Organization of the
Petroleum Exporting Countries

SESSION: Oil Market Trajectories:
Long-term Investment and Technology Risks

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Impacts of the low oil price environment

- The pressure this has exerted on the industry has translated into significant cuts in **capital expenditure** in **E&P** for the second year in a row.

- **Global upstream spending** is seen as having fallen slightly less in 2016 compared to 2015: **22%** in the former versus **26%** in the latter.

- The **total amount** over those two years equates to a loss of more than **$300 billion**.

- Despite cost reductions and productivity gains, companies still face financial strains. Some have **cancelled or deferred projects** – resulting in overall downturn in non-OPEC supply growth.

- **Non-OPEC supply growth** has shifted from 2.3 mb/d in 2014 to 1.5 mb/d in 2015. In 2016, it contracted further, falling to a negative 0.8 mb/d.

- Currently, the **forecast for 2017** indicates a rebound of 0.3 mb/d, which is attributed mainly to the growth in conventionals.

Historic and landmark agreements

- The **Algiers Accord** of September 28th 2016 committed OPEC Member Countries to adjusting production by around 1.2 mb/d to bring the OPEC ceiling to 32.5 mb/d, effective January 1st, 2017.

- The consensus decision on the final implementation of the Accord among OPEC Member Countries was reached with the **Vienna Agreement** at the 171st Meeting of the Conference on November 30th.

- This agreement between OPEC and non-OPEC countries was formalized through a **Declaration of Cooperation** with 11 non-OPEC countries on December 10th.

- The Declaration underlined the resolve of 24 countries to achieve an accelerated realignment of global oil supply and demand.

- The Declaration also demonstrated the shared commitment to help reinforce the decision through the establishment of a **Joint Ministerial Monitoring Committee**.

Impacts of the landmark agreements

- **First**, the market structure has reversed itself and prices have reversed their downward trend. The OPEC Reference Basket price has even recovered to some of the highest levels seen since July 2015.

- **Second**, overall sentiment towards better market prospects has improved.

- **Third**, the conditions needed for desired world economic growth have been supported.

- **Fourth**, the decisions reached have been equally important for long-term market stability, particularly with regard to future global oil supply and demand.

Key highlights from the *World Oil Outlook*

- Total **primary energy demand** worldwide, the *Outlook* sees growth of 40% in the period to 2040. In terms of oil demand, it is estimated to reach 109 million barrels per day by 2040.

- The bulk of this growth is seen coming from the **road transportation**, **petrochemicals** and **aviation** sectors – with developing countries leading much of this growth.

- **Rising population and expanding economies** will without a doubt continue to call for growth in energy demand for the foreseeable future.

- This will especially be the case in developing countries, many of which face **energy poverty**.

- While **fossil fuels** are expected to see their share in the energy mix fall from **81%** to **77%** by **2040**, oil and gas combined are still anticipated to account for **53%** of total energy needs in **2040**.

- Long-term oil-related **investments of around $10 trillion** are required over the period to 2040, underscoring the need for sustainable market stability in stark perspective.

- The energy and oil industry will require **extensive and uninterrupted investments** – and an enabling environment for these investments, particularly characterized by sustainable market stability.

- On the **supply side**, non-OPEC sees a recovery in the medium-term but then plateaus, before declining post-2030. In the long-term, OPEC will be required to meet much of the expected additional demand.

- The estimated **share of OPEC crude** in total world liquids supply in 2040 is 37%, three percentage points higher than in 2015.

- In the **downstream**, there are expectations that new refining capacity will follow future oil demand growth in developing regions.

- The expectation is that **crude trade flows** between the Middle East and the Asia-Pacific will make up almost 50% of global oil movements by 2040.

- The **environmental challenges** applying to all types of energy will continue, calling for innovative technological developments from all types of energy within the energy mix.

- The complex, interrelated, and interdependent nature of energy markets require **structured cooperation** with all stakeholders to approach and address the challenges as an energy system.