Energy outlook:
Challenges and opportunities for OPEC

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Oil and non-energy price behaviour

The real price is still well below historical highs

Non-energy commodity prices have also risen
What has been behind the recent oil price movements?

• Current high stock levels would normally point to falling prices

• Convergence of factors:
  • Strong economic growth
  • Slowdown in expansion of non-OPEC supply
  • Dwindling levels of spare capacity
  • Tightness in refining sector
  • Speculation

• Perceived and real impacts of:
  • Natural disasters
  • Geopolitical concerns
Speculation is an additional source of price volatility
Changing dynamics of demand

• Geographic shift in growth patterns
• Resilient economic and oil demand growth in the face of higher oil prices:
  • More efficient use of oil
  • Rising wealth
  • Switching away from oil has already largely taken place where viable
• Importance of trade to developing countries
  • Need to resume Doha Round negotiations
Changing dynamics of supply

- The resource base debate
- Technological developments
- Future relative role of OPEC and non-OPEC supply
- Expanding role of National Oil Companies
- Protection of the environment
- Possible role of alternatives
- Tightness in the downstream sector
- Cost issues: infrastructure, skilled labour
Conventional liquid resource base is sufficient
Alternative fuels

• OPEC acknowledges that alternatives have a role to play
• But it will be decades before alternatives have a significant share of global energy mix
• Biofuels receiving attention, but there are many drawbacks:
  • Biofuels provide only one per cent of the world’s liquid transport fuels
  • Expensive, unsustainable fiscal incentives and short-sighted policy initiatives
  • Energy balance debatable
  • Replacing food production with biofuels can mean a significant increase in food prices
Cleaner oil and gas technology

• Key question:
  • How to make increased fossil fuel use consistent with the third pillar of sustainable development: protection of the environment
• Huge progress made in improving air quality
• Carbon capture and storage (CCS) is a promising technology to address climate change concerns
• Industrialised countries should take the lead in this area by promoting large-scale demonstration projects
• OPEC commitment demonstrated through:
  • IEA Greenhouse Gas R&D Programme
  • EU-OPEC Roundtable on CCS
  • CDM conference in Riyadh, Saudi Arabia
The downstream is also important

Total investment needs to 2015: $310 billion (2005 prices)

Investment gap: $100 billion?

Range of additional required crude runs

Current expectations for distillation capacity expansion
Infrastructure and human resource constraints

- Cost inflation along the entire oil and gas chain
- Upstream costs have increased by 50 per cent since 2003
- Rig rates and the costs of steel and other raw materials are shifting significantly upwards
- Petroleum industry worldwide is suffering from a serious shortage of skilled labour for engineering, procurement, construction and operations
  - During 2005 wages alone increased by about 15%
  - Significant fall in petroleum engineering enrollment
- Efforts required to facilitate education and training
- Easier enrollment in universities across national borders
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* incl. NGLs
OPEC crude capacity continues to expand
Cumulative investment in OPEC: three scenarios

Uncertain future demand translates into a broad range of possible OPEC investment needs
The way forward

- OPEC better understood
- The challenges and opportunities need to be addressed collectively
- OPEC very much believes in enhanced dialogue and communication
- However, extreme poverty, still widely plaguing the world, needs to be urgently addressed
- 15th Session of UNCSD is of key significance