Oil and the fuel price: the link to market stability

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Acting for the Secretary General

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Exceptionally high world GDP growth at 5.1% in 2004
This led to highest growth in oil demand since 1976
Main contributors to world oil demand growth by region (2003-2006)

- Exceptionally high levels of growth in oil demand from large emerging economies in Asia, especially China & India.
- Strong growth in North America – U.S.A. as well.
OPEC significantly increased its production & maintained high level of output to ensure that market needs are met.

OPEC crude oil production: Response to strong demand growth, mb/d
Medium term — OPEC expansions up to 2010
Upstream: global supply in excess of expected demand

- OPEC accelerated expansion plans with upstream capital investments ($100 billion+)
- Estimated non-OPEC supply & demand growth, to keep OPEC crude requirements in the 31-33 mb/d range in 2010; capacity expected 38 mb/d.

Source: OPEC.
Reasonable level of spare capacity

“...The timing and size of capacity expansion in Member Countries... should be such that a reasonable level of spare capacity is available.”

The OPEC Long-Term Strategy
“...there is a need to support fair and stable prices, sustainability of supply, and security of demand.”

The OPEC Long-Term Strategy
“The Organization shall devise ways and means of ensuring the stabilisation of (oil) 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.*
Oil Demand Outlook, mb/d

- Oil demand increases by 30 mb/d by 2025, or 1.5 mb/d annually
- Four-fifths of the increase in demand comes from developing countries
- Transportation continues to be the dominant source of growth (~60 %)
- Many uncertainties: GDP, technology, policy
Taxation of oil products
Diesel prices & taxes, December 2005

- **USA**: 19%
- **Canada**: 25%
- **Japan**: 34%
- **France**: 48%
- **Germany**: 50%
- **Italy**: 44%
- **UK**: 60%

**Crude CIF Price**
**Industry Margin**
**Tax**

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US$/litre
There is considerable uncertainty over how much oil OPEC will need to produce, (mb/d)

- Significant uncertainties with substantial downside risks.
- Considerable implications on the scale & timing of investments!

![Graph showing oil market dynamics and projections]
Cumulative OPEC investment requirements: how much is needed to provide market stability?

If OPEC balances the market, the huge uncertainties in future oil demand translate into huge uncertainties and risks for future OPEC investment.
Tightness in the downstream sector could be expected to remain a potential source of volatility; timely investment in the refining sector is needed!
“...the primary responsibility for downstream investment remains with major consuming countries and international oil companies.”

*The OPEC Long-Term Strategy*
Important issues in the transportation sector

- **Transportation sector to remain major source of oil demand growth for the foreseeable future**
- **Vehicle ownership set to rise globally, particularly in DCs**
- **Limited impact of fuel substitution in road transport**
- **Gasoline & diesel expected to retain its dominant share**
- **Continued significant quality improvements for environmental friendlier oil products used in transportation**

*OPEC Workshop on Modelling Fuel Demand in the Transportation Sector, Vienna, January 2006*
“OPEC also calls for the promotion of the development of technologies that address climate change concerns. One promising example is that of carbon dioxide capture and storage technology…”

*The OPEC Long-Term Strategy*
Enhanced & more in-depth Dialogue

“Dialogue… should be widened and deepened to cover more issues of mutual concern, such as security of demand and supply…”

The OPEC Long-Term Strategy
Thank you

Organization of the Petroleum Exporting Countries

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OPEC

Stability in the oil market