPEC experts meetings ...

Effective engagement on all interrelated issues

- Security of supply and demand
- Price stability
- Energy policies
- Multilateral issues (e.g., Kyoto Protocol, WTO)
- Technology (e.g., cleaner oil technologies, CO2 sequestration with EOR)

Shared responsibility
Thank you