Oil market stability: the role of OPEC

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The trend towards rising prices
Price volatility – initial reaction spring 2004

• Something strange happening to market
• Temporary?
  • How temporary?
  • How extensive?
• Fundamental?
  • What new factors?
  • How deep-rooted?
• How long for market to adjust?
  • What price level?
  • What supply and demand level?
How should producers* react?

• Hold their breath for a while?
• Take lightweight actions?
• Handle the fundamentals?

**Huge** risk in investing in capacity that may not be used
  Large upfront investment
  Long lead-times

*With capability to increase production capacity*
World oil demand growth, mb/d
Despite high oil price levels, the world economy has been relatively resilient.
OPEC’s commitment to stability

1960 Inaugural meeting
1961 OPEC Statute
1975 First Solemn Declaration of OPEC Heads of State and Government
2000 Second Solemn Declaration of OPEC Heads of State and Government
2005 OPEC’s Long-Term Strategy

PLUS

Almost all official OPEC resolutions, speeches, press releases, etc
“The Organization shall devise ways and means of ensuring the stabilisation of prices in international markets, with a view to eliminating harmful and unnecessary fluctuations”

“Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing: a steady income to the 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”

*The OPEC Statute was first adopted in 1961.*
Energy security

“The concept of ‘global energy security’ is so fundamental to life in the 21st century that every effort must be made to clarify its meaning, to gain a consensus on this and to ensure that its true principles are embodied in decision-making processes across the energy sector by at least the major players.”

*OPEC statement to G8 Energy Ministerial Meeting in Moscow, March 2006*

Security of demand must go hand-in-hand with security of supply as a means of achieving market stability
OPEC’s response to market developments*

Qualitative judgement
Reviewing outlook
Commitment to stability and reasonable prices
Decision over market measures
Call for support from other parties
Implementation of decision

*On the basis of deliberations at Meetings of the OPEC Conference.
OPEC crude capacity continues to expand
The downstream is also important

Refining investment requirements to 2015

Price formation: the role of speculation

Speculation is causing much price volatility and disruption; this MUST be addressed.
Long-term oil demand outlook, \textit{mb/d}

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- Reference case sees oil demand rise by 30 mb/d by 2025
- Four-fifths of increase in demand in developing countries
- However, OECD remains dominant consumer
- Developing countries will consume, on average, five times less oil per person, compared with OECD countries
Conventional liquid resource base is sufficient

[Graph showing USGS estimates of remaining resources and cumulative production from 1984 to 2000.]
### Long-term oil supply outlook, \( mb/d \)

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Non-OPEC increases: Latin America, Africa, Russia, Caspian
Cumulative investment in OPEC: three scenarios

Uncertain future demand translates into a broad range of possible OPEC investment needs.
Qualitative aspects of stability

• Environment
  • Reducing local pollution, improving air quality, etc
  • Meeting climate change challenges, e.g.
    • Carbon capture and storage
    • Clean development mechanism

• Sustainable development
  • Socioeconomic development
  • Eradication of poverty
  • UN Millennium Development Goals

Energy security applies to all nations of the world, and the eradication of energy poverty demands urgent attention
Conclusion

Dialogue and cooperation should exist at every level of the industry and in associated areas, such as academia, if it is to be truly effective. The stakes are very high and we all stand to benefit from sustained stability in this leading sector of the global economy.