OPEC’s perspective on the world oil market

Dr Adnan Shihab-Eldin
Acting for the Secretary General

5th Russian Oil and Gas Week
31 October – 2 November 2005
Moscow, The Russian Federation
Robust oil demand growth (particularly in Asia)

China has become the 2nd largest consumer

Expected growth is higher than historical trend (last 10 years avg: 1.4 mb/d), but lower than the average for last 3 years (1.9 mb/d)

Strong economic growth in DCs (e.g., China, India): growing faster than the world with increasing share in global GDP

Globalization process (export-led growth, increasing role of FDI)
China's share in world oil consumption (%)

USA: 25.7%
China: 8.1%
Japan: 6.5%
Germany: 3.2%
India: 3.0%

• China has become the second largest oil consumer.
Strong growth in Chinese oil demand

Structural change in the economy - growing faster than the rest of the world, fueled by strong growth in oil.

Long-way to go: in line with rising per capita income levels, low per capita oil demand is yet to approach levels of other countries!
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

It would equate to ~ 650tb/d.
OPEC response: higher production leading to significant stock build up

OPEC response:
- additional supplies on the market by using the spare capacity (>4mb/d)
- accelerated projects to expand production capacity to meet rising demand & maintain spare capacity

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.

OECD commercial oil stocks

Closing levels, mb

Min-Max range: 1994-2004

Days of forward cover

Cumulative increase: Demand, OPEC, Non-OPEC (mb/d)

Source: OPEC
OPEC Crude, Production and Requirements in the Short term

OPEC gross & net capacity additions by type
Accelerated OPEC capacity expansion plans

**OPEC-10 capacity expansion (by country)**

- **Algeria**: 278
- **Indonesia**: 238
- **Iran**: 28
- **Kuwait**: 200
- **Libya**: 70
- **Nigeria**: 198
- **Qatar**: 100
- **KSA**: 200
- **UAE**: 110
- **Ven**: 94

*(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.
Tightness in global refinery system

**Refinery utilization trend:** shrinking refinery spare capacity!

- USA
- OECD
- WORLD

**Source:** BP Statistical Review, 2005.

**Overloading of Refining Industry**

Shrinking Refining Spare Capacity in Key Refinery Regions

*Asia = Japan, South Korea, China, India and Singapore. For some Asian countries May is estimated.*

**Ratio of conversion total refinery capacity**

<table>
<thead>
<tr>
<th>Country or Region</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA and Canada</td>
<td>75%</td>
<td>80%</td>
<td>85%</td>
<td>90%</td>
<td>95%</td>
</tr>
<tr>
<td>Mediterranean</td>
<td>70%</td>
<td>75%</td>
<td>80%</td>
<td>85%</td>
<td>90%</td>
</tr>
<tr>
<td>Northern Europe</td>
<td>60%</td>
<td>65%</td>
<td>70%</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td>Asia</td>
<td>65%</td>
<td>70%</td>
<td>75%</td>
<td>80%</td>
<td>85%</td>
</tr>
</tbody>
</table>

**Increasing Refinery Utilization Rate in Key Markets**

- EU15 & Norway
- USA
- Asia*

**Tightness in global refinery system**
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.
**Comparison of profits vs investments of major international oil companies** *(1989 - 2004)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change (bn US$)</strong></td>
<td>52</td>
<td>19</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td><strong>Ratio of downstream to total (%)</strong></td>
<td>74</td>
<td>26</td>
<td>91</td>
<td>9</td>
</tr>
<tr>
<td><strong>Ratio of investments to profits (%)</strong></td>
<td>36</td>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*/ It includes ExxonMobil, BP, Shell, ChevronTexaco, Total.*
Refinery expansion lagging behind demand growth

Incremental product demand compared with crude and refining capacity expansion

Lag in investment will allow capacity build up only as of 2007

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

* inflation & exchange-rate adjusted. (Base: September 2005=100, US$/b)
Declining oil intensity
boe / PPP - $1,000 (1995) GDP

Steady decline in oil intensities!
**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>
</tr>
<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**
Regional oil demand & net import requirements (mb/d)

M.East OPEC contribution to world oil trade is expected to increase from ~30% to ~40% in 2025.
Proven reserves: 891 billion barrels, which is 78% of the world figure.

Production: > 30 million barrels a day, which is ~40% of the world figure.

Exports: > 21 million barrels a day, which is ~50% of the world figure.

- Cheaper to exploit than non-OPEC oil.
- Increasing call on OPEC oil in coming years.
- >50% world oil market projected for 2025.
Thank you