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Middle East and North Africa Energy 2014
New Uncertainties and New Opportunities

‘How can longer-term oil price fluctuations be managed?’

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The importance of a fair and stable price

- The size, scope, and complexity of the global oil market make it almost unique among physical commodities

- How oil prices evolve matters to every one of us

- High oil prices are bad for consumers today and lead to situations that are bad for producers tomorrow

- Low oil prices are bad for producers today and lead to situations that are bad for consumers tomorrow

- Extreme prices – either too high or too low – are not in the interests of either producers or consumers

- It is important to better understand how the market can help realize a stable and fair oil price and eliminate excessive fluctuations

- We need to differentiate between ‘normal’ fluctuations and those that are ‘extreme’
Close link between crude oil prices and speculative activity

**Nymex WTI price vs. managed money net positions**

- Managed money net long positions (RHS)
- WTI (LHS)

**ICE Brent price vs. managed money net positions**

- Managed money net long positions (RHS)
- ICE Brent (LHS)
Market speculation and oil prices

- In 2008 crude prices escalated from around $90/b in January to $145/b in the middle of the year, before sinking to around $30 in December – speculation was a major driver.
- We cannot eliminate speculation and volatility altogether, but extremes are not conducive to an efficiently functioning market.
- In 2013, oil prices were generally in the $100-$110 range – acceptable to both producers and consumers.
- But speculative activities continue to play a role – we need to continually look to mitigate extreme volatility and excessive speculation.
Prices and the long-term nature of the industry

- Long-term oil prices and fluctuations cannot be managed – price forecasts cannot be made with absolute certainty

- However, what can be done is provide a strong and stable framework for the future

- Need to continually work towards a balanced market between supply and demand

- We believe market fundamentals are balanced today
  - There is enough supply to meet demand
  - Spare capacity and stocks are at healthy levels
  - Prices are at comfortable levels for producers and consumers

- Stability and a balanced market today are helpful in providing stability and a balanced market in the future
Other factors that can impact price stability and the market

- Rational and impartial supply and demand forecasts

- More reliable and transparent data, for example, through JODI

- A better understanding of demand side developments – security of demand is just as important to producers, as security of supply is to consumers
  - All investments require certain conditions
  - Producers do not want to waste precious resources on infrastructure that might not be needed in the future
  - Under- or over-investment can lead to future price fluctuations
  - OPEC committed to invest, and to ensure consumers receive oil when they need it

- Understanding the cost of the marginal barrel
  - Most likely today – some oil sands projects, tight oil plays, deepwater, Arctic
  - At what prices might some of these projects become unworkable?
  - It is in no-one’s interest to have ‘on-off, on-off’ investments every time prices witness extreme fluctuations

- Taxation on end-consumers
  - In some countries, the amount of taxes paid by end-consumers at the pump is more than 50% of the overall cost
  - It is clear that taxation has the potential to accentuate price fluctuations for consumers
Three key words to take away

There are no guarantees we can eliminate long-term price fluctuations, but we can try and put the best framework in place to arrive at a future that works for us all.

Given the need for clarity and predictability, there are three key words – ‘stability, stability, stability’

- Stability for investments and expansion to flourish;
- Stability for economies around the world to grow;
- Stability for producers, allowing them a fair return from the exploitation of their non-renewable natural resources

And long-term price stability is a fundamental element to all of this.
Thank you

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