OPEC bulletin

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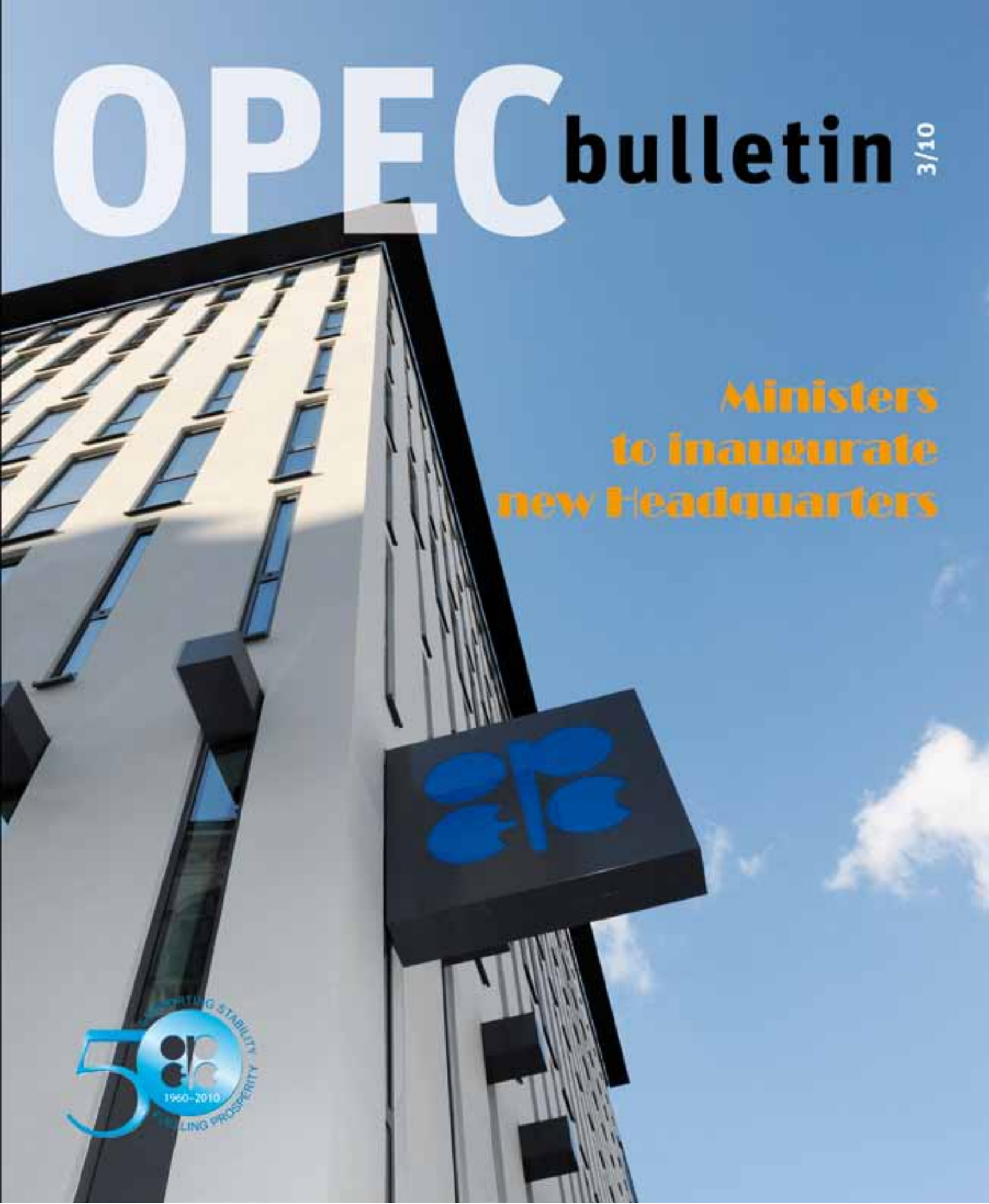
Ministers to inaugurate new Headquarters



Focus on OPEC in Golden Anniversary year

OPEC's Ministers will be reflecting on the past, the present and the future when they come to their new headquarters in Vienna for the 156th Meeting of the Conference on March 17.

This year is the 50th anniversary of OPEC's birth and a series of special activities has been arranged to mark the occasion. These include the launch of a new Website, the preparation of special publications, the issue of commemorative postage stamps, the organization of competitions and — reaching a peak closer to the day itself, September 14 — the holding of cultural exhibitions and a high-level symposium.

They will highlight OPEC's achievements and the long way it has travelled since its almost unheralded birth in the very different world of 1960, when the powerful 'Western' interests controlled the world oil industry outside the former Soviet Union, with few returns for the oil-producing countries themselves. Underlying this will be the recognition that the Organization's subsequent elevation to the role of a key player in the oil industry has been due to its steadfast commitment to a sound set of objectives, in the interests of stability and growth, benefiting all parties. The Third Summit of OPEC Heads of State and Government in 2007 reaffirmed this commitment, with its three guiding themes of stability of global energy markets, energy for sustainable development, and energy and environment.

The Ministers will also be examining the present outlook for the oil market at a time of continuing uncertainty in the world economy. There is the growing imbalance between OECD and non-OECD growth, as countries emerge from recession. There are fears of double-dip recession in some cases. There is the gathering debate about the extent and timing of exit strategies from the stimulus packages imposed during the crisis. And there is the realization that overheating in some emerging economies may lead to tougher stands on expansionary policies.

Oil prices themselves have held up well over the past five months within a range of around $70–80/barrel for the OPEC Reference Basket. OPEC's decisions of December 2008 have played a part in this. For now, this price range seems to provide a practical working balance between the interests of producers and consumers. At the same time, however, there is still more talk than action about the introduction of effective regulatory measures in the financial sector. This is leaving oil, as well as other commodity sectors, exposed to new rounds of severe price volatility, which is detrimental to both the oil industry and the world economy at large. As we learned two years ago, no party gains from this.

Importantly, OPEC's decisions require the support of other oil-producers to improve their effectiveness. The Organization has made no secret of the fact that it is disappointed by some non-OPEC producers looking to OPEC to act in the market when prices are down, only to back away from this and take a more laissez faire approach when the market outlook improves again. All parties benefit from a stable, healthy oil sector and so all parties must be prepared to contribute towards achieving this.

Turning to the future, the March 17 Conference will be the first one to be held in the Secretariat's new building in Vienna's central district. Indeed, the official opening by OPEC Conference President Germánico Pinto will take place on that very day, with the Austrian Foreign Minister, the Mayor of Vienna and other distinguished guests present. The state-of-the-art premises has been purpose-built to match the Secretariat's specific needs.

Clearly, as it stands on the threshold of its second half-century OPEC is in sound shape to continue its mission to achieve lasting order and stability in the international oil market and support steady growth in the world economy. And the solid, sustained support of other leading parties in the industry in today's high-tech, interdependent energy world will greatly enhance the effectiveness of this.

Contents

OPEC bulletin

Cover
This month's cover shows the Organization's new Headquarters, to be inaugurated by OPEC's Ministers on March 17 (see story on page 16).
Photo: Diana Golpashin.

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OPEC Membership and aims
OPEC is a permanent, intergovernmental Organization, established in Baghdad, on September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective — to coordinate and unify petroleum policies among its Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization comprises 12 Members: Qatar joined in 1961; SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); Nigeria (1971); Angola (2007). Ecuador joined OPEC in 1973, suspended its Membership in 1992, and rejoined in 2007. Gabon joined in 1975 and left in 1995. Indonesia joined in 1962 and suspended its Membership on December 31, 2008.

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OPEC Secretary General spends busy week in London ...

El-Badri calls on all energy stakeholders to work together

OPEC Secretary General, Abdalla Salem El-Badri, returned to Chatham House, London, in February 2010, where he was one of the keynote speakers at the institute's 'Prospects for Middle East and North Africa Energy' conference.

During his week-long stay in the United Kingdom capital, El-Badri had a busy schedule, holding several television interviews — with CNN, BBC Radio, Russia Today, as well as the Reuters, Bloomberg and Wall Street Journal video services. He also attended a press conference of the international media and conducted an extensive interview with the leading trade magazine, Petroleum Economist.

El-Badri also held meetings with oil industry officials and dignitaries, including talks with Lord Howell, former UK Energy Secretary.

With OPEC celebrating its 50th Anniversary this year, El-Badri's address to the Chatham House conference, which he also attended in 2009, highlighted the major role the Organization plays in meeting the world's energy needs and also the enormous growth seen in OPEC's oil reserves, since its birth in Baghdad, Iraq, in 1960.

He told conference delegates that, alongside the far deeper role which OPEC now had on the international oil platform, there was also far more trust and confidence in the Organization's actions.

This, he said, was largely because OPEC had always worked hard to ensure a steady and reliable supply of oil to the consuming countries to support world economic growth.

By consistently investing in new production capacity, OPEC continued to demonstrate its efforts to support market stability, El-Badri pointed out.

But he also warned that OPEC and the oil industry as a whole continued to face several major challenges.

As a result of the global recession, OPEC had encountered a dramatic fall in world oil demand in 2008 and 2009 and this had created further uncertainties over future oil use.

Persistent oil price volatility, inflated costs, and a lack of qualified oil industry personnel, were other pressing issues that needed to be tackled, El-Badri maintained.

However, the OPEC Secretary General said that on a more positive note a much-needed dialogue was taking place within the framework of the International Energy Forum (IEF), to discuss ways and means of mitigating oil price volatility.

While recent proposals from the United States Commodity Futures Trading Commission (CFTC) to limit excessive speculation in the futures and over-the-counter markets were also steps in the right direction.

Going forward, El Badri encouraged all energy stakeholders to continue to work together and to explore new avenues of cooperation. This, he pointed out, could only help create a more stable and secure environment.

"We are more mature. We can forecast better. We have accumulated experience and we can contribute positively to the oil market. We can also assure the world that we are capable of supplying the oil for the future."

— Wall Street Journal video interview

A fall in compliance by OPEC Member Countries to their production allocations was "worrying — the risk is you see a lot of oil in the market and no one is buying it. Then the price will come down."

— BBC's 'Business Daily' radio interview

Policymakers needed to be cautious when removing their economic stimulus packages. "The exit should be very carefully done because it will have an impact on growth itself and on demand. The first and second quarters will be very difficult — demand will pick up in the second half of the year if we are careful to exit at the right time." On prices: They should remain in a range of $70–80/barrel through 2010.

— interview with CNN's John Defterious

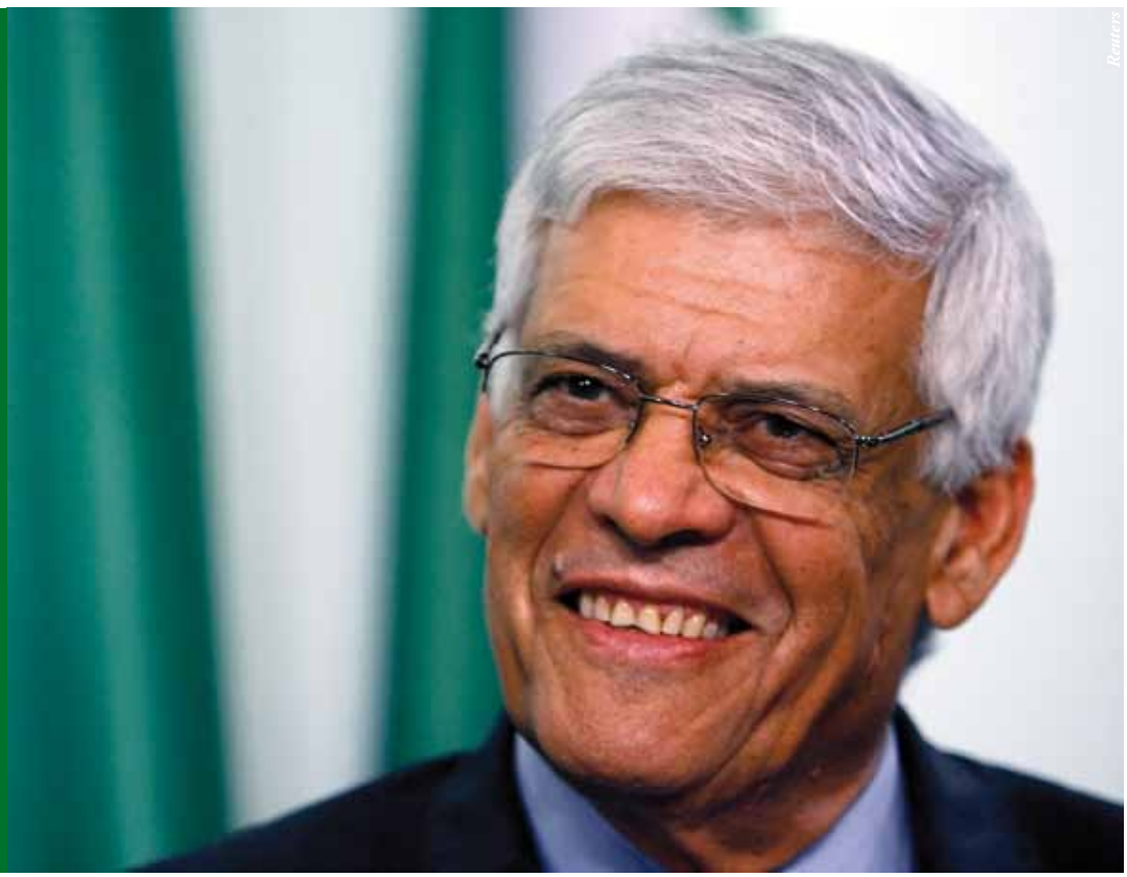
Although oil prices were in a range OPEC was satisfied with, uncertainty about the outlook for demand still remained a worry. OPEC producers needed more clarity over long-term oil demand if they were to continue investing in new output capacity. On a positive note, greater certainty over oil prices during recent months meant that the Organization's producers had started to revisit stalled upstream projects. On threats by US politicians to reduce their dependency on Arab oil: "If they do not want to buy Arab oil, it is up to them. But I have been hearing this since (the time of) President Nixon."

— interview with Petroleum Economist

Left: Abdalla Salem El-Badri, OPEC Secretary General.

Prospects for Middle East and North Africa energy

"There is no doubt that the world today has enough oil reserves to satisfy consumers for decades to come."



OPEC Secretary General, Abdalla Salem El-Badri, delivered the following address to the Chatham House conference in London, on February 1, 2010.

In 1960, when OPEC was born, the Middle East was already an important and growing crude supply region, while North Africa was in the early stages of developing its newly found oil reserves.

At that time, the five Founding Members of OPEC held a total of around 200 billion barrels of reserves, or two-thirds of world deposits. On average, they supplied 7.9 million barrels/day of crude oil to world markets, representing more than one-third of total world production.

Today, 50 years later, OPEC is even more important.

The Organization's reserves have multiplied by a factor of five to reach 1 trillion b and its daily production has multiplied by nearly four, to reach 29m b/d. However, its production capacity reached more than 35.2m b/d in 2009.

Of course, this growth is partly due to the fact that OPEC went from having five to 12 Members. But even if we limit the comparison to the five original Founding Members, the growth is still impressive. Their reserves are almost four times larger and their production levels are almost three times greater today than in 1960.

In the downstream sector, the change is even more dramatic.

The increased importance of OPEC has been accompanied by growing recognition of its positive role, and by more trust and confidence in its actions. This is the result of several factors. First, OPEC has consistently ensured supplies to the market in a timely manner. Second, a genuine and forward-looking dialogue has helped improve the mutual understanding of producers and consumers.

Plentiful reserves

There is no doubt that the world today has enough oil reserves to satisfy consumers for decades to come.

But recently, when prices went up, there were some who claimed that oil would soon lose its lead in the energy mix and that oil resources would soon vanish. It is not surprising to hear such claims. It has happened throughout the 150 years of oil's history.

But this is resource pessimism. And it is partly fuelling speculation.

It is true that crude oil resources are finite. But they are plentiful. Estimates from the US Geological Survey of ultimately recoverable reserves have practically doubled since the early 1980s — to 3.4tr b. Cumulative production to date represents only one-third of this figure.

Improved technology, successful exploration and enhanced recovery have enabled the world to continually increase its resource base to levels well above past expectations. And this will continue in the future. Recently, Brazil made giant discoveries in the pre-salt section of its offshore basins. And last year, an oil company was able to drill a well to more than 10,000 metres in depth.

Significant discoveries have also been made in new areas. Currently, more than three-quarters of the world's proven recoverable crude oil reserves — or 1tr b — lie in OPEC Member Countries. This figure will certainly increase in the future, given the under-explored status of most of our Countries and the potential for increases in the ultimate recovery factors.

In managing the development of these resources, OPEC Member Countries are working towards providing a regular and efficient supply of oil to consumers, while also ensuring a fair return to investors and exercising their permanent sovereignty over these resources. This will benefit present and future generations.

Of course, in addition to conventional oil, there is also a vast resource base of non-conventional oil — such as tar sands, oil shale, gas-to-liquids, coal-to-liquids and biofuels. It should be clear that the challenge is not — and never was — related to the availability of reserves. The challenge has to do with their deliverability and sustainability. To turn these reserves into a supply of products, investments are needed, both upstream and downstream.

Investment challenges

The oil industry in general — and OPEC in particular — faces three main uncertainties in this regard. They relate to future crude demand, long-term oil prices and inflating costs.

The challenge represented by the future demand for crude has been even greater as the world has faced its deepest, longest and most widespread economic crisis since the Great Depression. The causes of this recession are very well known to all of us and need not be mentioned again, but the consequences have choked demand for oil.

World oil demand fell dramatically in 2008 and 2009 — by 2m b/d. It is the first time since the early 1980s that oil demand has declined in two successive years.

Thanks in part to the massive fiscal and monetary intervention by many governments, there are signs that a recovery is under way. But its strength and pace are still highly uncertain. Unemployment in OECD countries is still of great concern. Credit is tight and private sector spending has not recovered enough to fully support economic expansion, without government stimulus.

With all this in mind, we have considered various scenarios. In OPEC's *World Oil Outlook*, published in July last year, we explored the future uncertainties related to demand and economic growth. Our data show that as early as 2020, demand for OPEC crude could be as low as 29m b/d, or as high as 37m b/d.

This translates into an uncertainty gap for upstream investments in OPEC Member Countries of over $250bn. There is, therefore, the very real possibility of wasting financial resources on unneeded capacity.

In the long-term, world oil demand is a bit more encouraging. OPEC's reference case is expected to grow from 85m b/d in 2008 to nearly 106m b/d by 2030.

But without the confidence that there will be additional demand for oil, there may be no incentives to invest. And if investments are not made in a timely manner, then future consumer needs might not be met.

OPEC continues to invest

Despite these challenges, large investments to expand upstream capacity are currently underway in OPEC Member Countries. In 2009, around 30 projects came onstream in OPEC Countries, resulting in 1.5m b/d of net crude and liquids capacity. For the next five years, the completion of another 140 projects is expected to add around 12m b/d of gross crude and liquids capacity.

Therefore, we believe that current investments should be enough to both satisfy demand for OPEC crude and provide a comfortable cushion of spare capacity — of more than 6m b/d by 2013.

OPEC has also invested in expanding downstream capacity, both inside and outside Member Countries. Cumulative investment in downstream capacity in Member Countries until 2015 is estimated at around $40bn. This will expand refining capacity by more than 2m b/d — to more than 10m b/d. In addition, another $25bn is being invested abroad, adding further capacity to the global refining system.

All this points to one of OPEC's ongoing commitments: investing in production capacity. Such investments help OPEC support market stability.

Oil price volatility

Permit me to briefly outline what I view as the most urgent challenges facing the oil industry now, namely extreme oil price volatility, inflated costs, and a lack of qualified personnel.

The extreme price volatility witnessed in the last three years has generated harmful uncertainties with regard to the long-term price of oil. This has, in turn, negatively impacted the ability of companies and producing and consuming countries to plan their investments and budgets. Since 2007, OPEC has been warning that the large swings in oil prices were mainly driven by non-fundamental factors. But these warnings went unheeded.

Thankfully, things have evolved. There is now dialogue within the framework of the International Energy

Forum (IEF) to mitigate this volatility, a dialogue we welcome. In addition, we consider recent proposals from the CFTC in the US to limit excessive speculation in the futures and over-the-counter markets are steps in the right direction.

Inflated costs faced by the oil industry in upstream and downstream activities are another obstacle to investments. In addition, policies in consuming countries add a further layer of uncertainty.

Finally, we are faced with the lack of qualified human resources. Global enrolment in geology and petroleum engineering courses has been dropping for years and many qualified workers are retiring from our industry. This has become one of our most urgent needs.

Crucial time

Clearly, this is a crucial time.

The world has been evolving towards greater interdependence and more integrated energy markets. And the world will continue to need more and more energy.

It is true that an increasingly diversified range of sources will contribute towards satisfying these needs. But oil will remain the fuel of choice.

Considering the fact that everyone has faced daunting challenges with the global economy recently, I cannot emphasize enough the need to work together. The responses of governments to the recent economic crisis have demonstrated the importance of coordinated efforts.

OPEC's Third Summit of Heads of State in Riyadh in 2007 called for developing existing and new avenues of cooperation with all stakeholders. In this spirit, we are endeavouring to enhance formal and active dialogues with many producing and consuming countries. OPEC is also active within the IEF, a platform for promoting producer-consumer dialogue.

It is these joint efforts, about which I am optimistic, that will lead us all to a more secure, stable and sustainable world.

"Improved technology, successful exploration and enhanced recovery have enabled the world to continually increase its resource base to levels well above past expectations."

Subroto: the smiling Secretary General

*In the first of a series of reflective interviews to mark OPEC's 50th anniversary, the OPEC Bulletin's **James Griffin** talks with Indonesia's **Professor Subroto**, who served the Organization as Secretary General from 1988–94. Subroto offers up his thoughts on his time at the Secretariat, from both an internal and external perspective, and recalls some of the major events that marked his term in office.*

Bulletin: Dr Subroto, during your time as OPEC Secretary General there were a number of key events and significant happenings. What do you recall of these? And what do you feel was the most important development during the six years you headed up the OPEC Secretariat?

Subroto: There were, of course, a number of major events, such as the Gulf Conflict in 1990 that we had to deal with during this period. Reflecting on the period as a whole, however, I believe that the most important development was the establishment of cooperation between OPEC and the International Energy Agency (IEA). For many years prior to 1988 and during the early part of my time at the Secretariat, the relationship between the two organizations was one of cat and mouse. It often felt like the two organizations were crossing swords every time they met.

Gradually, however, the relationship developed and I believe it was in Paris in 1991 that we sat next to each other for the first time at an event. There was a coming together and an understanding that in many respects our interests, particularly in regards to market stability, were similar. Following this, the understanding between Helga Steeg (then head of the IEA) and I developed, and a more formal relationship between the two organizations was built.

At that time the word 'dialogue' was seen very much as taboo, but the organizations were able to sit down together and initiate such a thing. And this helped in pushing forward the establishment of the International Energy Forum (IEF); a forum that allows all stakeholders to discuss and deliberate the oil industry's challenges and opportunities. Often, the problem in the past was that producers and consumers did not have complete data to make decisions. I think the IEF and the Joint Oil Data Initiative have helped provide an improved picture of supply and demand. This has been a good thing for oil market stability.

I believe this was the most important development during my time as OPEC Secretary General — and these events have had very important implications for the global oil industry. The slogan I remember from that time was 'from confrontation to cooperation'. And there is clearly a more cooperative environment today.

So, how did you feel yesterday when you saw the current OPEC Secretary General, Abdalla Salem El-Badri, and the current Executive Director of the IEA, Nobuo Tanaka, sharing a platform in an open and convivial manner?

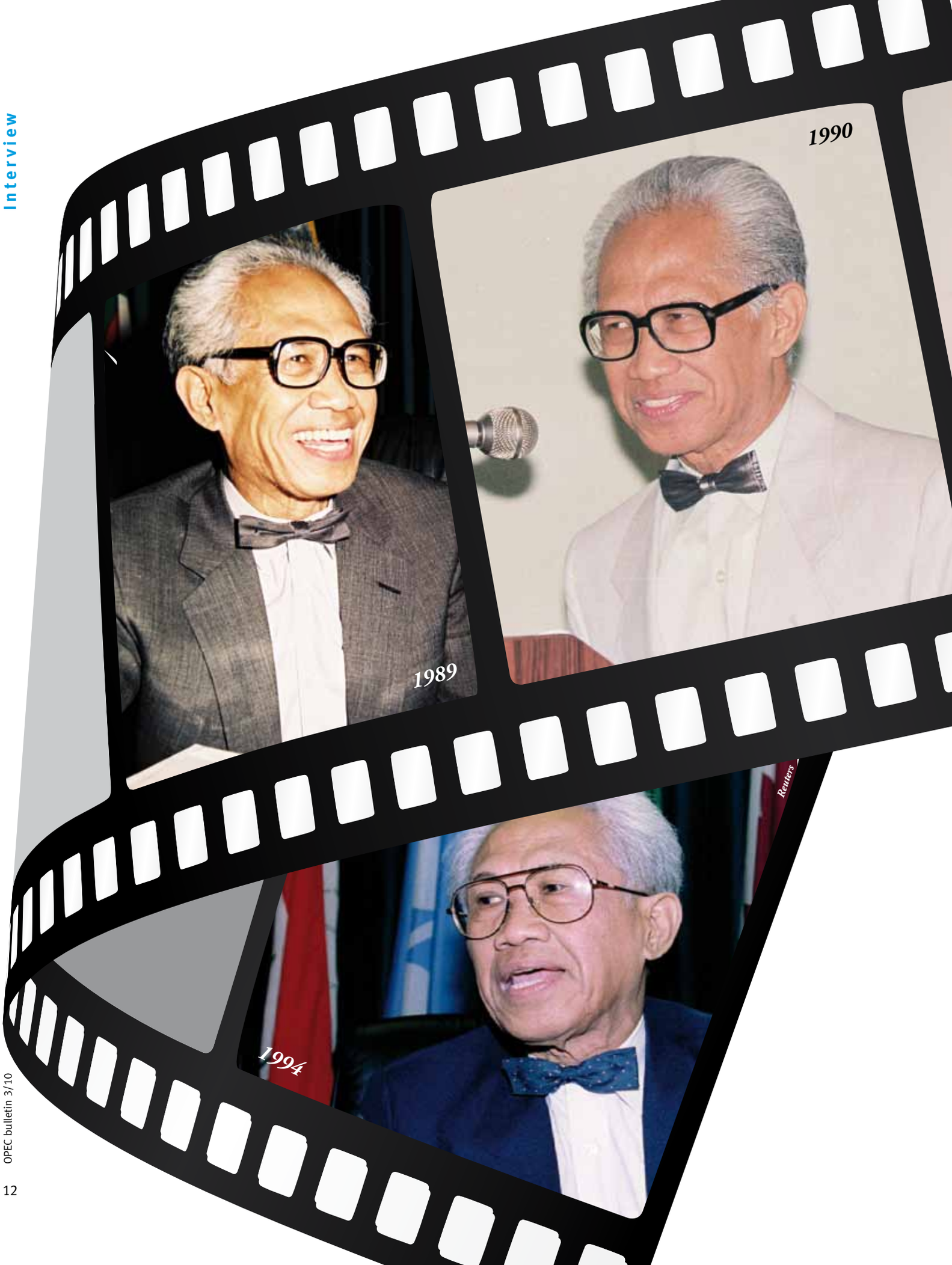
It did make me reflect back on how things were in the 1970s and 1980s, and how more cooperative relationships are today. It really is an important change the industry has gone through.

Your time in office also coincided with a greater focus on the environmental agenda. There was the Rio Summit of 1992, and in the same year, OPEC held its first environmental seminar. How do you remember that this all played out?

I would like to emphasize that then, as it still does today, the environmental issue meant different things to different people. Here, I am talking about the economic, social and environmental challenges facing developing and developed countries. For developing countries, poverty alleviation, economic development and social progress were, and remain the priorities.

However, we realized that OPEC needed to play an active and positive part in any environmental negotia-


1986
2009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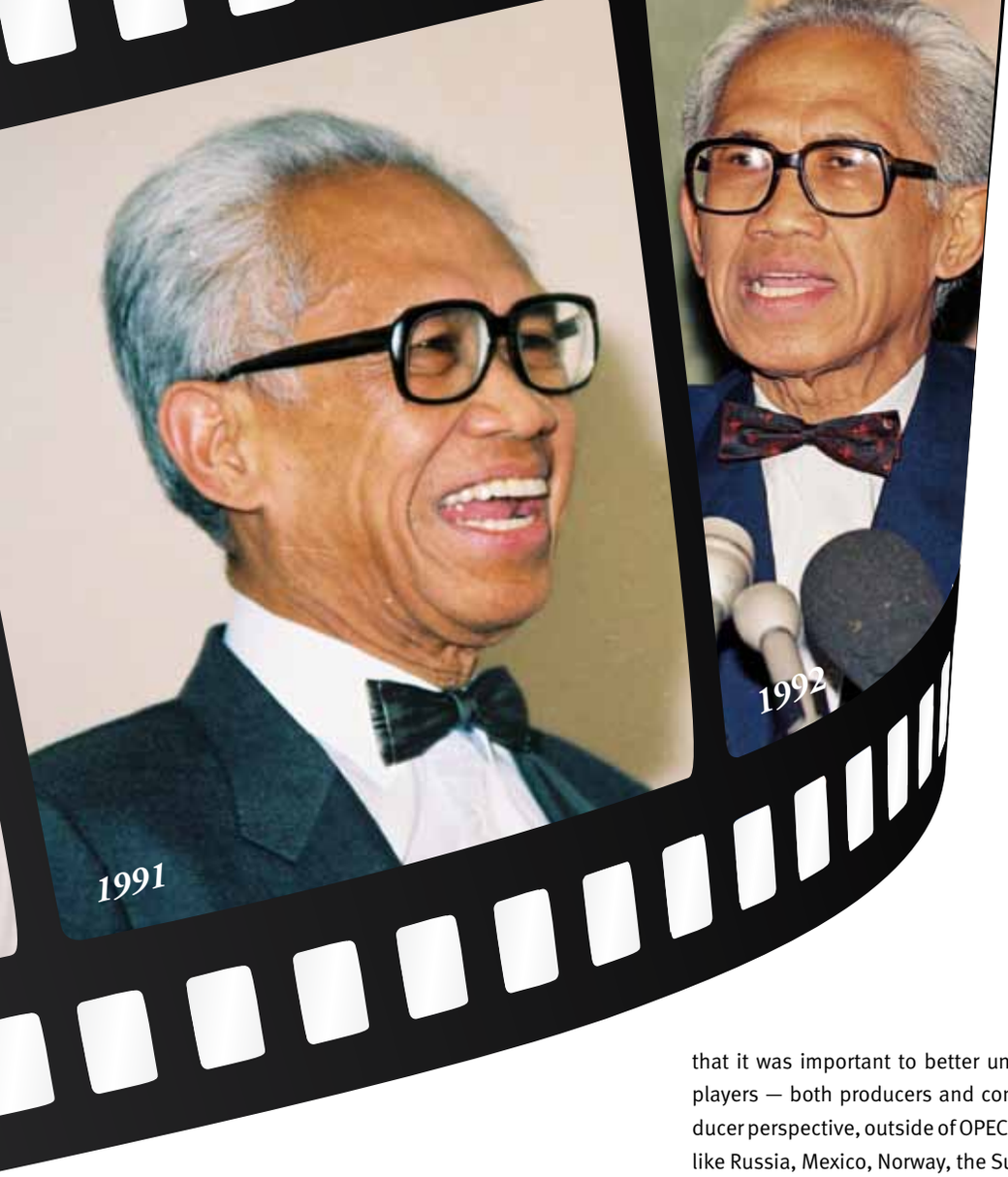


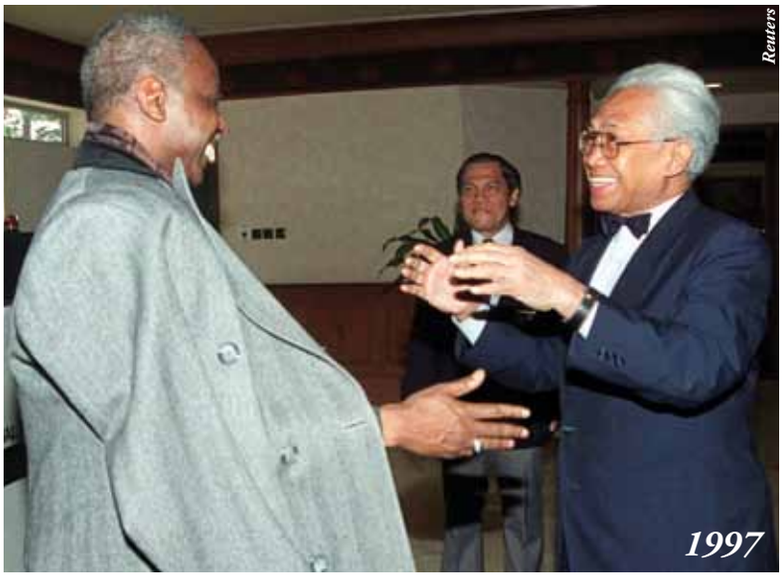
tions, which we did, and the Organization continues to do so. And we also recognized that we had good ideas in relation to the environment. It was obviously early days for negotiations and environmental events, but it was good that the Organization was part of the process at this time.

I would also like to take you back to one important event prior to you taking office. This covers the period following the 1986 price collapse when you and colleagues travelled the world to gather support for initiatives to bring about price stability. I believe you were called 'The Three Wise Men'?

As I remember, 'The Three Wise Men' were Rilwanu Lukman from Nigeria, Arturo Hernandez Grisanti from Venezuela, and I, obviously from Indonesia. There were a number of questions that we were confronted with at that time, but the key one was, how do we go about stabilizing prices and avoid the crazy fluctuations? We decided that it was important to better understand the market players — both producers and consumers. From a producer perspective, outside of OPEC, there were countries like Russia, Mexico, Norway, the Sultanate of Oman and Angola, which we believed could play a constructive role in bringing stability to the market. This meant travelling to these countries and talking to the ministers to reiterate OPEC's aim of stabilizing prices, for the benefit of both producers and consumers. It was a type of global dialogue.

Did it make a difference?

I believe it did. And the most important thing was that we had frequent visits to non-OPEC producers, which improved relationships. I should also like to say that at that time the non-OPEC countries were more or less represented by Hermann Franssen, then Advisor to the Minister of Petroleum and Minerals of the Sultanate of Oman. In many respects, he ended up being my counterpart in trying to nurture the relationship between the non-OPEC and OPEC Countries. And today, I do feel that there is a better understanding between OPEC and non-OPEC producers. In fact, Angola has joined the Organization and there is now a dialogue between Russia and OPEC. We



Subroto greets Dr Rilwanu Lukman, Nigeria's Petroleum Resources Minister. To date, they are the two longest-serving OPEC Secretary Generals.

wanted to improve relationships back then, and I feel they have certainly improved over the intervening years.

On a more personal level, what do you remember from your time working at the OPEC Secretariat? And how would you like to be remembered?

At the time I took up my post at the OPEC Secretariat there was a lot of animosity from consumers, particularly a number of developed western countries, who thought that the Organization was bad; a kind of secret organization that could not be trusted. Despite this, I felt we needed to continue to talk with them and discuss important matters with them. We needed to keep the channels of communication open. And I remember that a major United States newspaper said that I provided a face for OPEC and most satisfyingly for me was the comment that it was a gentle and kindly face. So I would like to be remembered as the smiling Secretary General who worked hard to improve the Organization and its image.

And what about within the Secretariat?

There are many things. I felt that we were able to strengthen the Economic Commission Board (ECB). Before we had good Member Country representatives, but it was not always easy to come together and discuss the important issues. By strengthening the ECB, we allowed more of this to happen. It became a very effective source of information to the Secretariat, so that better informed decisions could be taken at the Ministerial Meeting. And of course there were the Secretariat staff. I enjoyed meeting new people, working with them, talking about issues that are of common interest to us, training people so that they can improve themselves in the Secretariat, and establishing new friendships. And I would like to say that I was also very privileged to have had the opportunity to work for the OPEC Secretariat for six years.

There were obviously many important decisions made during your tenure. With hindsight — I know this is never easy — do you feel there were any decisions that could have perhaps been taken differently?

Yes, this is a difficult question. I always make decisions at the time with good intentions. From the viewpoint of OPEC, decisions were always taken in the interest of market stability and in my honest opinion we did not make any big mistakes. The only decision I perhaps look back on with some thought in this regard is the one taken in Bali in 1980 during tensions between Iran and Iraq. At that time we took into account the oil market situation and a decision was taken to fix the official price of the Marker Crude at the level of $32/b; that prices of OPEC crudes may be set on the basis of an oil price ceiling for a deemed Marker Crude of up to $36/b; and to set the maximum price for OPEC Crudes at $41/b.

The upshot of this decision was that it allowed non-OPEC producers to find and produce more, new producers also came into the market, and in turn, OPEC's market share fell. In addition, demand fell. By mid-1987, the price of oil had dropped to below $10/b. With hindsight, the decision taken in Bali could have been different. But it should be remembered that decisions were taken without complete information; it was often like shooting at a moving target.

I can appreciate that work at the Secretariat filled up a great deal of your time in Vienna, but I know from talking to staff who worked with you during this period that you were also very active in a variety of leisure pursuits. Is this true?

Yes, very much so. At this time I remember that I felt in the peak of health. And I particularly enjoyed sports. There was tennis. I think wherever I went I had a tennis racket with me! And I also skied quite a bit. As you probably know, the ski fields are only about one hour from Vienna. That was great. I had skied before in my early twenties, in Norway, at the back end of the 1940s. In fact, this was the first time I saw snow! In Austria, however, I had more time to enjoy the pursuit. My ski instructor actually still works at the Secretariat, Siham Alawami. I just did downhill skiing and enjoyed it very much. It was something I really missed when I returned to Jakarta! I also loved the Opera in Vienna, and this is something I still very much enjoy in Jakarta.

I know Indonesia recently left the Organization after more than 40 years as a Member, but I was hoping you could look back and underscore what the benefits of OPEC Membership were for your country?

The benefits were political and economic. Looking at it from a political viewpoint, it should be remembered that

OPEC was set up in response to the domination of the so-called 'Seven Sisters' and the established industrial powers. It was a move that underlined that developing countries had rights. Their resources were their own. It was, and continues to be, a good example of a developing world organization. All this was of benefit to Indonesia.

Indonesia was also only a relatively small producer when it joined, and yet within OPEC the country had a voice. This is both externally, as Indonesia participated in the decision-making process to make sure producers received a steady income, and internally, where it sometimes played a mediating role. This was all essential for Indonesia, as given its large population, it needed to receive a good income from its petroleum reserves.

Looking back, the five Founder Members of OPEC had a vision that centered on having a greater say over their own resources. Fifty years on, do you think this vision has been actualized?

Yes, very much so. As I just mentioned, OPEC was set up to counter the dominance of the 'Seven Sisters', and because these countries wanted to receive the benefits of their own natural resources. And today, this is happening. For example, one only needs to look at the many strong national oil companies today. For a developing country organization to have such an impact — it is a good thing. And it is still going strong.

So how do feel the Organization is viewed on the world stage today?

Today, you do not hear many people taking part in what I might term 'OPEC bashing'. This is because OPEC's position and goals are better explained to the world. I think there is a better appreciation of what OPEC is doing. This also comes through in the realization that the IEF is a positive initiative that has been pushed along by OPEC. What OPEC as an Organization is aiming for is market stability — and that benefits all parties. And I should also like to add that one of OPEC's Member Countries, Saudi Arabia, is a member of the G20. I feel that more and more people are seeing OPEC's positive impacts on the global stage.

Here, I think I should also mention the media and OPEC's better relations with the press. It is evident that the western press has become less hostile and I think that is because OPEC has opened up more and talked about the decisions it makes. Yes, there are some who when asked about OPEC will recall the 1970s and queues at the pumps, but I think in general, OPEC is becoming better understood.

Looking ahead, how do you envisage OPEC's role developing? What are its major challenges?

What are the underlying factors expected to influence the market? What will happen in the future? There are many questions that we all wish we had the answer to. I think when we look at the market over the past few years, it could be suggested that oil has developed a kind of split personality. It has, of course, traditionally been a physical commodity, but in recent years its role as a financial asset has grown. It has meant increased speculation, and as we have all witnessed, there has been much volatility in the oil price. A key challenge going forward will be to help mitigate this kind of speculation and reduce price volatility. This will obviously require the cooperation of many industry stakeholders. As always, the goal for OPEC is ensuring market stability.

The impacts of climate change also need to be factored in. It is clear that many countries are looking at alternatives to oil. What about the global climate change negotiations? And how might all this impact OPEC production? This is something that OPEC Member Countries need to better understand. OPEC should also look to continually push for new, cleaner and more efficient technologies. And then there is also energy conservation, from both a producer and consumer perspective.

The issue of future demand, particularly where and when, will also be critical in the years ahead. And it is clear that the majority of future demand will come from developing countries. Obviously, developing nations want to attain the same standard of living as developed countries, and this will of course mean more energy usage. There are many challenges ahead, but I think OPEC can be optimistic about the future.

We are coming to the end of our time, but I was hoping, given that this interview was set up as part of OPEC's 50th Anniversary celebrations, you might have a few words to say to OPEC on this occasion?

I think that if you look at the past 50 years and say that OPEC has played an important oil market role, one could deem it an understatement. I feel OPEC has become a well-respected Organization; it has contributed to bringing prosperity to the world; it is an Organization of which the developing world can be proud; and over time it has become an open Organization that talks frankly and openly with the world at large. These are great achievements.

And going forward, OPEC should stick to its Statute and remain a responsible organization that provides consumers with regular supplies, a steady income to producers and fair returns for investors.

Professor Subroto **was born in September 1928 in Surakarta, Central Java, Indonesia. He was Indonesia's Minister of Mines and Energy from 1978 to 1988; and from 1988 to 1994 was Secretary General of OPEC.**

OPEC Ministers to inaugurate new Headquarters

The official opening of OPEC's new Secretariat will take place on March 17, when the Organization's Conference meets for the first time in the recently completed state-of-the-art building.

By Keith Aylward-Marchant

Cutting the ribbon at the opening will be OPEC Conference President, Germánico Pinto, at a ceremony whose guests will include dignitaries from inside and outside the Organization. Among them will be Austrian Foreign Minister, Michael Spindelegger, and the Mayor of Vienna, Dr Michael Häupl.

And this is happening in the year of OPEC's Golden Anniversary.

The Secretariat moved into the new premises in Vienna's central first district on November 30, 2009. This has allowed a big build-up to the mid-March event where there will be an opportunity to reflect upon OPEC's past, present and future.

The inauguration has been planned to take place on the day that OPEC's Oil and Energy Ministers visit Vienna for the 156th Meeting of the Conference, with Pinto, Ecuador's Minister of Non-Renewable Natural Resources, as Conference President for the first time.

Remarkable transformation

The Ministers will examine the oil market outlook at a time of continuing uncertainty in the world economy. They will note that the price of the OPEC Reference Basket has stayed within a range of $70–80/barrel over the past five months. And they are expected to discuss whether any changes will be needed to the Organization's market-stabilization measures for the second quarter of the year and beyond.

However, underlying all this will be the significance of the third quarter, which will see OPEC turn 50 on September 14.

The Ministers will reflect upon OPEC's remarkable transformation from humble beginnings in Baghdad, Iraq, in 1960 to its present role as a major player on the world energy stage.

At the same time, they will recognize the need to keep building for the future, in accordance with the three guiding themes defined by the Third Summit of OPEC Heads of State and Government in Riyadh in 2007: stability of global energy markets; energy for sustainable development; and energy and environment.

Hence the importance of the Secretariat's move into its new premises on the corner of

Captured on film ... the next few pages give an idea as to how the construction of the new OPEC headquarters progressed from just a hole in the ground.

Helferstorferstrasse and Wipplingerstrasse, between the old Stock Exchange and Vienna University's modern Faculty of Law.

The state-of-the-art facilities have been tailored to OPEC's requirements to better equip it to meet the many challenges facing the industry in the new decade.

The new building has eight upper floors, a ground floor and a four-tier basement, with car parks and storage facilities. Its total usable area of about 9,000 square metres is ample for the Secretariat's 138 staff members and allows for expansion in the future.

Work began on the project in January 2007 with the demolition of the old building, which had previously housed the Austrian Association of Trade Unions. The lease agreement between OPEC and the owner, Euro-PRISA, was signed on September 18 of the same year.

Special signing ceremony

The OPEC Headquarters Agreement between the Republic of Austria and OPEC was amended at a special signing ceremony of the Protocol in the country's Federal Ministry for European and International Affairs in Vienna on September 30 this year. Signatories were OPEC Secretary General, Abdalla Salem El-Badri and the Austrian Foreign Minister, who described the venture as opening a new chapter in relations between Austria and OPEC. Also present was Ambassador Ernst-Peter Brezovszky, Head of the Ministry's Department for International Conferences and International Organizations, who led the Austrian side of the venture.

OPEC formally took possession of the building on

OPEC Secretary General, Abdalla Salem El-Badri (c), reviews progress on the new building. Pictured with members of the Office Layout Task Force.

October 30, 2009. Under the leadership of the Secretary General, various committees and teams were set up in the Secretariat to plan the move, oversee its execution and coordinate with the numerous outside parties involved in it. Their work has been both intensive and extensive throughout the project and, indeed, continues today to address any issue that may arise as staff members continue to settle into their new working environment.

In the final build-up to the relocation, 'move coordinators' were appointed for each office and department of the Secretariat, to liaise with the staff at a more direct, localized level. Presentations on the new building were made to all the staff on November 5, and everyone was provided with a handbook containing important details about the move.

Throughout the venture, countless meetings have been held between the Secretariat and the outside parties involved in the move, including the Austrian Foreign Ministry, the City of Vienna and the local police authorities. For example, a total of 46 regular meetings have taken place between OPEC and EuroPRISA since the signing of the lease contract, and there have been numerous ad hoc ones on top of these.

The architects were Atelier Hayde Architekten from Vienna's 15th district and a consortium carried out the construction. Bene Consulting were responsible for the interior design and logistics of the move, ACP for the IT work and several companies for the audio-visual arrangements. The removal of goods and furniture from the old to the new building was undertaken by Spedition Fuchs and its distinctive orange and white packing boxes became a familiar sight to staff members during the move.

At the signing cermoney of the New Headquarters agreement, OPEC Secretary General, Abdalla Salem El-Badri (l) and Austrian Foreign Minister, Michael Spindelegger.

BREAKING WITH THE PAST

Demolition work on the old Secretariat building at Obere Donaustrasse 93, alongside the Danube Canal in Vienna's second district, began early in February. Pictured below, a man looks on while the specialist equipment tears away at walls, floors and ceilings. The whole of the front of the building had been pulled down by the time this picture was taken on February 22. Demolition work is expected to continue into April, leaving a large gap between the multi-storey office blocks of the Raiffeisenbank on its left and IBM on its right. It will be replaced by a 78-metre high skyscraper belonging to the bank, which bought the old Secretariat building in 2007.

Keith Marchant

Keith Marchant

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Deputy Ministers convene to review OPEC's Long-Term Strategy

OPEC Deputy Ministers of Petroleum and Energy met in Vienna, in early January, to review OPEC's Long-Term Strategy (LTS), which was first adopted by the Conference in September 2005.

Several meetings are planned throughout the year to discuss the LTS, which carries OPEC's overall objectives, its major challenges and possible future scenarios. Incorporating extensive research and analysis, it was the culmination of two-and-a-half years of work.

This year's first meeting of the Deputy Ministers — held on January 8 — was chaired by Prince Abdulaziz Bin Salman, Head of the Saudi Arabian Delegation, together with co-chair, Dr Bernard Mommer, Venezuela's OPEC Governor.

The 137th Meeting of the OPEC Conference, which endorsed the LTS, recommended that it be reviewed every five years.

In September 2009, OPEC's Ministers decided to commence the review of the LTS under the supervision of the Deputy Ministers.

Above: Prince Abdulaziz Bin Salman (c), Head of the Saudi Arabian Delegation, chaired the First Meeting of Deputy Ministers of Petroleum and Energy. He is seen here with Abdalla Salem El-Badri (l), OPEC Secretary General, and Dr Hasan M Qabazard (r), Director of the OPEC Research Division.

Above: OPEC Secretariat officials at the meeting — (l–r) Mohamed Hamel, Senior Adviser to the OPEC Secretary General; Fuad Al-Zayer, Head, Data Services Department; Angela Agoawike, Officer-in-Charge, Public Relations and Information Department; Alejandro Rodriguez, Head, Finance and Human Resources Department; Oswaldo Tapia, Head, Energy Studies Department; Safar Ali Keramati, Senior Refinery & Products Analyst; Dr Fuad Siala, Senior Alternative Sources of Energy Analyst; Nadir Guerer, Research Analyst.

Above: Delegates assembled for the first Meeting of the Deputy Ministers on January 8.

First OPEC Board of Governors meeting at new Headquarters

The 133rd Meeting of the OPEC Board of Governors took place at the new Headquarters on February 23–24, 2010. Assembled here after their deliberations (l–r): Dr Hasan M Qabazard, Director, OPEC Research Division; Hamid Dahmani, Algeria's Governor for OPEC; Dr Diego Stacey, Ecuador's Governor for OPEC; Dr Omar Farouk Ibrahim, Nigeria's ad hoc Governor for OPEC; Ahmed Mohamed Elghaber, SP Libyan AJ's Governor for OPEC and Chairman of the Board of Governors; Abdalla Salem El-Badri, OPEC Secretary General; Siham Abdulrazzak Razzouqi, Kuwait's Governor for OPEC; Dr Falah J Alamri, Iraq's Governor for OPEC; Issa Shahin Al Ghanim, Qatar's Governor for OPEC; Félix Manuel Ferreira, Angola's Governor for OPEC; Seyed Mohammad Ali Khatibi Tabatabai, Iran's Governor for OPEC; Dr Majid A Al-Moneef, Saudi Arabia's Governor for OPEC; Dr Bernard Mommer, Venezuela's Governor for OPEC. Ali Obaid Al Yabhouni, the UAE's Governor for OPEC, was not present for the photo-shoot.

New Qatari Governor appointed

Issa Shahin Al Ghanim *(pictured right),* who has over 30 years of experience in the oil and gas industry, has been appointed Qatar's OPEC Governor.

Currently Director of Strategic Planning and Policy at the national oil company, Qatar Petroleum (QP), Al Ghanim received a BA in Political Science from Portland State University, Oregon, in 1979 and then attained his Master's in Economics from the American University, Washington DC, in 1987.

He joined the Ministry of Finance and Petroleum's Department of Petroleum Affairs in 1979 as an economist researcher and progressed to become Head of the department's Economic Section. His main responsibilities comprised the appraisal of major oil and gas projects, representing his government in negotiations with international oil companies, and representing Qatar in various OPEC and international forums and meetings.

Al Ghanim joined QP in 1990 as a Senior Economist in the Corporate Planning Department and assumed the responsibility of the department from 1993. His main responsibilities were setting up the 'Strategic Planning System' for the Corporation and advising the Managing Director and the Board on business strategies, plans, performance monitoring, as well as investment portfolios.

He was appointed Director for Strategic Planning and Policy in charge of the same responsibilities, plus alternative energies (nuclear and renewables), energy policy and trade in 2009.

A member of various QP senior management committees, from 2003 to 2009 he served as Vice Chairman of the Board of Directors (and Chief Executive Officer) for the Qatar General Electricity and Water Corporation (Kahramaa), the sole buyer and distributor of power and water in Qatar.

He is currently Board Vice Chairman of the Qatar Electricity and Water Company, the main power and water producing company in Qatar and a joint-venture partner in all the Independent Power Producer (IPP) firms operating in the country.

Al Ghanim has published various papers in scholarly journals on oil and gas, as well as on the economy of Qatar and other economies of the regional Gulf Cooperation Council (GCC). In addition, he serves on the advisory council of the College of Business and Economics at the University of Qatar.

PRID Head completes OPEC term, joins Lukman's office

Transparency, trust, key to media relations

Dr Omar Farouk Ibrahim, Head of OPEC's PR & Information from February 2003 to February 2010.

After seven years of meritorious service at the OPEC Secretariat in Vienna, Austria, Dr Omar Farouk Ibrahim in February returned home to Abuja in his native Nigeria. This followed the completion of his tenure as Head of the Public Relations and Information Department (PRID).

Shortly before his departure, Ibrahim, in an interview granted to the OPEC Webcast team, reflected on his time at the Secretariat, describing his seven years there as a "very challenging experience."

He told moderator, Eithne Treanor: "Coming to OPEC, meeting with the international press, organizing press conferences, and attending to issues on oil, the oil market and other matters affecting Member Countries … it has been challenging, and very rewarding."

Webcast service

Asked about the improvement in openness shown by OPEC over the years, he said improving transparency was one of the key issues he felt he needed to work on when he came to the Organization.

"It has been a gradual process, but it has been decidedly conducted. The fact is, if we really want to be trusted, we need to be seen to be saying the right thing and at the right time. I am happy to say that we have really opened up in the last seven years.

"Today, journalists come to OPEC because they believe that what we say is right. We have no cause to keep information from them," he affirmed.

One of the activities Ibrahim said he was proud to have initiated during his time at OPEC was the Webcast service. This had proven to be extremely successful.

"One of the key things we set out to do from 2003 was to recognize that in the information age we really cannot do without the technology that is available. We have to harness the latest technology to enable us to efficiently disseminate our message."

And going by the response to this initiative, Ibrahim has every reason to be proud of its introduction and addition as yet another valuable tool of information dissemination now at the Secretariat's disposal.

He said that while OPEC now had its Webcast facility, as well as its videos on demand service, it was not just the electronic side that was important. There was also the printing of publications, such as the *OPEC Bulletin,* which, in recent years, had seen a high level of improvement in quality, content and regularity, in addition to the academic journal, the *OPEC Energy Review,* which, in 2008, was re-launched to enhance its profile and international standing.

Improved dissemination

These, added Ibrahim, were in addition to a number of other regular and special publications that came out of the Secretariat every year.

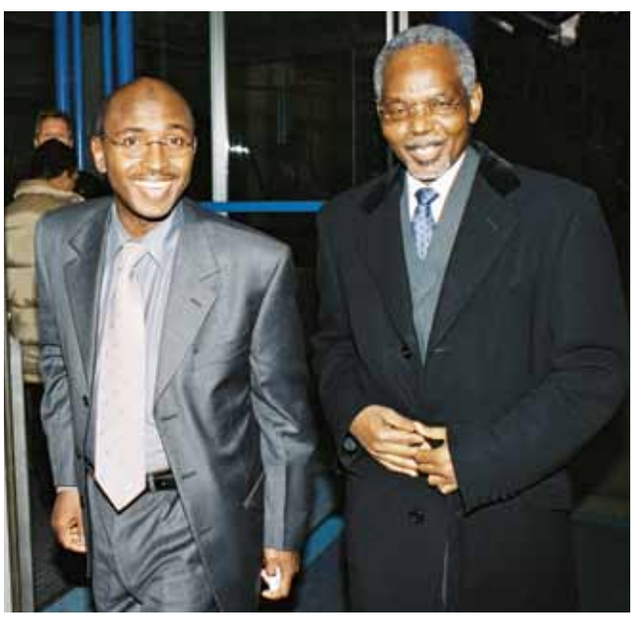
"Putting all this together, you will find that we really have changed in how we disseminate our information," he commented.

In referring to another example, Ibrahim noted that, two years ago, the Secretariat launched its *World Oil Outlook* publication. "Today, it is already one of the most prestigious publications in the oil industry which people in the business look up to. We used to have a report long before that which was limited to the Secretariat and Member Countries and, in line with our desire for openness, we said that if it is that important, let us share it with everyone. When we did that, people were initially surprised, but I hope the Secretariat continues in this vain in the future," he said.

Ibrahim paid tribute to the work of the Secretariat, stating that the kind of research it carried out was comparable with that of a number of key universities and research institutes worldwide.

"We do not have as many staff and we do not have as much in resources, but the way we run the Secretariat, and particularly the Research Division, has enabled us to come up with researches that compete favourably with the other institutions and universities across the world. We are really proud of that," he said.

Asked about the oil market in general, Ibrahim said



Top: Ibrahim in his office at the new OPEC Headquarters in Vienna.

Above: Ibrahim during an OPEC press conference in 2005.

Left: Ibrahim in 2003 with Dr Rilwanu Lukman, Nigeria's Petroleum Resources Minister.

Ibrahim in the interview with the OPEC Webcast team, reflected on his time at the Secretariat.

OPEC believed that stabilizing the oil market was not a job that any one person, or organization, or country, could do — it was a collective effort, an effort of the producers, the consumers, the investors and even the press.

"At the end of the day, you can do everything, but if some misinformation goes out, investors will react. If we really want to stabilize the global oil market, then all the parties that have an interest in it must consciously work to do just that," he stressed.

Importance of the press

Ibrahim also paid tribute to the press and media with whom he had interacted with during his years at OPEC, describing them as extremely important in getting the Organization's message across.

"In all seriousness, the press makes or does not make the market. Decisions are made based on information and that information is disseminated by the press. One cannot run the oil market today without the press. It performs a positive role, although it can also perform a negative role.

"But how the reporting is made does determine how the market reacts, positively or negatively. We talk about speculation — the press plays a role in this whether we like it or not. At the end of the day, we keep saying that if various parties within the industry play roles that undermine the stability of the oil market, all of us will suffer, including the press."

Ibrahim used as another example the situation in 2009 when some members of the press could not attend conferences and seminars because their firms had no money in the budget.

"When the global economy goes into recession, it affects everyone. Therefore, we have to understand that we all have a stake in working to ensure that we do the right thing and we report the right thing, which means that we do not sensationalize when we should not," he added.

In this regard, he maintained that the members of the press carried themselves well and took their responsibilities very seriously.

So what of life after OPEC? Well, Ibrahim was happy to report that his rubbing shoulders with the Organization would not be ending any time soon.

He now has the responsibility of bringing his wealth of experience to bear on the activities of Nigeria's oil industry as Communications Adviser to his country's Petroleum Resources Minister, Dr Rilwanu Lukman, a former Secretary General of OPEC and Conference President. That responsibility will surely bring him into contact with OPEC affairs and future meetings.

Acknowledging the huge task ahead in his new capacity, Ibrahim said: "I believe this will be a very big challenge. The Nigerian oil and gas industry is going through fundamental changes at the moment, changes that we believe are necessary if the country is to move ahead. We have some of the best personnel running the industry, but we also feel we need to build a team that can steer us through the restructuring that has just been started."

Going by his activities as Head of PRID, where he restructured the department into three distinct teams — Public Relations; Design and Production; and Editorial and Publication — for the central purpose of achieving the Secretariat's objective of establishing and promoting effective information gathering and dissemination, it would be fair to say that team and capacity-building are two of his strong points.

And it is this detail for organization, as well as his leadership skills, that will stand him in good stead in making a success of his new responsibility. His sense of fairness and commitment to subordinates will also be an asset in conducting his day-to-day affairs.

Away from practicalities, Ibrahim is grounded in the

Above: OPEC officials bid farewell to Ibrahim. L–r: Oswaldo Tapia, Head, Energy Studies Department; Mohamed Hamel, Senior Adviser to the Secretary General; Angela Agoawike, Officer-in-Charge, PR & Information Department; Abdullah Al-Shameri, Head, Office of the Secretary General; Fuad Al-Zayer, Head, Data Services Department; Alejandro Rodriguez Rivas, Head, Finance & Human Resources Department; Dr Nimat Abu Al-Soof, Senior Upstream Oil Industry Analyst; Abdalla Salem El-Badri, Secretary General; Mohammad Alipour-Jeddi, Head, Petroleum Studies Department; Dr Ibibia Lucky Worika, General Legal Counsel.

Left: Ibrahim with members of his team in the PR & Information Department (l–r): Diana Golpashin, Alaa Al-Saigh, Elfi Plakolm, Jerry Haylins, Martha Fischer, Siham Alawami, Andrea Birnbach, Angela Agoawike, Sally Jones, Keith Aylward-Marchant, James Griffin, Diana Lavnick, Ghada Sahab.

world of academics and journalism. He holds a PhD in Political Science from the University of Rutgers in New Jersey, in the United States, and taught for 19 years at the Bayero University, Kano, Nigeria, before joining the country's oldest media establishment, the Daily Times of Nigeria (DTN). At the DTN, he served variously as a Member of the Editorial Board and General Manager of its Northern Operations.

Before joining the OPEC Secretariat in 2003, Ibrahim was the Managing Director of the New Nigeria Newspapers and had also served on various Federal Government committees in different capacities.

Ibrahim is a devoted husband and father. All the staff in PRID and those that knew him at the OPEC Secretariat wish him well and even greater success in his new assignment.

A bite with the Bulletin ...

Professor Keywan Riahi — IIASA


IIASA

*This, the first in a series of interviews with energy industry professionals based in and around Vienna, Austria, sees the International Institute for Applied Systems Analysis' **Professor Keywan Riahi** (pictured), tell the OPEC Bulletin's **Steve Hughes** that there is still just about time for us to ensure that our energy future is sustainable.*

It is a dank, miserable December morning when Professor Keywan Riahi of the International Institute for Applied Systems Analysis (IIASA) steps into Café Schottenring — a capacious, elaborately ceilinged, Viennese institution that has served Großer Brauner coffees and more on the city's ring since 1879 — for our interview. His heavy schedule has not allowed for a lunch meeting, so we have settled for a late morning coffee instead.

But it is not only the winter weather that is dampening spirits — news journalists are doing what they do best too; casting doom and gloom. Websites across the world are reporting that the Copenhagen climate talks are in disarray after leaked documents appear to show world leaders will be asked to sign an agreement handing more power to rich countries, and sidelining the UN's role in all future climate change negotiations.

Professor Riahi seems to be in good enough spirits though, as he hangs up his coat, brushes off a few drops of rain and sits down across the table from me. He is off to Copenhagen himself in just a few days to present a paper on how to make short-term policies fit with long-term climate change objectives: "Basically what needs to be done over the next decades and how to achieve those goals," he explains.

Riahi joined IIASA in 1996 — "time passes fast", he tells me. He now leads its energy programme, which focuses on figuring out how the world's energy system needs to evolve to meet future needs — and all this without destroying the planet in the process. Currently, he is working on a global energy assessment that examines energy security, energy access and climate.

I ask if he is trying to predict the future. He does not seem to like the word predict. "Okay, the best term might be that we project possible changes in the future and

IIASA

The headquarters of the International Institute for Applied Systems Analysis in Laxenburg, just outside of Vienna.

try to understand uncertainties and involved risks," he says, with heavy emphasis on the word 'project'. "Then we identify what sort of measures you can take to reduce the risks and uncertainties," he adds. "My work focuses on the mitigation side — basically how do you restructure the energy system? Do you do it via efficiency? Do you need carbon capture and sequestration? How about renewables? What is the potential?"

A lot of his job, Riahi says, is about understanding the inertia of the energy system when responding to the need for reducing greenhouse gasses. This, he explains, is due mainly to the long-lift capital stock: "Think about power plants, think about transmission infrastructure — they all have lifetimes of 40 to 60 years. We have to have a better understanding of innovation processes and technology diffusion. You can conceptualize that with systems and models and then you can describe the future."

Monumental task

Riahi's work has global implications; the energy programme often advises national experts that, in turn, advise their national governments: "We have collaborations with India and with China who are very big players when you think about the climate change problem. And they are, of course, interested to know what their place is — what their strategic advantage is — given the short-term need for reducing emissions and long-term prospects."

I am struck by the monumental task of his job and ask if the responsibility weighs heavy on his shoulders. "It does sometimes," he says. "Sometimes the scientific work is exposed to interpretations that you really do not want, so you have to be very careful. Selected quotations can be used again out of context and they get misunderstood. You want to avoid that in a field where how fast we can address a problem actually depends a lot on the perceptions of decision-makers."

I ask what the global energy mix in 2050 needs to look like. "It has to be much, much more efficient than today," he affirms. "Compared with today, per value added of product that you produce, you would have to use less than half of the energy." I must frown, subconsciously. "That is something that can be achieved," he says quickly. "Efficiency potentials are very, very big — even in OECD countries."

If intelligent design is used, new buildings should not need to consume any energy at all. And they can be built at no more expense than those constructed using more traditional techniques, he contends. "You need standards — strict standards about energy consumption in new buildings. And you need to retrofit old buildings so you do not have so much waste heat."

It also has to do with lifestyles, he says. "There has to be a change in people's minds, so they understand 'if I take the bike or take the subway this has co-benefits — important benefits'."

I ask Riahi if he practices what he preaches. "Sometimes," he says, sheepishly. "I am travelling too much. But of course I try."

Unlike some scientists, Riahi does not try to bamboozle his audience with techno speak, even though he has the obvious capacity. He stops himself once or twice: "Sorry, that is probably too technical," he says. Neither does he pretend to have all the answers. When I ask him about sustainability, for example, he admits that it is a "very broad concept".

Paradigm shift

He says it is difficult to identify what is really sustainable. "I think it has to do with how we use our resources at the moment, how much we keep for future generations and what transformations we do for the environment." To make the global energy system truly sustainable, he says, there is a need to have a "real paradigm shift" that includes lifestyle and behaviour changes that result in reduced consumption, more efficient energies and new types of technologies.

According to Riahi, this last point about new technologies is one of the key elements that will allow developing countries to increase the living standards of their people without necessarily contradicting the global goal of reduced emissions. He is a great believer that developing countries should do just that: develop. He talks about 'equitable solutions' to the climate change problem on more than one occasion.

Development should be based on clean energy, he maintains. "I think many of the emissions cuts, while they create short-term costs, have long-term benefits," he explains. To get the ball rolling, the industrialized world "will have to think about creating incentives in those [developing] countries".

But while he acknowledges a role for both financial and technological transfers from rich countries to poor, he also argues that the potential of the developing world to help itself should not be overlooked: "There is a lot of innovation going on in China that we have to acknowledge."

Striking the correct balance mostly boils down to efficiency, he says. China, for example, "is very far away from the efficiency frontier" and major improvements could be readily realized by getting closer to this frontier. But these improvements are capital intensive, and so they are rarely implemented, he points out.

"So you could think about providing financial incentives in Europe, the United States and Japan to pay for some of those efficiency improvements, or to pay for specific projects that would increase the deployment of renewables, or carbon capture and storage (CCS), and projects like that."

Riahi sees CCS as a "bridging technology" that will allow mankind to extend the period for which fossil fuels can be used.

I ask him whether he would agree with OPEC's view that fossil fuels will remain an essential element in the energy mix for the foreseeable future. "Yes," he says. "They will remain." But to what extent depends on how successfully alternative forms of energy are harnessed, he says: "I think it would be very naïve to say, ok, we can switch within 10 to 20 years to completely different systems."

Whatever happens, CCS is vital, he says, but we should not be supine about it: "The main question is whether there will be sufficient research and development (R&D) and deployment investment," he argues. Developments in OPEC Member Countries — the In Salah project in Algeria, for example — are encouraging, but we must prepare ourselves for something on an entirely different scale.

He says: "CCS, large-scale, requires probably the management of the largest mass flow that has ever been seen on earth," his tone somewhere between a warning and a threat. "You have to move gigatonnes; billions of tonnes of materials through pipelines and then sequestrate it somewhere. You need more than just Sleipner, Weyburn and In Salah, and these few demonstration plants. This needs to be massive to make a difference."

And then there is the problem of public perception: "The moment this is seen as waste management, I think it will be almost impossible".

Riahi orders a mélange coffee, and I order a mineral water. I tell him I like the definition that his organization gives of itself on its website. "Founded in 1972," it states, "IIASA is an international scientific institute that conducts policy-oriented research into problems that are too large or complex to be solved by a single country or academic discipline." I ask him whether an issue like climate change can really be solved at all, and if so, how far away we are from a solution.

He ponders for a moment. Dressed in a brown corduroy jacket, with a blue shirt and striped tie, Riahi looks more like a friendly schoolteacher than the workaholic scientist that he admits to being. But since he holds a part-time post as Visiting Professor of Energy Systems Analysis at Graz University of Technology, Austria, perhaps this is no surprise.

Unruffled by the scope of the question, he answers

that in terms of understanding the climate change phenomena and assessing the risks and potential consequences, we have come a long way. It has become "more and more clear that there are enormous risks of irreversible impacts," he says.

Unfortunately, Riahi does not quite have the same faith in the progress that has been made when it comes to addressing the problem. "We are just at the beginning," he says. While he allows that some countries — he mentions Germany and Brazil specifically — have taken real steps to introduce low-emissions technologies, others have not.

He says that if the pace of change continues at its present speed, the world is on a very dangerous pathway. I start to ask if he thinks there is still scope to prevent some of the more potentially calamitous effects of climate change if the world gets it right in Copenhagen. "Of course there is scope," he says, before I can finish. "But there is not much time left for real drastic measures."

Riahi, who since 1998 has served as lead author to various Intergovernmental Panel on Climate Change assessment reports, argues that climate change is not the only — nor even the most pressing — issue on the energy agenda. "If you asked me about the ranking of the priorities, I would say energy access might have the highest priority," he says.

Smoke signals

While carbon emissions continue to generate global headlines, energy poverty, in comparison, is the poor relation in terms of exposure; the elephant in the room that people keep walking around. "There are two billion people relying on traditional biomass with all its health consequences. That is a problem that needs to be solved very rapidly, very short-term," he says.

A recent article in the *New Yorker* magazine elucidates his concerns, rhapsodically: "Wood smoke, as sweet as it smells, is a caustic swirl of chemical agents, including benzene, butadiene, styrene, formaldehyde, dioxin, and methylene chloride. Every leaf or husk adds its own compounds to the fire, producing a fume so corrosive that it can consume a piece of untreated steel in less than a year. The effect on the body is similar."

One of the article's interviewees claims that a map of the world's poor is easy to draw up: "Just follow the smoke," he says.

Energy poverty results in more than 1.5 million premature deaths annually, mainly for women and young children, who receive the highest exposure, says Riahi: "If you compare in financial terms what it requires to create access [to energy], the money that you need is very, very small compared with fundamental changes to the system that you need for climate change."

I ask Riahi what he thinks the biggest obstacle to tackling the energy access problem is. "It is not a technology issue," he says. "We are not calling for high-tech technologies. Mostly even, the technological knowledge is in the countries." Rather, he says, it is an attention issue.

An attention issue

Policies have to be introduced, he explains, that somehow enable poor people to afford fuel and appliances to cook on — micro financing perhaps. While there is a role to play for energy aid and the international community — "What you probably would need is some leverage funding, some seed funding from the developed world to initiate the process," — Riahi believes that things really need to start happening on the ground in the countries where the problem exists: "It is absolutely an attention issue."

We are fast approaching the end of our interview. Riahi says he needs to be away by 12.30 pm and the increasingly cacophonous babble of fellow customers signifies the lunchtime rush has already begun. The café's impressive tank-like coffee machine has begun to steam and hiss almost incessantly. But I feel the need to ask a closing question — one that tries to make sense of all the disconnected threads of our conversation so far. What should we do to make the future sustainable, I ask.

"We need massive changes in investment flows," he answers. "The up-scaling of R&D expenditure and more innovation. Almost all of the projections suggest that you have to double energy investment over the next few decades. And we have to address the attention problem too."

So, if we have the will and focus on a global scale, we can still do it, I say.

"Right," he says. "Science even shows us that the cost of doing it is relatively modest, particularly compared with the long-term benefits. But the challenge is that we need to do it comprehensively, basically everywhere in the world."

If we get it all wrong, do the possible resulting scenarios frighten him, I wonder.

"I think frighten is the wrong word," he says. "We are worried, but not afraid."

Why the derivatives market needs to be better regulated

At the height of the global economic crisis, the main topic of conversation in financial circles invariably included the catchwords risk-taking, speculation and greed, followed by urgent calls to put in place fast and binding instruments to better regulate the various markets involved, particularly over-the-counter trading in derivatives. Lately, with the world apparently coming out of recession, there has been little talk of such action. So, have the brokers and financial institutions and the governments that have to pay when it all goes wrong learned their lesson? So far, it would appear not. The scourge of speculation is still with us today and one oil and economic analyst, ***Mohammad Al-Fathi****, who lives in Vienna, the home of OPEC's Secretariat, and writes articles for Gulf News, is fearful history is just waiting to repeat itself.*

As a child, I always disliked the story of 'The Emperor has no clothes', simply because I could not understand how any king would believe in seeing something in nothing and why it would take a child to state the obvious. Little did I know that the questions I thought of then, I would ask again now to better understand the causes of a financial crisis.

Unfortunately, there are still so many disagreements concerning what actually needs to be done now that we have seen the results of lax regulations. It is difficult to see how anything will change anytime soon. For instance, speculation driving up oil prices for some is a clear cut case, but others might beg to differ.

It has been more than a year since the world's financial and economic problems reached a crescendo, but until now no meaningful regulation has been introduced to regulate over-the-counter (OTC) derivatives trading, which was thought to be a main contributing factor to the crisis.

In truth, there were a number of causes for the economic troubles. However, it is safe to say that the derivatives market was one of the main contributing factors to the crisis, or at the very least exacerbated it. It is also a fact that this market needs to be regulated, yet the talk about bonuses has trumped and deflected that of regulating speculation in OTC derivatives.

It should be noted that OTC derivatives cover a whole range of financial products, most notably subprime mortgages, so the financial system as a whole needs to be looked at, since so many sectors are involved. Unfortunately, the proposals that are being presented seem to be more about blaming bankers, rather than making sure that what happened between 2007 and 2008 does not occur again.

There are a number of reasons why there has been so little change in the regulatory framework, but there is one in particular that should be always borne in mind. Government tax revenues have fallen and should the financial sector and especially speculation be properly regulated they would slump even further. And at a time when governments have chosen to increase their debt commitments to unprecedented levels to pay for economic stimulus packages, tax revenues have become more crucial than ever. How much of a loss in revenue politicians are willing to stomach will probably end up defining the regulations that do eventually get implemented.

One of the stumbling blocks concerning the workings of OTC markets and how better to regulate them, is that it is difficult to get a straight answer from market participants. This is especially the case when considering value at risk (VaR) and mark-to-market (MtM) calculations, since the individuals involved show a great amount of creativity in valuing their deals before the actual end date and final value. Nothing is written in stone. It is up to the individual risk management teams of every company to define how they will use VaR and MtM and this will vary greatly, especially when considering different types of derivatives.

Whether this is true or not is irrelevant since the facts speak for themselves. OTC deals were meant to help companies hedge against price fluctuations in, for example, oil prices, or shipping rate movements. But, in practice, they became a way to make enormous amounts of money with little effort. Some of the deals were not being dealt on an exchange and did not need to be registered with the Securities and Exchange Commission and no one realized how much risk they were actually holding.

Pool of money created

Since the late 1990s, low interest rates and little or no regulation helped create a pool of money the financial institutions, especially hedge funds, were more than willing to tap into and speculate with. To make matters worse, the internet brought in a huge amount of money through broking accounts held by private individuals, which professional brokers were able to take advantage of.

Now that the crisis has somehow passed, or at least abated, these same companies are back doing what they did before and the respective governments, who talked about the need to regulate their activities, are seemingly more than happy about the prospect of increasing tax revenues through this avenue. Of course, activity in financial markets has dropped markedly. Some banks have chosen to reduce speculative activity and concentrate on traditional bank services, and some of the hedge funds no longer exist, but that is not as a result of regulation.

Instead of concentrating on what actually happened and what could be done to minimize future fluctuations, discussions always seem to be about the role of 'evil' bankers, even though the central banks and their governments played a crucial role as well. While things were going well the latter two were more than happy to take

the credit for the good economic times without looking at the obvious signs that the economy was overheating and the banks were overleveraged. Instead of looking for solutions to the problems, they have chosen instead to look for scapegoats. A perfect example of this is when oil prices reached record levels and they began to blame OPEC, rather than the speculative activity affecting the oil market.

Indeed, OPEC was a target at the time when many commodity prices were rising, because it was easy to point the finger at a group of developing nations. Interestingly, it was not possible to blame anyone for the higher prices seen in other commodities because no large grouping existed that represented a significant amount of production for any one of them.

"OPEC was a target at the time when many commodity prices were rising, because it was easy to point the finger at a group of developing nations."

In the past year, governments have begun to take heed of what OPEC has been saying. But this situation could very quickly change should crude prices rise again. For example, instead of commending OPEC for its actions in preventing a total collapse in the price of oil, which would obviously hurt consuming nations as well as the producers, and affect environmental efforts, they would blame OPEC by pointing to its lower than potential production by Member Countries.

It is unnecessary to understand the complexities of a particular market when you can blame an organization of wrong doing every time prices rise. And it is easier to do this than confront the real problem and try to introduce regulation that could alleviate some of the price volatility.

Had OPEC Member Countries earned more through higher oil prices than the oil-consuming countries through the taxation of both paper and physical markets for oil and oil products, then those same governments would surely have moved quickly to crack down on speculation.

It is now obvious for everyone to see that the emperor really does not have any clothes. Governments and institutions have done their best to protect a sector they have learned to depend on for the past ten years — and should they choose to make any fundamental changes it would put further pressure on economic growth and, as a consequence, growth in government revenues.

The recent gains made in the major indices, such as the S&P 500, were mainly due to banks' share prices rising again because of the recent profits they made partly with speculative trading activity. These same banks, some of whom would not exist today if it had not been for their respective governments coming to their rescue, actually handed out more bonuses than at the same time last year.

They have justified their actions by saying that they would lose their best people if they were not to make the payments. But this beggars the question how talented can these people be when they effectively managed to lose so much money and needed government help just a few months ago to bail them out?

In 2007, British Prime Minister, Gordon Brown, made a speech in which he declared: "It's the golden age of London." Until then, he had been Chancellor of the Exchequer for about ten years and this statement accurately describes the kind of mindset he had while making decisions about future spending plans. Government tax revenues had been rising steadily every year, mainly as a result of the financial sector in London, and he had been spending generously to ensure the Labour Party's popularity.

Unfortunately, he also took these revenues as being part of the permanent financial landscape and even sold the United Kingdom's gold reserves. In the immediate aftermath of the financial crisis, tax revenues dropped by 25 per cent and, to make matters worse, the country's debt levels rose to record highs.

The national debt rose to £845 billion in November 2009 from £706bn a year earlier and equivalent to 60.2 per cent of the UK's gross domestic product. With such huge levels of debt and a massive drop in revenues, it is crucial for the government to get the financial sector moving again. Whatever announcements they may make about regulation, the fact is that while the going was good they encouraged banks to lend more and take greater risks.

Misleading

Some governments, such as those in the UK and the United States, argue that regulation needs time to be enacted and it should not be done in haste. However, this is a misleading statement. It is true that it takes time to conceive and shape new laws, but a big chunk of the work was already done before most people had woken up to the dangers of OTC deals.

Under the leadership of Brooksley Born between 1996 and 1999, the Commodity Futures Trading Commission (CFTC), the US federal agency which oversees the futures and commodity options markets, tried to introduce a set of laws to govern OTC derivatives trading.

But Born's concerns were dismissed, the draft proposals for new laws shelved and the US government, with the support of congress, opted for self-governance.

In 1999, the government and congress took one step further and repealed the Glass-Steagall act, which was introduced after the Great Depression to limit the conflicts of interest created when commercial banks are permitted to underwrite stocks or bonds.

The new creed was "the markets will take care of themselves" and even after the financial crisis this mentality will still be difficult to change.

Cheap money

The financial sector played a crucial role in the economic growth we saw in the past ten years. You could say that the central banks provided the cheap money, while the banks lent it out. Even in the bailout we got to see this again with the central banks providing money at zero per cent interest, which the banks then lent out at three to four per cent interest. There is a symbiotic relationship between banks, central banks and governments that cannot be undone because economic growth, private and public spending, depend on it.

This might have always been the case, but this relationship became much more crucial in the recent past because of the way economic growth was fuelled with cheap money from central banks. And some of this cheap money helped speculation reach the magnitude it did.

The oil market is a good example of the kind of price movement speculation can create. The average price of the OPEC Reference Basket in 2004 was $36.05/barrel and increased to well over $140/b in July 2008. Although economic growth was strong at the time, supply was more than adequate to meet demand, so fundamentals alone cannot explain such a large increase in price.

When oil futures became part of the New York Mercantile Exchange (NYMEX) in the mid-1980s, WTI production was about 1.5 million barrels/day and the traded paper volume reached 10m b/d. This increased to 100m b/d by 2003 and 600m b/d by 2008. When one considers that total oil demand at the time was about 83m b/d, it puts into perspective how much speculative activity there was when oil prices reached record highs.

In theory, US President Barack Obama's administration has all it needs to move forward. The CFTC presented a proposal for limiting speculative deals on commodities on January 14, but these limits are close to what trading volumes are right now, so they will not make much of a difference. The problem with introducing more vigorous laws is that the same arguments that brought about deregulation in the first place are being presented once again.

The banking lobbyists in Washington have been trying to put a stop to any new regulations, or at least make them irrelevant. Regulation, we are told, will stymie economic growth and the current recovery is too fragile to be introducing new laws. These arguments do have some merit, but there are problems that need to be addressed before another financial crisis is created.

It is in times of crisis when meaningful new laws can be put into effect because by the time conditions improve the need for more regulation becomes less immediate.

There is also another dimension that most people fail to consider which is that economic tools, such as interest rates, are blunt instruments that are more about sending a signal, rather than managing the economy with precision.

"The bonus culture encourages traders to take risks with other people's money and if, in any case, governments come to the rescue, as they have done, then why not?"

For example, it takes two years for the effect of an interest rate change to filter through to the economy, but it has an immediate effect by letting people know what the central bank is thinking.

According to this then, should governments make it clear that they are planning to and will regulate the financial markets more thoroughly, then before the laws are even introduced market participants will know they should temper their trading activities?

However, this did not happen in the past 12 months and only now has President Obama finally come out and said exactly what he wants to do. But House Financial Services Committee Chairman, Barney Frank, said it would probably take three to five years to enact these proposals, if at all. Not only that but Obama's announcement was about proprietary trading done by the largest banks, which includes stocks, bonds, options, commodities and derivatives. However, what the direct trading banks do for themselves is insignificant when looked at in a larger context because everyone else will be able to continue with their activities, including smaller banks and hedge funds. As things stand right now, the largest banks might have to stop proprietary trading, but will still be able to service their customers and continue to act as deal makers.

In 1998, Long-Term Capital Management (LTCM) was a US hedge fund which needed a massive bailout, similar to the ones we saw recently. The Federal Reserve helped broker a deal whereby 14 banks would contribute the monies needed to save the fund.

LTCM survived until 2000, but for years before it was one of the most sought after funds. Its annualized returns were much higher than other funds when it first began trading until, in 1998, it steadily declined and lost $4.6bn in less than four months, following the Russian financial crisis.

In the aftermath of LTCM, there were some calls to regulate the derivatives market the fund was engaged in, but nothing was done as economic growth quickly recovered. The thinking became — why tamper with something that is working so well? But if one was to read the articles about LTCM, one could easily change the dates and names and use them to write about the financial crisis in 2008. There is nothing new in what happened two years ago — it was just much bigger and faster than what we have seen before.

"... there needs to be a genuine concerted effort by all major governments around the world to curb speculative activity because any regulatory framework set up by only one country will drive companies to other nations and undermine the competitive position."

If those in the financial sector had truly believed that major changes would be put into effect then they would not have handed out the bonuses they did in the current economic climate. But they have shown no signs of caution, which goes to show they do not believe they have anything to be wary of.

Bonuses are a major contributing factor to speculative activity — and wrong-doing in general in the financial sector — because they are based on the transactions the traders make. Why should traders care if the deals they reach cause economic troubles down the line if they can collect a 10–20 per cent bonus at the end of every year?

The bonus culture encourages traders to take risks with other people's money and if, in any case, governments come to the rescue, as they have done, then why not?

Of course, some firms have changed their bonus policies, but they have made it clear that, with or without regulation, they will still find a way to pay their employees what they deem is appropriate and necessary.

In some of the cases we have learned about there was seemingly no risk management team operating. In theory, a trading company, arm or department would have a risk management team that monitors the exposure of the company to keep it within a certain limit it can afford to lose.

But AIG, for example, was engaged in bets that dwarfed its reserves. In fact, the standard way of operating since the bankruptcy of Barings Bank in 1995, whereby the middle office would watch the front office and the back office would watch everyone, seemed non-existent in the US.

To make matters worse, the VaR analysis and MtM valuations, which were supposed to help companies monitor their positions masked a huge amount of risk.

Speculative activity had reached such an extent by the end of 2008 that it blurred the lines of who was who and what was what. Shipping firms, insurance companies, supermarkets, airlines, to name just a few, created trading arms and began trading in OTC derivatives because they were the most lucrative.

Trading strategies

These deals had absolutely nothing to do with hedging and, in certain ways, these companies had little or no knowledge about the markets they were speculating in. There activities were more about trading strategies backed up by software enabling automated transactions, triggered by particular price points and movements, rather than analyzing the fundamentals of a particular market.

Unfortunately, this sort of behaviour began spreading to other sectors, most notably the housing market. The collapse of Freddie Mae and Freddie Mac in 2007 should have sent warning signals to everyone that there were multiple bubbles operating at the same time and something had to give.

It is no coincidence that the rogue financial adviser and former NASDAQ chairman, Bernard Madoff, began preparing to turn himself in at the beginning of 2008, anticipating that his clients would have to liquidate their assets.

These blurred lines are now making it very difficult to define new regulations. Because so many companies are involved in speculative activity, it is difficult to devise a 'one-fits-all' policy. For example, airlines deserve an exemption and should be allowed to speculate.

In retrospect, the collapse of LTCM and the efforts of the CFTC in the 1990s is a microcosm for what is hap-

pening now. History seems to be repeating itself and, as stated above, should oil prices rise again, then instead of blaming speculative activity, governments would probably use OPEC as the rationale for why prices have risen again.

The fact is there needs to be a genuine concerted effort by all major governments around the world to curb speculative activity because any regulatory framework set up by only one country will drive companies to other nations and undermine the competitive position. If countries come together to agree on regulating OTC derivates, then that is the only way it can work.

Until now, all that the various G7, G8 and G20 meetings have proven is that every country is pursuing its own national interests. The French and German governments are keener on more regulation, because they have less to lose than the Americans and British.

But by not even being able to agree on a common policy regarding bonuses, it is hard to imagine how they can agree on laws that would satisfy everyone. As long as the derivatives market is allowed to operate under the current regulatory framework no one should be surprised when another financial crisis comes around.

President Obama has said that introducing new regulations regarding the financial system is his top domestic priority. Yet it remains to be seen what legislation will actually be enacted.

In truth, he may have missed his window of opportunity, especially when one considers all the other issues he has been trying to work on.

Congressional hearings about regulating the financial sector have begun in the US, but it will take a year for these to be completed and their recommendations to be handed in. So, regarding laws that these hearings might produce, the earliest they could be formulated is 2011, and the burning question is, will any be enacted at all?

At the same time, another worrying factor is there still seems to be disagreement concerning the effects of speculation, not only amongst the media and analysts, but also amongst lawmakers.

Although the CFTC wants to curb trading regarding oil and other energy futures, its economic team does not believe there is a relationship between speculation and high commodity prices.

A review of this particular work was done to make sure it was not politically motivated since it had been done under the previous administration, but it was not found to be wanting.

It is not just the CFTC's economic team that does not think speculation can drive up prices — its British equivalent is saying similar things. So what if speculation does not cause high prices, but helps to trigger them? This is something akin to having a small wave in the water that just gets bigger and bigger.

For example, the people who do not believe that speculation causes high prices say: "Speculators follow prices, but do not set them." That is actually true because that is how speculative traders' strategies work.

Speculative activity

Then let us say that physical oil traders are following the news and the supply situation in the Middle East and they happen upon a development that, potentially, could result in oil prices moving higher. Speculators jump in to take advantage and the development gets more pronounced than justified. As a result, prices soar. So, even if you limit the speculation, it will still not have the desired effect, since the trading volumes needed to cause a frenzy are small.

There is also another way to look at it. What if speculation in commodities is not what is driving up oil prices? What if it is speculation in other markets that make the price of oil go up, even though the supply and demand fundamentals do not justify it?

For example, if there is intense trading activity elsewhere people begin to think that there is real economic activity and, as a result, the price of oil goes up. So here again you could say, within reason, that speculation did not cause prices to rise. There is a big divide between people who believe speculation is responsible for high oil prices and those who do not — and it needs to be bridged.

Whichever way one decides to look at it, or define it, the derivatives market is having a destabilizing effect in one way, or another. Unfortunately, it is difficult to see how heads of government and agencies responsible for introducing the necessary regulation can convince lawmakers to adopt more stringent regulations when their own economic teams do not believe in them.

The limits the CFTC proposed are a start, but they are not as stringent as many had hoped for. It is also unwise to let out a sigh of relief just because action is being taken for commodities and nothing else. The regulatory framework, as a whole, for the financial sector needs to be updated to accommodate the arrival of derivative speculation backed up by huge sums of money, complex software and very powerful IT infrastructure.

Kuwait celebrates national oil success


Reuters

The Emir of Kuwait, Sheikh Sabah Al-Ahmad Al-Sabah.

Kuwait, one of the Founder Members of OPEC, has celebrated two significant anniversaries in its oil sector in as many months.

In the third week of January, the Kuwait Petroleum Corporation (KPC) chalked up its 30th anniversary, while almost exactly one month earlier, its subsidiary, the Kuwait Oil Company (KOC), celebrated 75 years of operations.

The two milestones are significant for a country that has seen its oil sector boom over the years with even greater things promised in the future, in line with Kuwait's ambitious development plans. Oil is regarded as the pulse of the national economy and both KPC and KOC play vital roles at the heart of the country's operations.

"Since its establishment, KPC has embraced the slogan 'performance through integration', fulfilling integration, while carrying out its operations," Saad Ali Al-Shuwaib, the state firm's Chief Executive Officer, commented in marking the anniversary.

"It has shouldered the responsibility of developing the oil industries in Kuwait through a series of operations aimed at adding value at every stage, commencing from drilling and refining oil, all the way up to the process of selling to customers," he wrote in a dialogue in the Corporation's monthly newsletter, KPC News.

In his comments, Al-Shuwaib paid tribute to KPC's workers, stating that the international fame the Corporation had gained over the past three decades was the result of their tremendous efforts, while confronting the challenges.

"We have managed to accomplish several achievements; however, we look forward to fulfilling more accomplishments since we will confront challenges that will require us to devote and double our efforts, in order to put KPC's status in its rightful high regard among international oil companies," he added.

Al-Shuwaib disclosed that through the efforts of the Corporation, Kuwait was now capable of producing 3.15 million barrels/day of crude oil, in accordance with the needs of the market.

KPC was established on January 21, 1980, five years after the nationalization of the Kuwaiti oil sector.

As Al-Shuwaib pointed out, its incorporation was aimed at unifying the activities of the oil sector, as well as "confronting and surmounting any international challenges and facing necessary changes."

KPC today effectively acts as an umbrella organization, managing all aspects of the country's oil and gas operations, including onshore and offshore upstream exploration, production and refining, marketing, retailing, petrochemicals, as well as marine transportation.

It strategically coordinates and supervises the various group subsidiaries, finances their operations and oversees the marketing of crude oil, refined products and gas in foreign markets.

The Corporation also provides significant support to the Kuwait Ministry of Oil in its dealings with other Member Countries of OPEC.

To support its international business interests, KPC has several regional marketing offices that are strategically located across the globe. These offices effectively

Sheikh Ahmad Al-Abdullah Al-Ahmad Al-Sabah, Kuwait's Minister of Oil.

contribute to the sales and marketing operations of KPC and its subsidiaries, in line with its short-term and long-term strategies.

Their scope of work includes regional market analysis, establishing and maintaining relations with other key oil players, increasing KPC's share in existing markets, as well as entering new areas.

Meanwhile, during KOC's celebrations on December 22, 2009, which were led by the Emir of Kuwait, Sheikh Sabah Al-Ahmad Al-Sabah, the company's Chairman and Managing Director, Sami Fahad Al-Rushaid, told a press conference that the founding of the company in 1934 was a turning point in the modern history of Kuwait.

He pointed out that the firm had been the driving force behind many significant events that resulted in the transformation of the country. Any mention of the contemporary history of Kuwait inevitably involved KOC, he affirmed.

Al-Rushaid said it was difficult to sum up the company's long history in just a few words as its contributions were numerous and diverse. It was suffice to say that the firm contributed to 90 per cent of the national economy.

He added that KOC still faced challenges and difficulties, but such obstacles had not hindered it from making achievements, due to the dedication of its management and staff.

He highlighted the determination of the company to press ahead with the implementation of its ambitious strategy which involved boosting the country's oil production capability to 4m b/d of crude and two billion cubic feet of gas daily.

Minister of Oil, Sheikh Ahmad Al-Abdullah Al-Ahmad Al-Sabah, said KOC was distinguished by the pivotal role it played in increasing prosperity and contributing effectively towards the country's rapid development.

Thanks to KOC, he said, the country had gained prominence, both regionally and internationally, adding that the country's oil wealth and the remarkable transformation that followed had encompassed all aspects of life.

KOC's celebrations were held in the Ahmadi district of the country, where the company was established. They included the staging of a national operetta and the release of a documentary film, which depicted historical events that took place in the country from 1911 to the present.

The film shows the signing of the first exploration agreement in 1934, the subsequent discovery of oil in the Burgan field four years later, and the export of Kuwait's first crude shipment in 1946.

KOC is responsible for exploration, drilling, and production of oil and gas in Kuwait, as well as the storage of crude and delivery to tankers for export. It was set up by the then Anglo-Persian Oil Company (now British Petroleum), and the Gulf Oil Corporation (now Chevron).

The Kuwaiti Government took over the running of KOC in 1975, during nationalization, and five years later it came under the umbrella of KPC.

Under its '2020 Strategy', KOC is mandated to further develop Kuwait's hydrocarbon reserves, infrastructure and operational capability to best meet market opportunities.

Emphasis is being given to the more technically challenging reserves located in the north and west of Kuwait, while maintaining the production capacity already established in the southern and eastern areas.

Kuwaiti authorities have stipulated that given the demand scenarios forecast for the future, the country must increase its oil production capacity to maintain market share.

It is also felt that the company must maximize the exploration, development and production of economic non-associated gas to meet its growing energy requirements. This would also provide an environmentally friendlier source of energy, while reducing dependency on gas imports.

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation


Reuters

Saad Ali Al-Shuwaib, KPC's Chief Executive Officer.

Kuwait Oil Company
شركة نفط الكويت


KOC

Sami Fahad Al-Rushaid, Chairman and Managing Director of KOC.

OPEC has "done a good job" in balancing oil market

OPEC has been praised for its policy actions in helping to stabilize the international oil market and reducing global petroleum stocks.

Marco Dunand, Chief Executive Officer and founder of the Swiss-based Mercuria Energy Group, was quoted as saying that the Organization had "done a good job" in balancing the oil market over the last 18 months. By reducing production, it had helped to reduce oil stocks.

In 2008, OPEC decided to cut its output ceiling by 4.2 million barrels/day to help mop up excess supplies in the marketplace that had forced crude prices down to a low of below $33/b.

"Global oil stocks around the world have started to reduce since OPEC took that decision to reduce production. Stocks are lower now than they were three or four months ago and contangos are shallower," Dunand said in the interview with Reuters.

"We believe that situation will run through 2010. So, while we still anticipate the contango will last for this year, we expect it to narrow to where it will not be wide enough to justify ships storing oil," he maintained.

Stocks decreasing

Dunand was first quoted in June last year as saying that the December 2008 move by OPEC to cut production had helped reduce the demand-supply imbalance, although the impact on the market had been slow.

"It takes time to feed through the system," he said at the time. "The contangos of today ... are nowhere near as wide as they were at the back end of last year when we had massive excess. So that means we are working our way through the inventories."

Dunand predicted that as demand picked up "you are going to see those stocks gradually decreasing. And unless OPEC increases its production very quickly, we are going, eventually — coming into the fourth quarter and first quarter of 2010 — to start eating into those stocks quite aggressively."

In his latest comments, Dunand said the volume of crude oil stored at sea had fallen considerably since the middle of last year when as much as 150m b — almost two days of global oil supply — was in floating storage, much of it off the coasts of the United Kingdom and the United States.

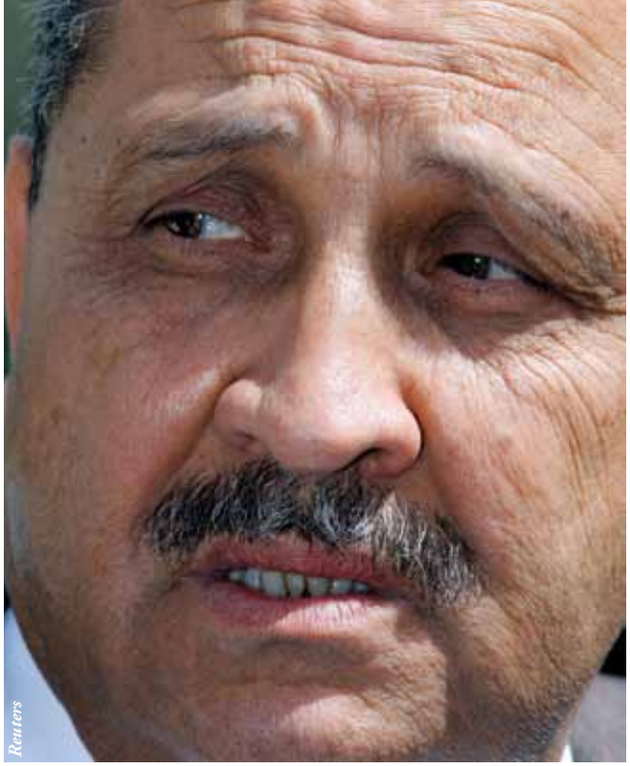
"It is obvious that it has diminished a lot versus four to five months ago," Dunand noted. "I would think that at least half and possibly up to three-quarters of the crude previously held on ships has disappeared and has been absorbed by the market."

Dunand forecast that prompt oil prices were likely to keep their discount to futures until 2011, but the gap should narrow and traders could consider locking in current spreads.

"Like most people we are medium to long-term constructive towards prices," he added.

The Mercuria group of companies is one of the world's five largest independent energy traders. It is active over a wide spectrum of global energy markets, including crude oil and refined products, natural gas, power, coal, biodiesel, vegetable oils and carbon emissions.

SP Libyan AJ ploughs more investment into oil expansion plans



Dr Shokri M Ghanem.

The SP Libyan AJ has earmarked up to $6 billion in spending in 2010 as part of efforts to expand the country's oil production capability to at least 2.5 million barrels/day in five years' time.

The budget is around $1bn more than that agreed for the last financial year, due to the fact that new fields need to be developed.

Dr Shokri M Ghanem, Chairman of the Management Committee of the National Oil Corporation (NOC), was quoted as saying that his country aimed to have the 2.5m b/d capacity in place by 2015.

He said that at the end of 2010, the capacity figure for the North African OPEC Member Country should stand at a little over 2m b/d.

However, despite the programme to boost the country's oil capacity, Ghanem stressed that domestic crude production would remain in line with OPEC output allocations.

Future bright

According to the February edition of OPEC's Monthly Oil Market Report, quoting secondary sources, the SP Libyan AJ Libya produced 1.54m b/d of crude oil in January, the same as in December 2009.

The future looks bright for the country, which joined OPEC in 1962.

The country occupies first place in Africa, above Nigeria, Angola, and Gabon, in the upstream business environment rating published by Business Monitor International (BMI), which points out that it scores benefits from its proven oil reserves and reserves to production ratio.

BMI also forecasts that between 2009 and 2019, the SP Libyan AJ will see a 46 per cent rise in its domestic oil and gas liquids production, with volumes rising steadily to 2.5m b/d.

Gas production is estimated to grow to 55bn cu m. In 2008, the country's marketed production of gas was gauged at 16bn cu m.

The latest BMI report also says that the SP Libyan AJ will account for 7.76 per cent of African regional oil demand by 2014, while providing 16.77 per cent of supply.

All this is backed by a BMI forecast that the country's GDP growth will increase by an average of 6.5 per cent in 2010–14.

There is no doubting that the country has the reserves to back its ambitious programme.

According to the latest OPEC Annual Statistical Bulletin (ASB), the SP Libyan AJ has seen its crude oil reserves increase from 22.8bn b in 1988 to 44.3bn b in 2008, the highest in Africa, when its output stood at 1.72m b/d. In 1988, the country's production stood at just over 1m b/d.

The nation's gas reserves have also expanded over the years — from 827bn standard cu m in 1988 to 1,540bn cu m two decades later.

The state-owned NOC oversees all petroleum activities in Libya, including oil and gas exploration, drilling and production, as well as marketing and distribution of petroleum products and petrochemicals.

Gas expansion schemes boosting Qatar's economic standing

Qatar's "significant" and growing hydrocarbons position could result in the country attaining real economic growth of 16 per cent in 2010, following the nine per cent expansion recorded in 2009, according to Central Bank Governor, Sheikh Abdullah bin Saud Al-Thani.

He pointed out that Qatar, the world's largest natural gas producer, was due to perform well in line with the massive expansion of its gas facilities.

Economically, things are picking up for the Gulf region as a whole — but Qatar in particular — with oil prices returning to reasonable levels in recent months.

Sheikh Al-Thani was also quoted at a projects conference organized by the Middle East Economic Digest (MEED) as saying that inflation in Qatar declined by 5.2 per cent from January to November last year and stood at comfortable levels.

"After increasing during 2008, due to an upturn in rental prices, inflation has since declined to more comfortable levels and is expected to remain moderate going forward," he said, adding that Qatar's financial system was "sound and resilient".

Royal Dutch Shell's $21 billion energy investment in Qatar over the next couple of years will result in the completion of the world's largest gas-to-liquids (GTL) plant, as well as the last production train in the current Qatargas expansion programme.

The move is making Shell the largest private investor in the country, according to Gerrit-Jan Smitskamp, the company's Regional Vice President for Finance.

Shell expects to complete construction of the $19bn GTL plant by the end of this year. The Pearl facility will have two production lines.

Seventh train for Qatargas

In addition to the GTL investment, Shell is ploughing $2bn into building a new liquefied natural gas (LNG) plant in Qatar that will see first production in 2011.

Smitskamp was quoted at the MEED projects conference as saying that the new LNG production train, the seventh for Qatargas, would have a capacity of 7.8 million tonnes/year of gas. It would represent the last of the trains planned under Qatar's existing expansion programme.

The train would take capacity at the world's largest LNG exporter to 77m t/yr.

Shell has a 30 per cent interest in the LNG plant, with the remainder belonging to state oil firm Qatar Petroleum (QP).

Project still profitable

Following concerns over the viability of the 140,000 b/d GTL project, Smitskamp said the project would still be profitable. The company had actually taken a final investment decision when the price of crude oil was lying at around $40/b.

"We envisaged the project would run there, so at $70/b to $80/b we are seeing today, it is probably the same," he was quoted as saying.

The situation would also be helped by the free gas supplies the plant would receive from the host country.

Smitskamp pointed out that the free feedstock formed part of the original agreement with Qatar to build the plant.

He explained that, unlike a crude oil refinery that had to pay for crude oil as a feedstock, gas was free for Shell. It meant the company only had the operating costs to consider.

Smitskamp noted that most of the fuel produced at the plant would be sold into Shell's global supply system, rather than contracted out to individual buyers on a long-term basis.

Some of the jet fuel produced may go to QP, while some gas oil may be mixed with Shell's current blend, he added.

Refined fuel products of the plant will comprise fuel oil, naphtha and paraffin, kerosene, gas oil, base oil, as well as ethane, LPG and condensates.

Of interest, and to gauge the size of the GTL facility, Smitskamp revealed that the Pearl scheme, was employing around 50,000 people.

Venezuela launches ambitious plan to develop Orinoco Oil Belt

An aerial view of the Orinoco River in Santa Maria del Orinoco.

Venezuela has embarked on a comprehensive plan to develop its extensive Orinoco Oil Belt, the largest deposit of liquid hydrocarbons in the world, which, according to government figures, contains at least 100 billion barrels of proved heavy crude reserves.

In what represents the biggest oil investment of President Hugo Chávez's 11-year administration, international oil majors have committed tens of billions of dollars of foreign finance to develop the belt, which occupies a southern strip of land along the eastern Orinoco River Basin in Venezuela.

"This international investment is absolutely necessary for us. We could not develop the Orinoco Belt alone," Chavez was quoted as telling oil company officials during a ceremony held at the Miraflores presidential palace in Caracas.

Vast oil deposit

"This is mutually beneficial. You are here because you need to be here. These are relationships of equals — of friendship," he stated.

After extensive evaluation, Venezuelan authorities announced that the vast oil deposit contained around 98bn b of proved heavy crude, but the likelihood was that the real figure was more in the region of 270bn b.

Other organizations and agencies have cited even higher guesstimates with the most recent coming from the United States government, stating that the belt contained over 500bn b of oil that, technically, could be recovered if cost was not an issue.

In what was the largest ever crude assessment made by the US Geological Survey, its report said the estimate was based on the amount of oil that could be recovered using existing drilling technology and industry practices, whether at a profit or a loss. The actual range in the agency's estimate was 380bn to 652bn b.

The belt, which covers an area of over 55,300 sq km, has been divided into four exploration and production areas — Boyacá, Junín, Ayacucho and Carabobo.

It was announced in February that international consortiums, led by Chevron of the United States and Repsol of Spain, had been successful in bidding for two development projects in the Carabobo blocks. Four schemes were also granted to partners in the Junin area.

Venezuela's President, Hugo Chávez, addressing a press conference in Caracas.

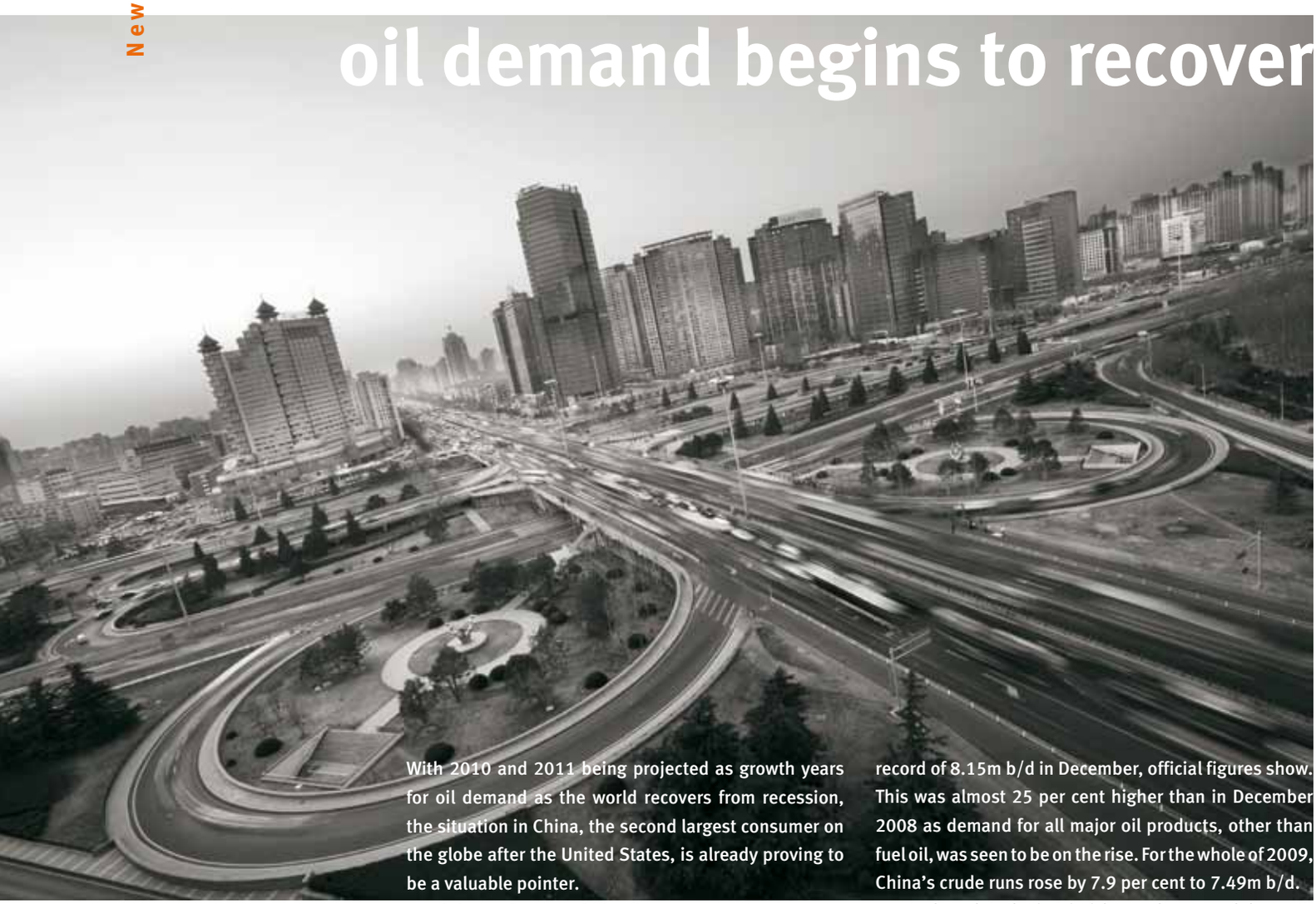
The projects, to be operated by state oil company, Petroleos de Venezuela SA, which has a stake of 60 per cent in the schemes, are expected to begin producing oil by 2013. Total investment will be around $80 billion.

Upgraders for turning the oil tar into lighter synthetic oil will be ready by 2017.

Venezuela is set to receive financing and bonuses from its partners in the belt amounting to almost $6bn.

It eventually hopes to sustain output of 2.1 million b/d from the giant oil reserve.

China sets the tone as oil demand begins to recover



With 2010 and 2011 being projected as growth years for oil demand as the world recovers from recession, the situation in China, the second largest consumer on the globe after the United States, is already proving to be a valuable pointer.

An aerial view of Beijing.

Chinese Customs Office figures show that the country's crude oil imports in January rose by 33 per cent over a year ago to stand at 4.03 million barrels/day. This was 1m b/d below the record December 2009 import figure of 5.03m b/d, but still impressive and a sure sign that the recovery is underway, according to industry analysts.

The performance was backed by data showing that the country's total import of goods in January soared by a record 85.5 per cent over 2009, while exports increased by 21 per cent.

But it was December that proved to be the catalyst for the nation's economic rebound. Overall trade that month surged by 17.7 per cent from a year earlier, with imports jumping by 55.9 per cent.

Crude throughput at the country's refineries hit a record of 8.15m b/d in December, official figures show. This was almost 25 per cent higher than in December 2008 as demand for all major oil products, other than fuel oil, was seen to be on the rise. For the whole of 2009, China's crude runs rose by 7.9 per cent to 7.49m b/d.

And, such is the level of demand expected domestically in 2010 that the country's 22 refineries are said to be planning to add up to 560,000 b/d of new capacity. In January, they processed 7.1m b/d of crude, which was 29 per cent higher than in the same month last year.

Of significance to the country's recovery was the release of estimations showing that China's industrial output growth in December was gauged at 18.5 per cent, while domestic retail sales surged by 15.5 per cent.

According to China's Centre for Forecasting Science at the Chinese Academy of Sciences, the nation's exports in 2010 will rise by 16.6 per cent, while imports are set to expand by 18.9 per cent, with the overall value of foreign trade rising by 17.6 per cent.

All this activity has had an obvious effect on the lev-

els of oil demand. China's oil imports in December were 48 per cent higher than in the same month the previous year and were up on the previous record of 4.64m b/d, set in July 2009, according to Customs Office figures. Total imports in 2009 were put to 4.09m b/d, 14 per cent higher than in 2008. This enabled the country to overtake Japan as Asia's largest crude importer.

The record increases in December were of little surprise after the government announced that Chinese economic growth in the fourth quarter of 2009 was the fastest of any quarter over the last two years.

GDP expansion was pegged at 10.7 per cent, which led to full-year growth of 8.7 per cent. Economists now estimate that China's GDP growth will remain at an average of nine to ten per cent throughout 2010 and will be sustained at a level of around nine per cent in 2011.

According to China's State Information Centre, GDP growth in the first three months of 2010 will likely reach 11.5 per cent.

Imports rising

With Japan failing to respond as positively to the global economic downturn, analysts say that with the type of growth levels being projected for China, the country is set to overtake Japan as the second largest economy in the world.

The higher crude imports seen in China in December were required to satisfy an overall 6.3 per cent increase in apparent Chinese oil demand in 2009.

And in 2010, the picture is set to get rosier still. Latest forecasts from the China National Petroleum Corporation (CNPC) state that the country's crude oil imports will likely total 4.24m b/d this year, up by over nine per cent from 2009.

Data from the Research Institute of Economics and Technology, a CNPC subsidiary, said net imports of both crude and oil products were in line to rise by 8.3 per cent in 2010 to 4.7m b/d.

The institute predicts that apparent oil demand in China will expand by over five per cent to 8.54m b/d this year. Refining capacity is expected to total 10.3m b/d by the end of 2010, up by 633,000 b/d from the 2009 figure.

In addition, China's domestic gas production is slated to increase to close to 9.67 billion cubic feet/day in 2010, as against 8.03bn cu ft/d last year. Natural gas imports are forecast to top 967m cu ft/d this year, accounting for some nine per cent of total demand.

The economic and petroleum growth figures for China are in line with overall projections made by OPEC and other global institutions.

OPEC, in its February Monthly Oil Market Report, forecasts China's oil demand in 2010 reaching 8.57m b/d, up from 8.21m b/d in 2009, an increase of 4.5 per cent, or 370,000 b/d.

Looking at a breakdown, in the first three months of 2010, Chinese oil demand is expected to surge by 6.24 per cent to 8.08m b/d, compared with 7.61m b/d in the same quarter of 2009.

In the second quarter, demand is slated to rise to 8.69m b/d, compared with 8.38m b/d in the same period of 2009, while demand is expected to peak in the third quarter at around 8.91m b/d, which would compare with 8.56m b/d for the same month the previous year. Fourth-quarter oil demand in China is currently put at 8.61m b/d, 340,000 b/d more than in the same period of 2009.

The OPEC report points to the fact that things started to pick up in China as early as the second quarter of 2009, when oil demand improved by 2.7 per cent to 8.38m b/d. The momentum improved strongly into the third quarter when it rose by 450,000 b/d to 8.56m b/d. There was then a strong surge in the final three months of 2009 when demand increased by 620,000 b/d to 8.11m b/d.

In December alone, the country's oil demand hit record growth of 17 per cent. But not only was oil demand high, but also refinery runs, due to the introduction of a new Chinese pricing system, guaranteeing a certain margin to refiners. This development led to the country's oil imports growing by 1.4m b/d in December, compared with the previous year.

Stimulus plan

"Strong economic growth in China, India, the Middle East and Latin America is pushing the world to consume more oil in 2010 in comparison with the previous year," OPEC observed in its report for January.

It pointed out that China's stimulus plan had contributed positively to the country's growth in many sectors, including energy demand, and the downward risk to oil demand forecast for China was minimal.

New car sales in China are estimated to expand by 40 per cent in 2010.

"Nevertheless, the government is keen to curb the nation's energy use via a programme that was started in 2006. Another downward risk is the future status of the global economy which might hinder China's exports and industrial production," said the OPEC report.

However, there were many factors pushing energy consumption up in the country, despite the government's energy conservation drive.

The OPEC report pointed out that the government's stimulus plan had resulted in a significant push being given to the country's new car registrations, which grew by 56 per cent, meaning that another 13.6 million vehicles were introduced to China's streets in the year.

Power generation

New car sales in the country in 2010 were estimated to expand by another 40 per cent, contributing another 15 million vehicles.

In addition, said the report, to meet the growing five per cent increase in demand for power consumption, China expanded its existing power generators, adding another 90 gigawatts in 2009.

"However, the new capacity expansion was fuelled not only by oil, but mostly by various kinds of energy, dominated by coal," it noted.

It resulted in Chinese fourth-quarter apparent oil demand exceeding all expectations.

Turning to oil supply, the OPEC report said Chinese supply in 2010 was slated to increase slightly over the 2009 figure of 3.85m b/d to 3.90 m b/d. This forecast was supported by the start-up of various projects in the Bohai Bay area, some ahead of schedule. On a quarterly basis for 2010, China's oil supply this year is seen averaging 3.89m b/d, 3.87m b/d, 3.93m b/d and 3.92m b/d, respectively.

China's export figures provide further evidence of the country's economic recovery. The OPEC report for January noted that these were particularly strong in December, rising by 17.7 per cent after 13 months of annual decline.

"If the GDP growth in the last quarter of 2009 proves to be stronger than expected, Beijing could move even more aggressively to manage inflation," the report added.

Developing Asia was singled out for the contribution it was making to returning global growth in the latest OPEC report, which announced that the world economy was now expected to expand by 3.4 per cent in 2010, revised up from its previous forecast of 3.1 per cent. In 2009, it contracted by 0.9 per cent.

China and India remained the bright spots for this year's recovery with expected growth of 9.1 per cent and 7.0 per cent, respectively, although there were concerns that their economies were in danger of overheating.

In China, economic growth exceeded the government's aim of averaging real GDP growth of eight per cent in 2009, posting full-year growth of 8.7 per cent.

"It is estimated that the above-target performance was driven mainly by infrastructure investment linked to the government's stimulus package and a rebound in expenditure on property development," said the OPEC report.

Although real GDP was forecast to grow further in 2010, the growth trend was expected to decelerate throughout the year. In 2011, the rate of expansion was forecast to fall even further.

"This reflects the introduction of gradual tightening measures and the fading impact of the government's stimulus efforts. With these signs, monetary authorities have moved to rein in credit, which is believed to be causing the overheating," the report stated.

Concerning other world regions, growth in the OECD, which was still dependent on government-led support, was pegged at 1.7 per cent for 2010, with the US likely to show the best performance with growth of 2.5 per cent. Japan was expected to expand by only 1.1 per cent, despite the recent stimulus package, while the Euro-zone forecast for growth was put at 0.6 per cent.

"Growth in 2010 continues to be challenged by concerns about the level of public debt in almost all OECD regions, still record high unemployment levels across the globe, and government efforts in China to prevent the economy from overheating," commented the OPEC report.

Looking at global oil demand, the OPEC report said that following a decline of 1.4m b/d in 2009, a cold winter, the economic recovery and a low base for the previous year would push demand up by 810,000 b/d to average 85.12m b/d in 2010.

Recovery in oil demand

"The slow pace of the recovery in the world economy in 2010 is putting pressure on oil demand. As a result, US demand is a key uncertainty," the report noted.

Non-OECD countries were forecast to grow at a higher rate of 1m b/d, compared with 500,000 b/d in 2009, bolstered by 2.1 per cent growth in the group of developing countries.

In the OECD region in 2010, oil demand was forecast to bounce back, reducing its decline by more than 90 per cent. Most of the recovery was tied to the US.

Demand for OPEC crude in 2010 was expected to average 28.8m b/d, virtually the same level as in 2009, but around 2.3m b/d lower than that seen in the preceding year.

Other institutions also see global oil demand recovering, although their projections are somewhat more optimistic than OPEC's, which has tended to err on the side of caution.

The Paris based International Energy Agency (IEA) maintains that global oil demand in 2010 will attain its highest level since 2007. An increase in consumption would be led by faster growth in Asia's emerging economies. In its February 11 report, the IEA forecasts oil demand to rise by 1.6m b/d in 2010 to 86.5m b/d.

Meanwhile, in the US, the Energy Information Administration (EIA) maintains that the decline in oil demand seen over the past two years had reached a trough in mid-2009 and began to recover over the following six months, in line with the global economic recovery.

Chinese refineries are planning to add 560,000 b/d of new capacity in 2010 to help cope with the surge in transportation demand.

In its short-term energy outlook, issued on February 10, it said it expected the economic recovery to continue in 2010, contributing to global oil demand growth of 1.2m b/d this year and 1.6m b/d in 2011.

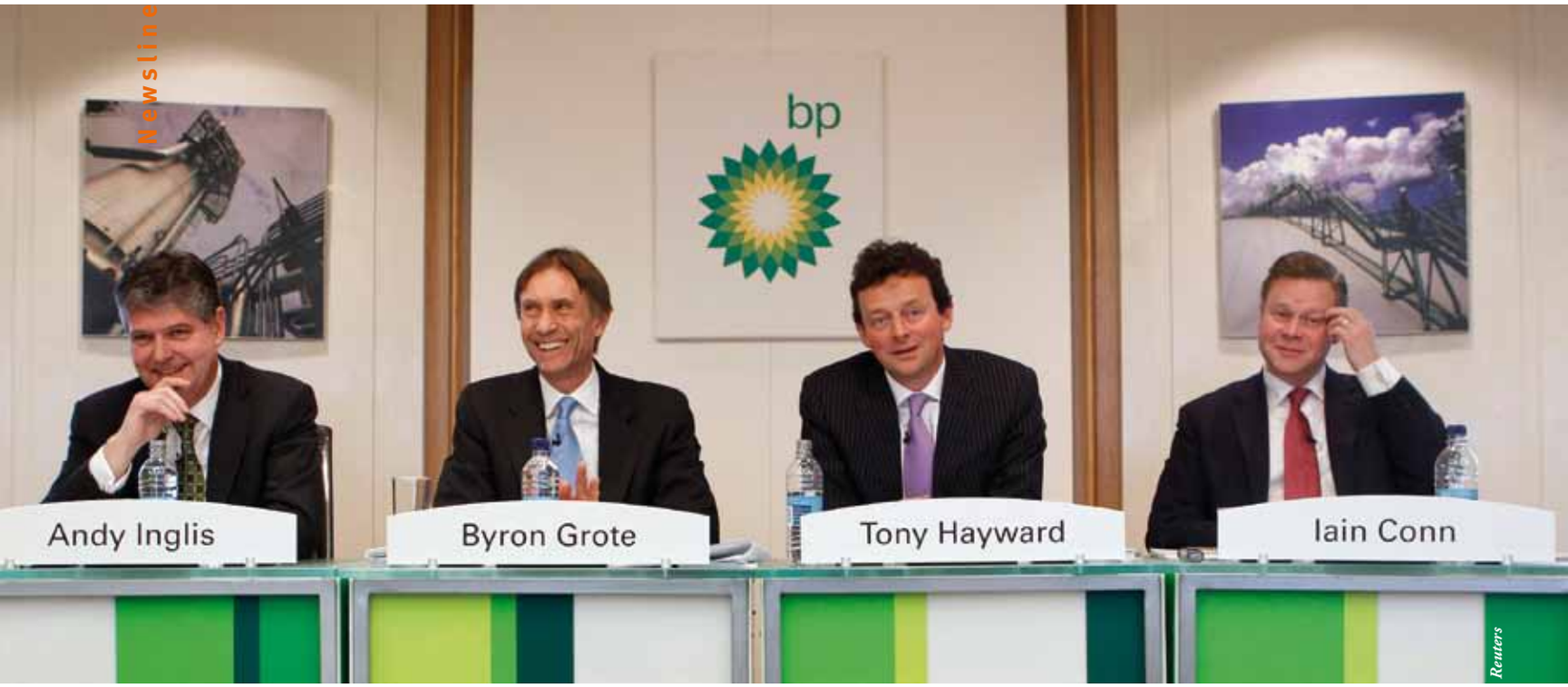
The EIA said that countries outside the OECD were expected to account for most of the growth forecast in both 2010 and 2011, although US demand for petroleum products was projected to increase by 180,000 b/d this year and by 210,000 b/d in 2011 after a very weak 2009.

As with the OPEC report, it maintained that China's economic stimulus package was continuing to help push up both oil usage and economic growth.

"The world oil market should gradually tighten in 2010 and 2011, as the global economic recovery continues and world oil demand begins to grow," it said.

The EIA maintained that a continuation of the production strategies set by OPEC, as well as lower overall growth in non-OPEC supply over the 2010–11 forecast period, would also contribute to a firming of crude oil prices to above $80/b in the summer.

"However, the combination of high commercial inventories among OECD countries, together with ample OPEC surplus production capacity, should help dampen the likelihood of any large upward swings in prices," said the report.



Reuters

Energy security a defining issue — BP executive

International crude oil prices need to stay "relatively close" to a level of $76/barrel, in order for new supplies to be exploited and developed, according to Tony Hayward, Chief Executive Officer of British Petroleum.

He pointed out in an interview with *BBC Radio 4* that this level of price would also provide sufficient income for the oil-exporting countries.

Support investment

Hayward maintained that among the non-OPEC producers, where deepwater oil was more expensive to develop, an oil price of $60/b or more was required to support the necessary investment and to enable a return on capital to be made.

"In the OPEC world, it turns out the oil is a lot easier to get out, so it is less expensive. But they have got the challenge of balancing their domestic budgets, so they also need prices of $60–70/b," he professed.

In a separate speech delivered in London, Hayward said energy security was a defining issue for the 21st century. He called on policymakers to encourage investment, whether in low-carbon energy or fossil fuels, to ensure that there was enough capacity to meet future needs.

Without adequate investment, he continued, the risk was that spare capacity would dwindle and "we will return to the price volatility we saw in 2008."

Hayward estimated investment needed to meet a projected doubling of energy use by 2050 at $1 trillion per year until then.

His company expected hydrocarbons to remain dominant in a more diverse energy mix in the years ahead.

Left: Chief Executive Officer, Tony Hayward (second right), seen with BP colleagues during a news conference in London.

Estimated current proven crude reserves were sufficient for 40 years, while gas, at today's consumption rates, would last for 60 years, he said.

Technology and access to resources would be key to meeting future energy needs. Hayward pointed to BP's Rumaila contract in Iraq as a "very good example" of how the two could be combined effectively.

Oil demand peak

"Iraq has the potential to contribute 10 million barrels/day to global energy supplies in the next 10–15 years. That is a big piece of the additional resource we need," he stated.

Hayward predicted that global oil demand would peak at a maximum of around 110m b/d after 2020.

He maintained in his radio interview that demand for some key fuels may have reached a high point already in certain developed markets, adding that the oil industry would never sell more gasoline in the United States or Europe than it had during the boom in 2007.

Some believed oil demand may have already peaked in OECD countries because of fuel efficiency and the use of alternatives, he added.

"World oil demand will peak before its supply peaks because there is plenty of oil in the world, there really is," Hayward contended.

"There are some challenges getting it out in some places ... but there is plenty of oil in the world," he added.

Turning to the United Kingdom, Hayward pointed out that the recent panic about energy security and rising gas imports was misplaced.

The range of import sources, including Algeria, Qatar, Trinidad and Egypt, was no cause for concern.

"We should embrace this. It is an opportunity. It is low carbon, much lower than coal, and it is a very sensible way to bridge between where we are today and where we want to be in 20 or 30 years' time," Hayward affirmed.

The Rumaila oil field, in southern Iraq — a "very good example" of combining technology and access to resources.

The problem at the present time was distribution, due to a lack of storage facilities and infrastructure.

Hayward said the UK government could also help with a more responsive fiscal policy to support activity on the UK continental shelf, where, according to BP data, an estimated 20–25bn b of oil and gas deposits could still be produced.

Light at the end of an Andes tunnel

OFID lends support to Colombia's ambitious mountain road scheme

Walking the tunnel … 'La Linea' represents Colombia's most difficult engineering challenge to date.

OPEC Fund for International Development (OFID)

Living in a land dominated by mountains is a way of life Colombians have gotten used to. But when it comes to planning road and rail communications, something as extensive as the Andes, the world's longest continental mountain range at over 7,000 km and the highest outside Asia, can present quite a challenge. The country's capital, Bogotá, which, at 2,600 metres, is the third highest city in the world, sits nestled among some of the planet's most stunning peaks, yet its development is anything but being held back by the seemingly restrictive topography. The latest test of the capital's resolve, skill and expertise can be found in an ambitious project to upgrade and re-route some 500 km of highway linking the capital to the coast. The fact that three huge mountains are in the way would appear daunting, but not for this progressive city. **Damelys Delgado**, a local journalist, reports on one of the biggest technical challenges in the history of Colombian engineering, a scheme that is getting generous support from the OPEC Fund for International Development (OFID).

The upgrading and re-routing of the 493 km stretch of highway linking Bogotá with the port of Buenaventura on the Pacific coast represents a mightily ambitious project for Colombia. The road traverses no fewer than three towering mountain ranges, presenting engineers with one of the country's biggest ever technical headaches. Two of the mountains can be crossed, but the third requires a more direct approach — in fact, straight through. The 'La Línea' tunnel is proving that even the most mountainous of challenges can be overcome!

OFID is accompanying the South American nation on this incredible groundbreaking journey with financial support amounting to $50 million.

Improving transport infrastructure in Latin America favours logistics, facilitates trade, and improves communication links, both within and between countries. These benefits are yet more significant when viewed in the context of a continent whose total investment in land transportation has declined over the past 20 years, from just over one per cent of GDP in 1980–85, to 0.37 per cent of GDP between 1996 and 2001, according to World Bank figures.

Giant earth movers help in the excavation of the pilot tunnel.

High transport costs

Because of this low level of investment, transport costs in Latin America are appreciably higher than in developed nations and many competing emerging economies.

However, there is good news. At an estimated cost of $1 billion, the government agency, the National Roads Institute of Colombia (Instituto Nacional de Vías, INVIAS), is carrying out one of the region's most important road infrastructure projects — upgrading the Bogotá-Buenaventura highway.

Once completed, the tunnel and road will bring huge benefits to the country's motorists.

An OFID loan of $30m is supporting the construction of the tunnel.

Preliminary studies for the scheme actually started in the late 20th century, but today progress is visible for all to see.

It is a work of great national importance and one that that will allow free-flowing traffic through four of the country's so-called departments: Antioquia, Tolima, Quindío and Valle del Cauca.

Most of Colombia's roads are simple, two-lane affairs — a situation that has a detrimental impact on traffic flow, especially since some 85 per cent of cargo transportation is made by huge articulated trucks. This inevitably causes bottlenecks and damage to road surfaces.

The Bogotá-Buenaventura highway transports more than 45 per cent of the cargo coming from Asia, but is, on average, only seven metres wide, with vehicles travelling in both directions. Some sections are even narrower.

This, along with difficult curves, steep slopes, landslides in rainy weather and reckless driving, give rise to an accident rate four times the national average.

In this regard, official figures are quite alarming. According to Pamela Cox, World Bank Vice President for Latin America and the Caribbean, both regions had the highest fatality rate per capita in the world, due to accidents.

Addressing a conference on road safety for Latin America and the Caribbean in 2009, she said the figure currently stood at 26 fatalities per 100,000 people and was likely to rise to over 30 deaths per 100,000 people by 2020.

The comparable figure among the safest countries in the world, including New Zealand, Sweden and France, was five fatalities per 100,000 people, and declining.

The good news for Colombians lies in the fact that the expanded and upgraded Bogotá-Buenaventura road will feature a dual carriageway, which will reduce the accident rate by an estimated 75 per cent.

The highway project is progressing steadily in the heart of Colombia. The most complex section is the pass through the Andes Central Cordillera range, which connects the departments of Quindío and Tolima.

Traversing the mountains requires the excavation of the 'La Línea' tunnel at a site that cast more doubts than certainties when the idea first surfaced.

Main tunnel

The job was tendered three times and on each occasion the process was unsuccessful. The reason? No one was willing to risk building a road on such geologically unstable terrain.

Finally, the government stepped in and started the construction of a pilot tunnel to allow for an evaluation of the area's geology, geo-mechanics and hydrogeology.

Today, in spite of geological fault lines, construction of the main tunnel is underway, the national dream is gradually becoming a reality.

Construction of the main tunnel began in late October last year and is due for completion in 2013, at a cost of $270m. Once it is finished, a second tunnel will be put through, giving a two-way highway in line with the increasing demands being made on land transportation in the country. The entire project is scheduled to be finished in 2016.

Juan Esteban Gil, Manager of Large Projects for INVIAS, said one of the project's main benefits was that, with the pass being lowered to a height of 2,400 metres, road users would no longer have to climb 3,300 m to cross the mountains.

He explained: "The Andes Cordillera that comes from southern Chile is divided into three ranges in Colombia — eastern, central and western. To get from Bogotá to Buenaventura you have to cross all three mountain ranges. Starting at 2,600 m above sea level on the plateau Cundiboyacense, the road descends to the Magdalena River, then climbs the central ridge to slowly descend again to the Cauca River valley. It then goes up the western ridge and finally falls back down to sea level.

"Of the three crossings, the most complicated connection is the passage through the central mountains,

where the old road climbs over 3,000 m above sea level, with poor visibility and the most complex topographical and geological conditions in Colombia," he said.

Gil stressed that a reduction in operating costs, a shorter travel time, environmental advantages, accident reduction and local employment generation, were just some of the additional benefits offered by the project.

Regarding operating costs, Gil pointed out that the savings were derived from the difference between traveling the 22 km stretch of the mountain at 3,300 m above sea level, compared with the 11.9 km on flat ground and at an average altitude of 2,463 m.

These savings were estimated at $40m annually, due to lower fuel and supply costs and reduced equipment maintenance.

In addition, the tunnel had an expected traffic volume and rate of 5,000 vehicles a day, which would increase by three per cent yearly until 2012 when it was expected to be nine per cent higher.

Also, said Gil, there would be time savings, due to both the shorter distance and the greater travel speed, which would increase from an average of 18.2 km per hour to 60 km/hour. This translated to a reduction of about 80 minutes for trucks and 40 minutes for light vehicles. The savings may also be reflected in lower freight costs.

The tunnel forms part of the Calarcá-Cajamarca section, located between the departments of Tolima and Quindío. This road stretched 45 km, which, upon completion of the works, will be reduced to 33 km.

Another significant benefit mentioned by Gil relates to local employment generation, which is estimated to peak at 1,500 jobs as the scheme progresses.

Ecological benefits

The project also had huge ecological benefits. It was estimated that the transit improvements mentioned would reduce emissions of carbon monoxide by 20 tons/year, carbon dioxide by about 1,000 tons/year, and lead by 18 tons/year.

Gil reported that environmental investments totalling $20m had been made along the river adjacent to the project. In this regard, 620 hectares of land had been reforested by planting 350,000 trees.

In a second phase, that would culminate in 2012, an additional 700 hectares would be reforested, which, according to Gil, was "something never seen in Colombia."

Other environmental measures included water resource management. "Leakage from the tunnel will supply water at a rate of 300 litres per second to a population of 200,000 people in the department of Quindío," disclosed Gil.

A $30m loan provided by OFID is being used to co-finance the phase that corresponds to the construction of the tunnel. Another OFID loan of $20m is supporting the Loboguerrero-Buenaventura section of the same highway. This 48 km stretch is also under construction and includes a 580 m bridge and six additional viaducts, whose lengths range between 90 m and 350 m.

In the Valle del Cauca department, where this work is being carried out, environmental investments are totalling $25m, including compensation to ethnic minorities, reforestation, watershed protection, and water and basic sanitation provision.

Gil noted that OFID's cooperation had been aimed at key project components that would support the development of Colombia and improve the welfare of its people.

The tunnel will have an initial traffic volume of 5,000 vehicles a day, rising by three per cent a year.

All photographs courtesy INVIAS.

This section includes highlights from the OPEC Monthly Oil Market Report (MOMR) for February 2010, published by the Petroleum Studies Department of the Secretariat, with additional graphs and tables. The publication may be downloaded in PDF format from our Website (www.opec.org), provided OPEC is credited as the source for any usage.

Crude oil price movements

Cold weather and increased investment flows helped oil futures improve and the OPEC Reference Basket continue its upward trend in the first weeks of 2010. After ten consecutive sessions of gains, the Basket hit $80.29/barrel on January 11, the highest level since early October 2008.

However, the bullish momentum came to an end just after temperatures in the northern hemisphere increased and concerns about global economic growth emerged once again. A stronger US dollar and downward corrections in the equity markets also contributed to the decline in prices. As a result, the OPEC Basket declined to settle at $71.01/b on January 29 – the last business day of the month – implying a loss of more than $9/b, or 11.6 per cent, in 14 days. Over this period, the Basket increased in just one session, on January 14.

All the Basket components fell within that period, particularly Ecuador's Oriente and the Middle Eastern crudes. Oriente lost around $10.50/b, while Middle Eastern crude saw losses ranging between $9.15/b for Arab Light and $9.70/b for Iran Heavy. Brent-related crudes and Venezuelan Merey declined by a near $8.50/b.

Higher demand for distillate-rich crudes in Europe and the Asia Pacific, following improving distillate margins, helped Middle Eastern crudes to strengthen in early January. Abu Dhabi reduced allocations from its contractual supply by as much as 13 per cent, lifting Murban values for March cargoes to a small premium to the ADNOC OSP after three months of discounts.

However, as temperatures retreated from unusually low levels, demand for middle distillate-rich grades fell along with refining margins, leading to bearish sentiment for Middle Eastern crudes in most of the second half of January.

The heavy crude market was the most affected. It was sluggish over almost the whole month on a supply glut before it received some support at the end of January after Abu Dhabi deepened its supply curbs on the heavy Upper Zakum grade for March.

Increased Russian offers of its new ESPO blend also put downward pressure on the medium-heavy crude market.

However, despite the strong decline in the second half of the month, the OPEC Basket gained $2/b, or 2.7 per cent, from December to average January at $76.01/b.

Among the components, Oriente gained $4.01/b, followed by Basrah Light ($2.71/b), Merey ($2.64/b), Girassol ($2.25/b) and Arab Light ($2.08/b). The remaining components increased by less than $2/b.

In the oil futures market, West Texas Intermediate, the American benchmark crude, averaged the month under review at $79.34/b, up $4.74/b, or 6.4 per cent, from December, after starting the month strongly, before falling back.

In Europe, ICE North Sea Brent crude followed almost the same trading trend as WTI. For the month, it averaged $77.91/b, compared with $75.21/b in December.

Commodity markets

Looking at trends in selected commodity markets, the OPEC report stated that, at the beginning of 2010, there were two key factors driving commodity markets, namely the colder-than-expected weather and China's economic monetary policy.

Trading sentiment was dampened by China's move to impose higher reserve ratios for selected banks. "It is feared that tighter monetary policy in the world's second largest oil consumer could hamper the global economic recovery," it said.

The World Bank energy price commodity index (crude oil, natural gas and coal) jumped by 4.2 per cent in January from minus 2.4 per cent in December 2009 on the back of a 16.7 per cent, 8.2 per cent and 3.0 per cent rise in coal, crude oil and Henry Hub natural gas, respectively. Natural gas was positively influenced by colder-than-normal temperatures, although later news of milder weather in the first half of February weighed on prices.

The World Bank index for non-energy commodity prices grew at the same pace in January as the previous month, by around 2.8 per cent. The recovery in some items was counterbal-

1. An average of Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Iran Heavy (IR Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (SP Libyan AJ), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela).

anced by the decline in others, like grains, some industrial metals and gold, which lost ground.

A weaker trend in industrial metal prices in January was driven by macro uncertainties related to European sovereign debt and announcements by the United States Administration on banking sector regulation and monetary tightening in China.

"Price trends will remain macro-driven and volatility could intensify until sentiment becomes more confident," said the report.

Aluminium showed a slower pace of growth of 2.5 per cent in January, compared with 11.8 per cent the previous month, which was related to lower Chinese imports in December – down by three per cent from November – and a weak global market. Inventories at the London Metal Exchange (LME) kept inflating in January.

Copper prices expanded by 5.8 per cent in January, compared with 4.6 per cent the previous month.

Nickel prices recovered in the month to increase by 8.0 per cent, compared with just 0.4 per cent in December.

The price of zinc followed a bearish trend, increasing by only 2.5 per cent in January, compared with 8.0 per cent the previous month.

Gold prices dropped by 1.5 per cent in January on the back of a rise in US bond yields and real interest rates, as well as a stronger dollar.

The World Bank agricultural price index reported the same growth in January as in December at 2.9 per cent. Grain prices declined by 1.4 per cent.

Highlights of the world economy

In looking at developments in the global economy, the OPEC report said that in the US, the economy continued to improve from its recent trough levels. The fourth quarter of last year saw real GDP growth at a seasonally-adjusted annualized rate (saar) of 5.7 per cent.

"Although this number indicates a solid recovery, a closer review of the details indicates a more mixed picture," it observed.

It said personal expenditure expanded by 2.0 per cent in the quarter, after rising by 2.8 per cent in the third quarter.

"This is a positive sign indicating that households probably have again the means to spend and are willing to do so."

The report said that this was particularly important as government expenditure had declined by 0.2 per cent in the fourth quarter, after growth peaked in the second quarter at 6.7 per cent and was still increasing by 2.6 per cent in the third quarter.

"So, while most areas of GDP have improved for the better, the main question with regard to the 2010 forecast is what is coming next, especially as 3.3 per cent of the GDP growth recorded in the fourth quarter was due to inventory replenishing. This could potentially push growth in the next quarter to a much lower level, once the inventory replenishment is over," the report contended.

The US labour market remained weak by historical standards, even though the unemployment rate fell to 9.7 per cent in January, compared with 10.0 per cent in December. The question remained if this improvement could be sustained.

Business sentiment also continued to improve. Both the ISM indices were moving up, reflecting the positive growth trend. ISM manufacturing improved to 58.4 in January, the highest level since the recession started two years ago.

The ISM non-manufacturing index, which was only slightly above the 50 level in December 2009, rose in January to 50.5.

"At this level, it is just about indicating small growth in the services sector, which accounts for more than 70 per cent of US GDP. It remains to be seen whether the leading manufacturing sector can pull the service sector significantly above the 50 level," said the report.

It stressed that the uncertainty about the pace of the economic recovery was being reflected in the equity markets as well. The two positive data releases – the relatively high fourth-quarter 2009 GDP numbers and the surprising improvement in the unemployment numbers for January were widely ignored by the stock market. "The current level of the S&P 500, as a major benchmark for the US equity markets, is around seven to eight per cent lower in the past two weeks. There could be a realization that equity markets might have risen too far too fast on exaggerated expectations and that the economic recovery might take longer than expected."

> **"Price trends will remain macro-driven and volatility could intensify until sentiment becomes more confident."**

The report continued: "So while there are signs for a continuation of the recovery, an element of caution is still required. The forecast for GDP growth has been revised up to 2.5 per cent for 2010, while the estimate for 2009 was for a contraction of 2.4 per cent."

Turning to Japan, the report said the country's economic growth was still being challenged by deflation and declining retail sales and remained dependent on government-led support and its relative success in exports, mainly to Asia and particularly to China.

Real retail sales were estimated to have declined for the third consecutive month in December 2009 by 0.5 per cent. This followed a decline in November and October of 0.3 per cent and 0.4 per cent, respectively.

The downtrend reflected a drop in consumer confidence, led by continuing uncertainty in the employment market, falling wages, deflationary pressures, and the tapering off of governmental support for car and electronic purchases.

In nominal terms, the December decline in retail sales was at 1.2 per cent from November and 0.3 per cent on an annual basis.

The unemployment rate in Japan unexpectedly declined by 0.1 per cent in December and was back to October levels.

Consumer prices remained under pressure and the consumer price index (CPI), excluding energy and food, declined by 1.2 per cent in December from the previous year, the sharpest drop since 1971 when records began.

Japan's industrial production grew by 2.2 per cent in December from November, but the Ministry of Economic Trade and Industry (METI) was projecting much lower levels for the first half of 2010.

Significant support for the increase in industrial production in December came from exports. Real exports were up by 2.6 per cent in December, after a 5.1 per cent increase in November and 5.2 percent in October.

"While exports to China are the main driver for this trend, exports to the US are starting to decline again, pointing to the uncertain pace of recovery in the US economy," the report noted.

Real exports to the US in December fell by 2.3 per cent, after a sharp increase in October of 5.0 per cent and 0.6 per cent in November.

The trend of exports to the European Union has not been much better. Exports rose by a mere 0.2 per cent in December after strong growth in October of 9.3 per cent and a decline in November of 4.0 per cent.

Exports to Asia were the main positive development in December, rising by 3.1 per cent, after a gain of 6.7 per cent in October and a 1.8 per cent decline in November.

China, which currently constitutes the main export market for Japan, is showing the steadiest development. Exports to China grew constantly in the course of the fourth quarter of last year. In December, exports were 2.5 per cent higher, compared with a 2.0 per cent gain in November and 3.0 per cent in October.

"While, so far, this certainly is a solid trend, the main question is whether this can continue. Recent moves to slow down growth in China by curbing lending and other measures might have an impact on Japanese exports," the report stated.

In addition to the relatively muted forecast for 2010, the debt situation of Japan was adding concern for the economy. According to International Monetary Fund (IMF) projections, the debt/GDP ratio of Japan was expected to reach 250 per cent by 2014.

Standard & Poor's recently sounded alarm bells over the Japanese debt-level and warned that it might lower the country's AA-credit rating.

"Despite the current crisis in Japan, household savings are rising again. The widespread complacency about Japanese debt levels seems to be a major driver for the success of the Japanese government bond market and a supporting factor for the government to continue its debt spending," the report observed.

It said that, in the light of the challenges for 2010, the forecast for Japan's growth remained unchanged at 1.1 per cent, following the minus 5.3 per cent recorded for 2009.

In the Euro-zone, economic conditions as a whole had been mostly steady over the last months. However, the situation in some parts of the region had worsened, particularly in Greece and Spain, while the main economies – Germany and France – had continued their slight improvement. But even there, the first signs of potential worries were emerging.

Industrial production in Germany surprisingly declined by 2.6 per cent in December 2009, following growth of 0.7 per cent in November. Industrial orders declined by 2.3 per cent in December, after increasing by 2.7 per cent in November.

The Euro-zone unemployment rate reached ten per cent in December, compared with 9.9 per cent in November. Germany was the most successful of the bigger Euro-zone economies in fighting unemployment, which came in at 7.5 per cent for the third consecutive month.

Business sentiment has improved in the Euro-zone. The Markit Euro-zone manufacturing purchasing managers' index rose to 52.4 in January, compared with 51.6 in December 2009, and above an earlier 'flash' estimate of 52.0. The increase was driven by France, with Germany and Italy also contributing to the improvement.

The OPEC report stated that a major problem in the Euro-zone was the mounting public debt of some of its member countries, particularly Greece.

"This weakening financial situation of many Euro-zone countries might push up the interest rates investors are demanding for financing this debt and this might put public finances in some of the Euro-zone countries under considerable pressure," it warned.

Euro-zone countries had borrowed a record 110 billion euros already this year from financial markets, pushing up the cost of debt and forcing nations with the weakest public finances to pay a higher price for the increased deficits.

"The many uncertainties in the real economy in the Euro-zone and in the public finances led to the forecast for 2010 remaining unchanged at expected growth of 0.6 per cent, following a decline of 3.9 per cent last year," said the report.

In Russia, the National Statistics Office, announced in preliminary data that the economy shrank by 7.9 per cent in 2009, after growing by 5.6 per cent a year earlier. The Russian economy recovered in the third quarter, but improvements were still rather weak and its sustainability uncertain.

Russia's manufacturing sector showed signs of recovery at the start of 2010. Output rose for the sixth straight month and at a faster rate, as new orders increased for the first time since last October. Employment continued to fall, but at a much slower rate than the trend pace recorded over late 2008 and 2009.

Inflationary pressures strengthened, but remained relatively weak. The forecast of 3.0 per cent growth in Russia's GDP was based on the effect of the delayed impact of the government's large stimulus package, an upturn in external demand and lower interest rates. Private consumption was predicted to recover at a healthy pace, while the danger of non-performing loans might represent a big challenge to the financial sector.

The report staid that, in the group of Developing Countries, inflation was appearing as a growing risk across most of developing Asia. The rise of inflationary pressure in recent months was due to the rapid economic recovery in the region after the recession in early 2009.

"While rising demand is welcomed to stimulate growth, it has exposed those countries to price instability, pushing policymakers to take a tougher stand on expansionary policies."

Economic growth in China exceeded the government's aim of average real GDP growth of 8.0 per cent in 2009, posting full-year growth of 8.7 per cent.

"It is estimated that the above-target performance was driven mainly by infrastructure investment linked to the government's stimulus package and a rebound in expenditure on property development."

Although real GDP was forecast to grow by 9.1 per cent in 2010, the growth trend was predicted to decelerate throughout the year. In 2011, the rate of expansion was forecast to fall even further.

"This reflects the introduction of gradual tightening measures and furthermore the fading impact of the government's stimulus efforts."

In India, the IMF had projected economic growth for fiscal 2010–11 at 8.0 per cent and 6.7 per cent for the current fiscal year. It attributed India's prompt fiscal and monetary easing to the speedy recovery from the global meltdown.

Recent data showed that the industrial sector continued to strengthen in November 2009, as year-on-year output growth hit a two-year high of 11.7 per cent. This followed a 10.3 per cent expansion in October.

Although agricultural output for the current fiscal year was estimated to decline by 1.0 per cent, due to a drought, non-agricultural GDP growth was likely to increase. Job growth was expected to support private consumption. Investments were likely to improve against a background of booming corporate profits, rising business confidence and favorable financing conditions.

In OPEC Member Countries, recent data published by the Central Department of Statistics and Information in Saudi Arabia showed that annualized inflation in the Kingdom had accelerated for the second consecutive month in December 2009 to 4.2 per cent from 4.0 per cent the previous month.

Consumer prices increased by 0.4 per cent in December, compared with 0.3 per cent in November.

The Kingdom's annual inflation came down from a record high of 11.1 per cent in July 2008 to a two-year low of 3.5 per cent in October 2009.

World oil demand

In its review of the market, the OPEC report said that "with 2009 behind us and the economic recovery ongoing, the uncertainties impacting oil demand are expected to remain for some time."

It pointed out that oil demand in 2009 plunged heavily as a result of the world financial crisis. Demand continued its downward slide from the year before last, bottoming out in the first quarter of 2009 with a deficit of 3.0 million barrels/day.

Demand for OPEC crude in 2009 had been revised up by around 130,000 b/d to stand at 28.8m b/d, driven by an upward revision to the fourth quarter amounting to 400,000 b/d.

"This change resulted from an upward revision in world oil demand combined with a downward revision in non-OPEC supply and OPEC NGLs as some up-to-date data has become available for Member Countries. Demand for OPEC crude in 2009 still represents a considerable decline of 2.2m b/d from the previous year," the report stated.

It said the first half of the year experienced negative growth of around 3.0m b/d, compared with the same period the previous year. However, the decline was seen narrowing in the second half to show a loss of only 1.1m b/d in the fourth quarter.

Non-OECD regions managed to recover quickly in 2009, registering 500,000 b/d growth in the second quarter and hitting 1.3m b/d growth in the last three months of the year.

However, this strong recovery could not offset the massive slide in OECD oil demand, which bottomed out in the second quarter at minus 2.9m b/d, resulting from a partial halt in the region's industrial production.

Cold weather in December, improved economic activity, and a low base line in 2008 pushed oil demand up in the OECD, which reduced the region's oil demand decline to only 300,000 b/d.

Given the negative impact of the global financial crisis, world oil demand was estimated to have declined by 1.4m b/d, or 1.6 per cent, in 2009, unchanged from the previous report.

In looking at a regional breakdown for last year, the report said North America oil demand was forecast to have declined by 900,000 b/d in 2009 to an average of 23.3m b/d.

> **"World oil demand is forecast to grow by 800,000 b/d from 2009 to average 85.1m b/d in 2010, broadly unchanged from the previous month's report."**

In OECD Europe, oil demand was forecast to have declined by 700,000 b/d in 2009 to average 14.7m b/d.

In the OECD Pacific region, oil demand was forecast to have declined by 400,000 b/d in 2009 to average 7.7m b/d.

In the group of Developing Countries, and as a consequence of strong Asian demand, oil demand growth was forecast at 500,000 b/d in 2009, averaging 25.8m b/d.

Turning to oil demand in 2010, the OPEC report said the slow pace of recovery in the world economy was putting pressure on oil demand.

Growth in 2010 would be completely due to non-OECD regions. "World oil demand is forecast to grow by 800,000 b/d from 2009 to average 85.1m b/d in 2010, broadly unchanged from the previous month's report."

Demand for OPEC crude in 2010 was projected to average 28.8m b/d, following an upward revision of 150,000 b/d from the previous assessment with OPEC NGLs experiencing a downward revision. However, world oil demand and non-OPEC supply remained almost unchanged.

On a quarterly basis, with the exception of the third quarter, all quarters saw an upward revision.

Required demand for OPEC crude was forecast to remain almost at the same level as last year, following two consecutive annual declines.

"The first half of the year is still showing a drop of 300,000 b/d, while the second half is estimated to see positive growth of around 300,000 b/d in the third quarter and 200,000 b/d in the fourth," said the report

It stressed that US demand was a key uncertainty for this year. Having a low base for oil consumption, as a result of the decline in consumption over the last two years, was a positive factor; however, this could be easily undermined by a continuation of the low oil demand seen in most all sectors.

It reported that cold weather did manage to strengthen heating and fuel oil demand in the US, but declining consumption in the industrial sector had pushed the country's total oil demand into the negative so far this year.

"It is expected that the recovery will strengthen in the second half of the year; however the risk is high that the country's oil demand will slide back further."

The 1.0 per cent forecast growth in US oil demand this year was facing a set of obstacles that could prevent it from materializing.

"If this happens, then US oil demand might come in flat, if not negative, for the total year. It is all connected to the pace of recovery, which, in turn, depends on how much the government is able to stimulate the economy and tackle unemployment."

It was forecast that the expected economic recovery this year would minimize the loss in OECD oil demand by over 90 per cent; hence, this was tied to the recovery of the US economy.

"The US, which consumes less than one-fourth of the total oil consumed worldwide, is a key country to world oil demand changes," the report observed.

It stated that the January cold winter weather within the OECD region did not offset the decline in oil use experienced in other sectors of the economy.

The two largest auto manufacturers in the US (GM and Ford) reported an increase in sales of 14 per cent and 25 per cent, respectively, in January. In addition, two airlines reported an increase in air travel.

"However, this did not stop the country's oil demand from seeing a 1.9 per cent decline in January," observed the report.

Industrial oil use was very low, resulting from low manufacturing activities. Initial January data indicated a continued decline in US oil demand, despite the increase in heating oil use. Distillate fuel oil use hit bottom with more than an 8.0 per cent decline.

"The use of other products, such as gasoline, is sliding into the negative as well. Should this early weekly data materialize and continue in the second month of the year, then the country's total oil demand growth forecast will be revised down."

In total, US oil consumption was 400,000 b/d less in January than a year ago. "US oil demand is the wild card to the total world oil demand growth forecast. Should the country's oil use continue its decline for the first quarter, despite the cold winter, then oil demand in the second quarter will be lower as well."

The report said the country's economy was still recovering, industrial production was low and new car registrations were below normal, indicating that oil demand was not likely to return to its normal trend.

In Europe, oil demand in the 'big four' was forecast to shrink by more than 2.0 per cent in 2010.

Germany's oil demand was expected to decline by 50,000 b/d this year; however this was half of what was seen last year. France, on the other hand, was slated to experience the same decline as last year.

Other countries within the region were experiencing a slowdown in new car sales, due to the economic turmoil.

OECD Europe oil demand was anticipated to decline by 200,000 b/d in 2010, up from a 700,000 b/d decline in 2009.

The OPEC report said that, in the Asia Pacific, the two largest oil-consuming countries were contradicting each other in the oil-consumption trend for this year.

It was expected that Japan would reduce its oil use by more than 4.0 per cent in 2010, while South Korea was forecast to increase its oil use by 1.0 per cent.

Industrial and transport fuel use were the two sectors expected to positively affect South Korea's total oil demand for 2010.

"The year has started with a cold winter in the Pacific, causing the region's heating oil usage to slightly increase; however some heating demand was met by other fuels," said the report.

Given the hope for a positive US oil demand trend, OECD oil demand was forecast to dip below the line by only 0.3 per cent in 2010 to average 45.5m b/d.

Turning to the non-OECD region, the report said healthy economic growth in China, India, the Middle East, and Latin America was expected to contribute to higher demand growth in 2010 in comparison with last year.

Non-OECD new vehicle sales, especially in China, were expected to be strong, resulting from the stimulus plans that were started last year.

It said the economic boom in the Middle East had continued to bolster regional oil demand. It was expected that Middle East oil demand would grow by 3.2 per cent in 2010.

"Given its sturdy economy, there is an upward risk for the region's oil demand forecast. It is expected that the oil demand quarterly distribution growth will follow normal seasonality, peaking in the third quarter," said the report.

Other Asia oil demand was forecast to also grow, led by strong consumption in India. India's oil demand was expected to be in line with last year's level. The industrial, transportation and agricultural sectors were forecast to show a healthy performance, stimulating the country's oil demand to grow by 5.0 per cent in 2010.

In China, following a bumpy 2009, oil demand was expected to grow the most in 2010 – reaching 4.5 per cent and adding another 370,000 b/d to the country's oil consumption pool. First quarter oil demand was expected to increase by 500,000 b/d with a strong trend throughout the year.

Last year, China's stimulus plan contributed positively to the country's growth in many sectors, including its energy demand growth. The downward risk to the oil demand forecast for China was deemed minimal.

"Nevertheless, the government is keen to curb the nation's energy use via a programme that was started in 2006. Another downward risk is the future status of the global economy which might hinder China's exports and industrial production. Should a minor setback in China's economic activities materialize, the oil demand growth forecast will be affected slightly," said the report.

It pointed out that there were many factors that were pushing up energy consumption in China, despite the government's initiative to reduce energy use. It was forecast that the country's new car sales in 2010 would amount to 15 million vehicles.

Given the healthy growth in India and the Middle East, oil demand in the group of Developing Countries was forecast to expand by 2.1 per cent in 2010.

This would lead to accumulative growth in non-OECD oil demand of 1.0m b/d this year.

World oil supply

Preliminary figures indicate that world oil supply averaged 85.67m b/d in January, an increase of 380,000 b/d over the December figure. OPEC's crude share was put at around 34.1 per cent. The estimate was based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Meanwhile, non-OPEC supply was estimated to have increased by 580,000 b/d over the previous year to average 50.95m b/d in 2009.

The supply profile of many non-OPEC countries experienced various changes, both upwards and downwards. Historical revisions were carried over to supply from Other Western Europe, Brunei, India, Malaysia, Thailand, Vietnam, Argentina, Brazil, Chad, South Africa and China.

Recently updated data led to the revisions, with some going back to 2007. Additionally, there were other revisions introduced to 2009 supply estimates on the back of new data, mainly for the fourth quarter.

Production estimates for the US, Canada, Denmark, Brazil, Yemen, Azerbaijan, and China during 2009 experienced minor revisions. compared with the previous month.

On a quarterly basis, non-OPEC supply for 2009 was estimated at 50.92m b/d, 50.61m b/d, 50.81m b/d and 51.44m b/d, respectively.

The report said that in 2010, non-OPEC supply was expected to average 51.28m b/d, an increase of 330,000 b/d over the previous year and indicating a downward revision of 33,000 b/d from the previous month's report.

The downward revision came due to a few changes to individual countries' supply profiles, in addition to carrying over some of the revisions introduced to 2009 supply estimates.

On a quarterly basis, non-OPEC supply for 2010 was expected to average 51.39m b/d, 51.14m b/d, 51.03m b/d and 51.55m b/d, respectively.

Total OECD oil supply in 2010 was projected to decline by 180,000 b/d from the previous year to average 19.35m b/d, indicating a downward revision of 78,000 b/d compared with last month's report.

The downward revision was mainly a carried over adjustment from historical data that affected the supply forecast of the US, Canada, Denmark, and Other Western Europe.

The OECD supply profile remained unchanged with growth anticipated in North America, while Western Europe was expected to continue declining and the OECD Pacific to show a minor increase.

On a quarterly basis, OECD oil supply for 2010 was forecast to stand at 19.58m b/d, 19.31m b/d, 19.10m b/d and 19.42m b/d, respectively.

North America's oil supply was foreseen to increase by 90,000 b/d over 2009 to average 14.26m b/d in 2010, indicating an upward revision of 10,000 b/d over the previous month.

The US and Canada were expected to add volumes, while Mexico was seen to continue its decline in 2010.

On a quarterly basis, North America's oil supply in 2010 was expected to stand at 14.32m b/d, 14.25m b/d, 14.16m b/d and 14.29m b/d, respectively.

Preliminary figures indicate that world oil supply averaged 85.67m b/d in January, an increase of 380,000 b/d over the December figure.

US oil supply was forecast to average 8.19m b/d in 2010, following an upward revision of 34,000 b/d from the previous month. Despite the upward revision to total volume, the growth in 2010 experienced a downward revision of 10,000 b/d from the previous month to stand at 140,000 b/d.

US oil supply was expected to increase in 2010, supported by project start-ups and ramp-ups in the Gulf of Mexico. Additionally, biofuels production was foreseen to increase, supported by improved economics.

"However, a high level of risk is associated with the forecast on the back of weather and economic conditions," said the report.

On a quarterly basis, US oil supply in 2010 was seen to stand at 8.20m b/d, 8.17m b/d, 8.16m b/d and 8.23m b/d, respectively. Preliminary data put US January oil supply at 8.19m b/d, slightly lower than in December.

Canadian oil supply was expected to increase by 100,000 b/d over the previous year to average 3.23m b/d in 2010, indicating a downward revision of 24,000 b/d compared with the previous report.

Oil supply from Mexico was anticipated to decline by 150,000 b/d from the previous year to average 2.83m b/d in 2010, unchanged from the previous month's report.

In OECD Western Europe, oil supply was estimated to decline by 300,000 b/d to average 4.43m b/d in 2010, indicating a downward revision of 85,000 b/d from the previous month.

OECD Western Europe supply in 2010 was expected to have quarterly figures of 4.61m b/d, 4.41m b/d, 4.26m b/d and 4.45m b/d, respectively.

Norway's oil supply was forecast to drop by 120,000 b/d to average 2.22m b/d in 2010, flat from the previous month's report, while the UK's oil supply was predicted to decline by 140,000 b/d to average 1.35m b/d, indicating a downward revision of 10,000 b/d from the previous month.

In the group of Developing Countries, oil supply was foreseen to grow by 190,000 b/d to average 12.70m b/d in 2010.

Denmark's oil supply was slated to experience a drop of 20,000 b/d from the 2009 level to average 240,000 b/d in 2010, representing a downward revision of 13,000 b/d from the previous month.

Other Western Europe oil supply was forecast to average 620,000 b/d in 2010, representing a decline of 20,000 b/d from 2009, and a downward revision of 62,000 b/d from the previous month.

OECD Asia Pacific oil supply was expected to grow by 20,000 b/d over 2009 to average 660,000 b/d in 2010, unchanged from the previous month's projection.

On a quarterly basis, total oil supply from this group of countries was estimated to average 640,000 b/d, 640,000 b/d, 670,000 b/d and 680,000 b/d, respectively.

Australia's oil supply was anticipated to remain relatively flat from 2009 to average 550,000 b/d in 2010, unchanged from the previous month.

In the group of Developing Countries, oil supply was foreseen to grow by 190,000 b/d to average 12.70m b/d in 2010, indicating an upward revision of 76,000 b/d from the previous month's report.

All of the group's regions experienced some upward revision with the Middle East encountering the largest at 32,000 b/d, followed by Africa with 18,000 b/d. Other Asia and Latin America were revised up by 13,000 b/d each.

The group's share of non-OPEC supply was seen remaining steady in 2010 as per the forecast at 26 per cent, yet remained the second highest contributor to non-OPEC growth after the Former Soviet Union (FSU).

Growth in 2010 was expected to come more towards the end of the year with relatively moderate growth in each quarter.

On a quarterly basis, total oil supply in the Developing Countries in 2010 was predicted to average 12.62m b/d, 12.66m b/d, 12.73m b/d and 12.81m b/d, respectively.

Oil supply from Other Asia was projected to remain flat from 2009 to average 3.72m b/d in 2010, representing an upward revision of 13,000 b/d from the previous month.

On a quarterly basis, Other Asia supply in 2010 was seen averaging 3.74m b/d, 3.72m b/d, 3.71m b/d and 3.70m b/d, respectively.

Latin America's oil supply was anticipated to increase by 220,000 b/d to average 4.62m b/d in 2010, displaying an upward revision of 13,000 b/d, compared with the previous month's evaluation.

On a quarterly basis, Latin America's oil supply in 2010 was estimated at 4.53m b/d, 4.57m b/d, 4.65m b/d and 4.75m b/d, respectively.

Middle East oil supply was expected to average 1.67m b/d in 2010, a drop of 10,000 b/d from 2009 and an upward revision of 32,000 b/d from the last assessment.

On a quarterly basis, Middle East oil supply in 2010 was expected to average 1.67m b/d, 1.68m b/d, 1.67m b/d and 1.66m b/d, respectively.

Africa's oil supply was forecast to average 2.70m b/d in 2010, representing a decline of 20,000 b/d from the previous year and an upward revision of 18,000 b/d over the previous month.

On a quarterly basis, Africa's oil supply in 2010 was seen averaging 2.69m b/d, 2.68m b/d, 2.71m b/d and 2.70m b/d, respectively.

Other Europe's oil supply was forecast to remain steady at an average of 140,000 b/d in 2010.

FSU oil supply was estimated to average 13.20m b/d in 2010, an increase of 270,000 b/d over 2009 and representing a downward revision of 20,000 b/d from the previous month.

On a quarterly basis, total FSU oil supply in 2010 was seen averaging 13.18m b/d, 13.18m b/d, 13.15m b/d and 13.28m b/d, respectively.

Russian oil supply was forecast to increase by 50,000 b/d to average 9.98m b/d in 2010, unchanged from the previous month.

On a quarterly basis, Russian oil supply in 2010 was expected to average 10.04m b/d, 10.00m b/d, 9.95m b/d and 9.91m b/d, respectively. Preliminary figures indicated that Russian oil supply stood at 10.04m b/d in January, slightly lower than in previous month.

In the Caspian region, Kazakhstan's oil supply was anticipated to increase by 90,000 b/d to average 1.63m b/d in 2010, steady from the previous month.

Azerbaijan's oil supply was projected to average 1.13m b/d in 2010, representing growth of 100,000 b/d over 2009 and indicating a downward revision of 30,000 b/d from the previous month.

The quarterly breakdown for Azerbaijan for 2010 stood at 1.06m b/d, 1.10m b/d, 1.13m b/d and 1.21m b/d, respectively.

Other FSU oil supply was expected to increase by 30,000 b/d over 2009 to average 460,000 b/d in 2010, with an upward revision of 8,000 b/d, compared with previous month.

China's oil supply was anticipated to increase by 50,000 b/d over 2009 to aver-

age 3.90m b/d in 2010, indicating a downward revision of 11,000 b/d from the previous month.

The quarterly figures for China's oil supply for 2010 were put at 3.89m b/d, 3.87m b/d, 3.93m b/d and 3.92m b/d, respectively.

OPEC oil production

Total OPEC crude oil production in January averaged 29.19m b/d, an increase of 63,000 b/d over the previous month, according to secondary sources.

OPEC production, not including Iraq, averaged 26.80m b/d, up by 148,000 b/d from December. Declines of 124,000 b/d and 85,000 b/d were recorded for Nigeria and Iraq, while Angola and Venezuela indicated increases of 133,000 b/d and 105,000 b/d, respectively.

OPEC's output of NGLs and non-conventional oils was forecast to average 5.10m b/d in 2010, representing growth of 510,000 b/d over the previous year.

In 2009, production of OPEC NGLs was estimated to have averaged 4.59m b/d, an increase of 260,000 b/d over 2008.

Downstream activity

Looking downstream, the OPEC report stated that a cautious and strategic operational approach by refiners, coupled with higher seasonal demand, led to improving product market fundamentals in January.

However, mild weather in the latter part of the month adversely affected the earlier bullishness of the product market and capped the improvements in refining margins seen.

"Recent heavy snow in the US may trigger another bullish development in the product market, but may not be sufficient to support products and crude in the short-term, as the market continues to suffer from sluggish demand growth," it observed.

Refining margins in the US extended their upward trend, with margins for WTI crude oil on the US Gulf Coast rising by 73¢ to reach $5.30/b in January from $4.57/b the previous month.

In Europe, the refining industry's performance was weak and the cold weather there could not boost product market sentiment, as end users relied on tertiary stocks, rather than spot market purchases.

Refining margins for Brent crude oil in Rotterdam fell by 42¢ to $1.17/b in January from $1.59/b in December.

In Asia, due to higher regional demand and export opportunities to other markets, refining economics improved from the previous month, but remained unhealthy.

Refining margins for Dubai crude oil in Singapore rose by $1.40/b to minus 24¢/b in January from minus $1.64/b a month earlier.

"Looking ahead, with the approaching end of the winter season and the slow recovery of demand in the developed countries, as well as comfortable product stocks and idle refining capacity, product market sentiment is expected to remain subdued and will not be able to lift crude prices in the future," the report maintained.

It said that disappointing reports about downstream performance in the last quarter of 2009, amid the huge product stocks both onshore and offshore, had forced integrated and independent refinery companies to revisit their operational plans and to remove the imbalance in the product market.

"This situation has encouraged many major oil companies to change their business plans in the refining industry. They will either continue closing down their less profitable units, or switch their refining businesses to developing countries. Under such circumstances, refiners, especially in the US and Europe, have taken a very cautious and strategic operational approach and are not maintaining typical operation levels in January," the report observed.

Refinery utilization rates in the US slid by 1.2 per cent to reach 79.1 per cent in January from 80.3 per cent in December, whereas typically they should be at around the 90 per cent mark.

Slow recovery of demand and huge product stocks also negatively affected European refinery utilization rates, which fell by 0.8 per cent to 81.5 per cent in January from 82.3 per cent the previous month.

In Asia, there was still mixed developments in the refining industry and throughput levels. On the one hand, Chinese refiners were running at maximum capacity, but on the other, the rest were running at much lower-than-typical seasonal levels.

Total OPEC crude oil production in January averaged 29.19m b/d, an increase of 63,000 b/d over the previous month, according to secondary sources.

Refinery utilization rates in Japan rose marginally by 0.1 per cent in January to 85.5 per cent from 83.4 per cent in December.

"With the end of the winter season approaching and the start of the spring refinery season, especially in the Atlantic Basin, refinery utilization rates are expected to remain low in the coming months. Comfortable product stocks and a persistently slow recovery in demand will contribute to a pessimistic outlook for refinery utilization rates in the future," the report said.

Oil trade

In the US, crude oil imports averaged 8.43m b/d in January, higher by 450,000 b/d than in the previous month, but 14 per cent, or 1.41m b/d, down from the same month in 2009.

US product imports in January rose by 11.2 per cent, or 280,000 b/d, compared with December, to average 2.80m b/d, but showed a decline of 16 per cent, or 540,000 b/d, from the same month a year ago.

Finished motor gasoline imports were put at 214,000 b/d in January, compared with 201,000 b/d in December, and were 3.8 per cent lower than the same month in 2009.

Distillate imports in January were recorded at 476,000 b/d, compared with 264,000 b/d the previous month, and 249,000 b/d a year earlier.

Meanwhile, US oil product exports fell in January, compared with the previous month, averaging 1.75m b/d. On an annual basis, product exports were 18 per cent, or 264,000 b/d, higher.

As a result, US net oil imports in January were 11 per cent, or 930,000 b/d, higher, compared the the previous month to average 9.44m b/d. This was the result of a 450,000 b/d rise in net crude oil imports and 480,000 b/d in net product imports, both compared with the previous month.

In December 2009, China became a net exporter of gasoline for the first time in 15 years with a volume of 270,000 b/d.

January net oil imports were 19 per cent lower than a year earlier. Average net oil imports in 2009 were put at 10.02m b/d, representing a loss of ten per cent, or 1.13m b/d, from the preceding year.

According to latest official data, Japan's crude oil imports in December 2009 increased by 14 per cent, or 518,000 b/d, to average 4.19m b/d. This was slightly higher than the same month a year ago.

Japan's product imports were slightly higher in December, compared with the previous month, at about 1.06m b/d and displayed an annual decline of 4.6 per cent.

Naphtha and LPG imports accounted for most of the country's total monthly product imports in December. Fuel oil imports in the month averaged 41,000 b/d, compared with 17,000 b/d the previous month and 68,000 b/d a year ago.

In annual terms, Japan's product imports averaged 1.02m b/d in 2009, representing a decline of 120,000 b/d, or 11 per cent, from the previous year.

Japan's product exports averaged 594,000 b/d in December, 5.0 per cent, or 27,000 b/d, higher than in the previous month, but 19 per cent lower than in the same month a year ago.

Gasoil (39 per cent), fuel oil (30 per cent) and jet fuel (22 per cent), the country's main product exports, accounted for about 92 per cent of Japan's total product exports in December.

Average product exports stood at 636,000 b/d in 2009, 58,000 b/d lower than in the previous year.

As a result, Japan's net oil imports in December were put at 4.65m b/d, an increase of 503,000 b/d, or 12 per cent, compared with the previous month and steady compared with a year earlier.

Net crude imports were higher by 518,000 b/d, while net product imports were up by 52,000 b/d.

Japan's net oil imports during 2009 were put at 4.0m b/d, representing a drop of 14 per cent, or 636,000 b/d, over 2008.

Saudi Arabia was Japan's top crude oil supplier in December with 1.17m b/d, or 29 per cent, of Japan's total crude oil imports, down from 1.24m b/d in the previous month.

The Kingdom was followed by the UAE, which supplied Japan with 860,000 b/d, up from 740,000 b/d a month earlier. Iran supplied 500,000 b/d, compared with 310,000 b/d in December 2009.

Altogether, OPEC Member Countries supplied 3.54m b/d, or 87.4 per cent, of Japan's crude oil imports in December, up from 3.07m b/d the previous month.

On the product side, with the exclusion of LPG imports, preliminary data indicated that Saudi Arabia was Japan's top supplier in December with 210,000 b/d, up from 187,000 b/d the previous month.

It was again followed by the UAE, with 137,000 b/d, down from 121,000 b/d.

Altogether, OPEC Member Countries supplied 480,000 b/d, or 70 per cent, of Japan's product imports in December, down from 550,000 b/d a month earlier.

According to official data, China's crude oil imports reached a monthly record high in December 2009 of 5.02m b/d with annual crude oil imports averaging 4.10m b/d in 2009 for the first time.

Imports of oil products for the full year stood at 1.0m b/d, 4.4 per cent higher than in 2008.

Crude oil imports in 2009 exceeded local crude production with a share of 56 per cent of apparent demand.

In December 2009, China became a net exporter of gasoline for the first time in 15 years with a volume of 270,000 b/d. Exports of gasoline in 2009 on average stood at 115,000 b/d, compared with 48,000 b/d the previous year.

Average imports of diesel declined to 450,000 b/d for 2009, compared with a year earlier.

Due to increased activity in the petrochemicals sector, China become a net importer of naphtha for the first time, reaching 42,000 b/d in 2009, compared with net exports of 18,000 b/d a year earlier.

Imports of fuel oil increased by 75,000 b/d in December, compared with the previous month to average 108,000 b/d, based on growing demand from local refineries.

Despite the increase of naphtha and fuel oil imports, the surge in exports of gasoline and diesel reduced the country's total net product imports by 24 per cent on an annual basis.

With the increase in imports of crude oil and other products, China's net oil imports rose by 8.0 per cent to 4.39m b/d in 2009, compared with a year earlier.

In 2009, Saudi Arabia was China's top crude oil supplier with 840,000 b/d, followed

by Angola with 650,000 b/d and Iran with 460,000 b/d. OPEC Member Countries together supplied 2.65m b/d of crude oil to China in 2009, which represented a 64.7 per cent share of total crude oil imports to the country.

According to preliminary data, India's crude oil imports were slightly lower in December, compared with the previous month, at 2.47m b/d.

December's crude imports were 9,700 b/d lower, compared with the same month a year ago, while India's crude oil imports for 2009 averaged 2.58m b/d, virtually unchanged from a year earlier.

India's product imports increased in December by 12,000 b/d, compared with the previous month, to average 240,000 b/d, which was 40 per cent lower than in the same month a year earlier.

For 2009, India imported an average of 280,000 b/d of oil products, compared with 420,000 b/d a year earlier, indicating a 34 per cent annual decline.

The lower import figure was due to a decline in exports in 2009, which came on the back of reduced margins and overall sluggish global market conditions.

India's total product exports of 592,000 b/d in December were 43,000 b/d, or 7.0 per cent, lower than in the previous month and 6.6 per cent down from a year earlier.

Gasoil exports in December averaged 118,000 b/d, down from 206,000 b/d the previous month and 272,000 b/d a year earlier.

As a result, India's net oil imports in December averaged 2.11m b/d, indicating a decrease of 2.0 per cent, or 40,000 b/d, from the previous month and 5.0 per cent lower than a year earlier. Net product imports rose by 55,000 b/d.

India's net oil imports for the year averaged 2.30m b/d, an increase of 4.0 per cent, or 87,000 b/d, over 2008.

According to preliminary data, FSU crude oil exports in December increased by 169,000 b/d, or 2.5 per cent, over the previous month to average 6.85m b/d.

Russian crude oil exports in December averaged 3.98m b/d, 170,000 b/d higher than in the previous month, but 73,000 b/d lower than a year earlier.

FSU product exports increased in December by 151,000 b/d to average 2.91m b/d, from 2.76m b/d in the previous month.

In total, FSU crude oil and product exports averaged 9.75m b/d in December, 322,000 b/d, or 3.4 per cent, higher than in the previous month.

Total FSU exports for the month were put at 550,000 b/d, or 5.9 per cent, higher than a year ago.

In annual terms, total FSU crude and product exports averaged 9.50m b/d in 2009, indicating an increase of 880,000 b/d, or 10.1 per cent, over the previous year. The increase was attributable to both products and crude.

Alternative fuels

Assessing the alternative fuels market, the OPEC report said that biofuels production had been negatively affecting food prices as output required the use of a large quantity of various foods; in addition, farmers were using more land to supply biofuel needs at the cost of producing food.

It said US authorities were mandating the use of one million plug-in hybrid vehicles by 2015. This move would reduce the use of gasoline by 150,000 b/d annually, as claimed by the US; however it would not be as green as it claimed, as emissions would result from the use of electric power plants instead.

The positive side of such an initiative was that the industry would work on designing more efficient trucks in the future.

The report noted that the Philippines was having problems because the cost of imported ethanol and sugarcane was soaring, as a result of excessive production of biofuels worldwide.

Currently, the country was planning to increase its mandated ethanol blend from five per cent to ten per cent by 2011. Only heavy subsidies and enforced rules would make such a blend likely to materialize.

In Brazil, bad weather, along with the slow world economy, had hurt the nation's ethanol industry. Low oil prices in 2009 had exposed the unfeasibility of the biofuels industry.

The Brazilian government was worried that a price drop during 2010 would put the industry under extreme pressure, as was the case in early 2009. The biofuels industry had enjoyed a time of high oil prices which made it feasible for its operations to continue.

The report noted that Argentina was due to implement a five per cent biodiesel blend, starting in April 2010. This would amount to 17,500 b/d.

"Of course, this will reduce export quantities and incur some subsidy costs for the government," added the report.

In Italy, economic pressure had forced the government to reduce its biofuel subsidies this year. Doing so would result in no growth in Italy's production for the year.

Massive biofuel subsidies within the EU had led to the biofuels industry to grow quickly; however governments were rethinking this policy, not only due to the cost, but also the negative environmental effects. The result would be that the EU did not achieve its mandate of 5.75 per cent in 2010.

Stock movements

Concerning stock movements, the OPEC report said US commercial oil inventories at the end of January fell for the fourth consecutive month – by 3.0m b. However, the drop was well below the decline experienced in recent months and also much smaller than the seasonal draw of about 18m b.

The fall in US commercial oil stocks was driven by products, which outpaced the build in crude oil inventories. At 1,046m b, total commercial oil inventories stood at 32m b, or 4.7 per cent, above a year earlier and remained at comfortable levels with a surplus of 61m b, or 6.2 per cent, above the five-year average.

After showing a substantial draw in December, US crude commercial stocks in January observed a contra-seasonal build of 1.7m b to 329.0m b. The build could be

attributed to the rise in crude oil imports, which increased by 450,000 b/d to 8.4m b/d after a sharp decline in the previous month.

The decline in US crude oil refinery input below the December level also contributed to the build. At 13.73m b/d, US crude runs corresponded to a refinery utilization rate of 79 per cent.

"It is worth noting that during the week ended January 29, refineries operated at 77.7 per cent of capacity, the lowest level since the 1990s, excluding hurricane-related losses. This has resulted from a deterioration in US product demand. Refineries are not ready to increase their operations just for the sake of building more inventories.

"This situation is likely to continue in the coming months as there is no clear sign of demand for US products to pick up, along with more upcoming refinery maintenance and companies shutting down due to very weak demand," observed the report.

In January, crude oil commercial inventories stood at a 28.7m b, or 9.5 per cent, above the five-year average. However, they remained 24m b, or 7.0 per cent, below the same period in 2009.

In days of forward cover, US crude oil inventories stood at 23.8 days, 2.3 days, or 11 per cent, more than the average of last year.

In contrast to the build in crude oil stocks, US total product inventories declined by 4.7m b in January, versus December, to stand at 717.0m b. The draw came for the fourth consecutive month.

Within products, the picture was mixed. Gasoline stocks rose by 8.4m b to 228.1m b to start the year with a comfortable level of 10.4m b, or 4.8 per cent, above a year ago, widening the surplus with the five-year average to 6.0m b, or 2.5 per cent.

"The continued build in gasoline stocks for the last three months of 2009 could be attributed to lower demand. In fact, gasoline consumption decreased in January by 3.4 per cent, or 300,000 b/d, versus the previous month, to average 8.4m b/d.

"Even compared with the same period last year, which was considered a low base for oil consumption, gasoline demand was lower by 0.5 per cent."

Distillate stocks, which contain heating oil and diesel, fell by 2.5m b in January to 156.6m b, driven by a drop in heating oil, as diesel oil showed a build.

Despite the draw, total distillate inventories remained at healthy levels, indicating a surplus of 13.1m b, or 9.1 per cent, above a year ago and 26m b, or 20 per cent, higher than the seasonal norm.

"The surplus in middle distillates is unlikely to narrow as demand for diesel is not expected to rise, given that consumption in January dropped by more than 9.0 per cent, versus a year earlier, which was considered a very low base year for diesel demand as a result of sluggish industrial production."

Residual fuel and jet fuel oil stocks increased by 2.5m b and 1.5m b to 39.7m b and 43.2m b, respectively, mainly due to a decline in demand. Both products remained at healthy levels above a year ago.

The US Strategic Petroleum Reserve (SPR) at the end of January remained unchanged at 727m b and approaching capacity. The US administration decided to cancel plans for the SPR's expansion, claiming that the current emergency oil stockpile reserve was large enough to handle any disruption in petroleum supplies, and that current petroleum reserves were adequate.

Indeed, the SPR could meet above 82 days of US imports, expected to average 8.9m b/d in 2010. With the cancellation of the expansion plan, the US administration would save $71m.

In Japan, preliminary indications, based on weekly data published by the Petroleum Association of Japan, showed that at the end of January, the country's commercial oil inventories reversed the downward trend observed during the last two months, increasing by 4.8m b to 169.0m b.

Despite this build, Japanese oil inventories remained 5.5m b, or 3.3 per cent, below last year's level. The build estimated in January was split between crude and products, showing increases of 2.3m b and 2.5m b, respectively.

At 94.8m b, crude oil inventories were 7.9m b, or 8.0 per cent, below the seasonal norm.

For the week ending January 30, refiners were operating at 82.2 per cent of capacity, 0.5 per cent lower than in the previous week, which corresponded to crude runs of 4.64m b/d.

On the product side, the picture was mixed among components with gasoline and fuel oil stocks improving by 2.3m b and 1.5m b, respectively, while distillates and naphtha inventories experiencing a drop of 1.1m b and 300,000 b, respectively.

In Singapore, preliminary data for the end of January indicated that product inventories stood at 43.7m b, around 1.3m b below the previous month, but 5.0m b above the same month a year earlier.

Fuel oil stocks fell by 310,000 b for the second consecutive month to stand at 18.7m b, driven by stronger regional demand, combined with lower imports. However, stocks remained more than 6.3 per cent above a year earlier.

Middle distillate inventories in Singapore in January dropped by 600,000 b to stand at 14.5m b, while light distillates declined by 300,000 b to 10.5m b, supported by higher demand from Indonesia.

Preliminary data for product stocks in ARA at the end of January showed a drop of 3.0m b versus December 2009 to stand at 39m b, or 7.0 per cent above the same month a year earlier.

All products saw a decline with fuel oil stocks falling by 1.4m b. The drop in fuel oil stocks was driven by higher demand from Northwest Europe and the Mediterranean, which outpaced imports coming mainly from Canada and Russia.

Gasoil inventories dropped by around 1.0m b, but remained 16 per cent above a year earlier as some volumes from floating storage went into storage onland.

Table A: World crude oil demand/supply balance															*m b/d*
World demand	**2004**	**2005**	**2006**	**2007**	**2008**	**1Q09**	**2Q09**	**3Q09**	**4Q09**	**2009**	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**2010**
OECD	49.5	49.8	49.5	49.2	47.6	46.6	44.4	45.1	46.3	45.6	46.2	44.3	45.1	46.4	45.5
North America	25.4	25.6	25.4	25.5	24.2	23.5	22.9	23.3	23.4	23.3	23.6	23.1	23.5	23.7	23.5
Western Europe	15.5	15.7	15.7	15.3	15.3	14.9	14.2	14.6	14.8	14.6	14.6	14.0	14.5	14.7	14.4
Pacific	8.5	8.6	8.5	8.4	8.1	8.1	7.3	7.3	8.0	7.7	8.0	7.1	7.1	7.9	7.5
Developing countries	21.8	22.6	23.3	24.3	25.3	25.2	25.9	26.0	26.0	25.8	25.8	26.3	26.6	26.5	26.3
FSU	3.8	3.9	4.0	4.0	4.1	3.8	3.7	4.1	4.2	4.0	3.9	3.7	4.2	4.2	4.0
Other Europe	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.8
China	6.5	6.7	7.2	7.6	8.0	7.6	8.4	8.6	8.3	8.2	8.1	8.7	8.9	8.6	8.6
(a) Total world demand	**82.5**	**83.9**	**84.9**	**86.0**	**85.7**	**84.0**	**83.1**	**84.6**	**85.5**	**84.3**	**84.6**	**83.8**	**85.6**	**86.5**	**85.1**
Non-OPEC supply															
OECD	21.3	20.4	20.1	20.1	19.5	19.9	19.3	19.3	19.7	19.5	19.6	19.3	19.1	19.4	19.4
North America	14.6	14.1	14.2	14.3	13.9	14.2	14.0	14.2	14.3	14.2	14.3	14.3	14.2	14.3	14.3
Western Europe	6.2	5.7	5.3	5.2	5.0	5.1	4.7	4.5	4.7	4.7	4.6	4.4	4.3	4.4	4.4
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Developing countries	11.6	11.9	12.0	12.0	12.3	12.5	12.5	12.5	12.6	12.5	12.6	12.7	12.7	12.8	12.7
FSU	11.1	11.5	12.0	12.5	12.6	12.6	12.9	13.0	13.2	12.9	13.2	13.2	13.1	13.3	13.2
Other Europe	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.5	3.6	3.7	3.8	3.8	3.8	3.9	3.9	3.9	3.8	3.9	3.9	3.9	3.9	3.9
Processing gains	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total non-OPEC supply	49.6	49.6	49.9	50.5	50.4	50.9	50.6	50.8	51.4	50.9	51.4	51.1	51.0	51.5	51.3
OPEC NGLS and non-conventionals	3.7	3.9	3.9	4.0	4.3	4.4	4.6	4.7	4.7	4.6	4.8	5.0	5.2	5.4	5.1
(b) Total non-OPEC supply and OPEC NGLS	**53.3**	**53.5**	**53.8**	**54.5**	**54.7**	**55.3**	**55.2**	**55.5**	**56.1**	**55.5**	**56.2**	**56.2**	**56.2**	**56.9**	**56.4**
OPEC crude supply and balance															
OPEC crude oil production[1]	29.6	30.7	30.5	30.2	31.2	28.5	28.5	28.9	29.1	28.7					
Total supply	82.9	84.2	84.3	84.7	85.9	83.7	83.7	84.4	85.2	84.3					
Balance[2]	0.3	0.2	-0.6	-1.3	0.2	-0.3	0.5	-0.3	-0.3	-0.1					
Stocks															
OECD closing stock level *m b*															
Commercial	2538	2585	2667	2566	2701	2747	2760	2781							
SPR	1450	1487	1499	1524	1527	1547	1561	1564							
Total	3988	4072	4166	4090	4227	4294	4321	4345							
Oil-on-water	905	954	919	951	967	901	902	871							
Days of forward consumption in OECD															
Commercial onland stocks	51	52	54	54	59	62	61	60							
SPR	29	30	30	32	33	35	35	34							
Total	80	82	85	86	93	97	96	94							
Memo items															
FSU net exports	7.3	7.7	8.0	8.5	8.5	8.8	9.2	8.9	9.0	9.0	9.3	9.5	9.0	9.1	9.2
[(a) – (b)]	**29.3**	**30.5**	**31.1**	**31.4**	**31.0**	**28.7**	**27.9**	**29.1**	**29.4**	**28.8**	**28.4**	**27.6**	**29.4**	**29.6**	**28.7**

1. *Secondary sources.*
2. *Stock change and miscellaneous.*

Note: Totals may not add up due to independent rounding.

Table 1 *above, prepared by the Secretariat's Petroleum Studies Department, shows OPEC's current forecast of world supply and demand for oil and natural gas liquids.*

The monthly evolution of spot prices for selected OPEC and non-OPEC crudes is presented in ***Tables 1 and 2*** *on page 66 while* ***Graphs 1 and 2*** *on page 67 show the evolution on a weekly basis.* ***Tables 3 to 8*** *and the corresponding graphs on pages 68–69 show the evolution of monthly average spot prices for important products in six major markets. (Data for Tables 1–8 is provided courtesy of Platt's Energy Services.)*

Table 1: OPEC Reference Basket crude oil prices, 2009–10

$/b

Crude/Member Country	2009 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2010 Jan	Weeks 1–5 (week ending) Jan 8	Jan 15	Jan 22	Jan 29	Feb 5
Arab Light – Saudi Arabia	41.23	40.87	46.39	50.91	57.45	69.01	64.92	71.42	67.64	73.36	76.54	74.38	76.46	77.41	73.76	71.66	72.87	76.77
Basrah Light – Iraq	39.47	39.66	44.94	51.18	56.47	68.18	64.32	70.73	67.30	72.63	75.55	73.03	75.74	76.05	71.83	70.49	71.85	75.75
Bonny Light – Nigeria	45.44	45.07	49.70	52.24	57.87	69.55	66.31	73.84	68.74	74.41	77.96	75.68	77.39	78.97	74.39	73.23	74.54	77.93
Es Sider – SP Libyan AJ	42.74	42.37	46.35	50.24	56.87	68.15	64.51	72.89	67.44	72.71	76.61	74.23	76.14	77.54	72.94	71.78	73.09	76.48
Girassol – Angola	43.43	43.33	46.98	49.72	57.36	68.92	65.02	72.66	67.69	72.97	76.89	74.53	76.78	77.90	73.36	72.14	73.31	76.59
Iran Heavy – IR Iran	39.93	39.91	44.52	50.10	56.02	68.16	64.79	71.53	66.43	72.54	76.72	74.34	75.72	77.63	74.18	71.67	72.52	76.15
Kuwait Export – Kuwait	40.00	40.34	44.91	50.16	57.93	68.73	64.74	70.97	66.45	72.50	76.54	74.03	75.69	77.32	73.99	71.28	72.12	75.89
Marine – Qatar	44.62	43.74	46.58	50.82	58.09	69.94	65.31	72.02	68.44	73.61	77.78	75.36	77.07	78.48	75.58	72.68	73.42	76.96
Merey* – Venezuela	37.39	38.76	39.59	43.73	52.95	61.81	60.11	65.78	62.88	66.90	70.09	68.63	71.27	71.03	67.62	66.60	67.46	71.06
Murban – UAE	46.27	44.71	47.75	52.33	59.58	71.50	66.80	73.51	69.79	75.06	79.00	76.84	78.19	80.16	77.07	74.11	74.80	78.36
Oriente – Ecuador	35.12	35.83	42.45	42.41	53.56	63.62	58.10	65.26	63.67	68.57	70.05	68.93	72.94	69.82	65.33	66.53	70.03	74.50
Saharan Blend – Algeria	43.89	44.07	48.40	51.69	57.27	69.15	65.21	72.94	67.84	73.36	77.16	74.98	76.79	78.25	73.69	72.53	73.84	77.23
OPEC Reference Basket	**41.54**	**41.41**	**45.78**	**50.20**	**56.98**	**68.36**	**64.59**	**71.35**	**67.17**	**72.67**	**76.29**	**74.01**	**76.01**	**77.11**	**73.31**	**71.44**	**72.56**	**76.24**

Table 2: Selected OPEC and non-OPEC spot crude oil prices, 2009–10

$/b

Crude/country	2009 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2010 Jan	Weeks 1–5 (week ending) Jan 8	Jan 15	Jan 22	Jan 29	Feb 5
Minas – Indonesia[1]	44.98	45.04	49.06	54.11	61.69	72.71	67.23	75.88	70.25	76.43	80.51	78.67	79.82	80.94	78.75	76.04	77.36	80.43
Arab Heavy – Saudi Arabia	38.31	39.41	43.76	49.48	55.69	68.74	64.80	71.03	66.16	72.35	76.72	74.00	75.60	77.44	74.32	71.23	71.84	75.56
Brega – SP Libyan AJ	43.89	43.52	47.25	51.24	57.87	69.05	65.31	73.24	67.79	73.06	76.96	74.58	76.49	77.89	73.29	72.13	73.44	76.83
Brent – North Sea	43.59	43.07	46.55	50.44	57.27	68.55	64.61	72.84	67.39	72.76	76.66	74.28	76.19	77.59	72.99	71.83	73.14	76.53
Dubai – UAE	43.94	43.09	45.59	50.10	57.48	69.41	64.82	71.36	67.74	73.15	77.69	75.42	76.69	78.78	75.75	72.66	73.26	76.97
Ekofisk – North Sea	45.83	44.51	47.28	50.65	58.48	69.62	65.55	73.36	68.31	73.71	77.56	75.24	77.39	78.57	74.07	72.93	74.03	77.93
Iran Light – IR Iran	42.33	41.31	46.10	49.69	56.53	68.24	64.93	72.64	67.55	72.86	76.72	73.87	75.62	77.70	73.23	71.29	72.20	76.01
Isthmus – Mexico	40.15	39.39	46.98	50.38	58.51	68.52	63.70	71.04	67.16	72.91	75.99	73.05	76.10	76.20	70.99	70.48	72.22	76.63
Oman -Oman	44.28	43.52	45.83	50.16	57.59	69.47	65.08	71.59	68.27	73.34	77.85	75.48	77.01	78.85	75.79	72.69	73.32	77.06
Suez Mix – Egypt	40.08	39.44	42.89	46.26	54.33	65.35	62.15	69.53	64.35	69.83	73.42	70.83	73.12	73.99	69.54	68.59	69.80	73.66
Tia Juana Light[2] – Venez.	38.86	38.60	45.52	49.32	57.34	67.08	62.68	69.83	66.22	71.74	74.85	71.81	74.66	74.93	69.78	69.28	70.99	75.33
Urals – Russia	43.09	42.32	45.65	49.05	56.85	68.38	64.85	72.27	67.09	72.67	76.32	73.88	76.09	76.99	72.62	71.60	72.89	76.03
WTI – North America	41.50	39.08	48.00	49.82	59.21	69.68	64.23	71.05	69.34	75.73	77.84	74.41	78.30	76.86	71.56	71.70	74.42	79.01

Note: As per the decision of the 109th ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108th ECB, the ORB has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board). As of June 16, 2005 (ie 3W June), the ORB has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference. As of January 2009, the ORB excludes Minas (Indonesia).

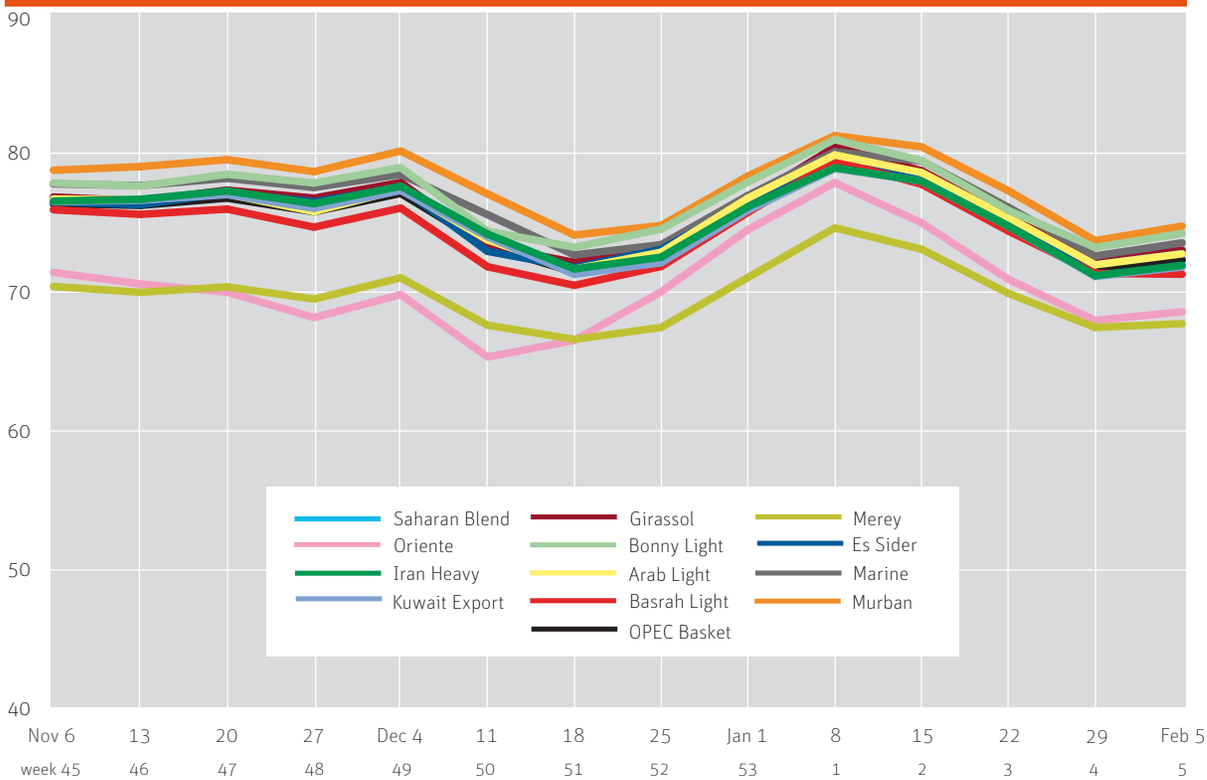
* *Upon the request of Venezuela, and as per the approval of the 111th ECB, BCF-17 has been replaced by Merey as of January 2009. The ORB has been revised as of this date.*

1. *Indonesia suspended its OPEC Membership on December 31, 2008.*
2. *Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.*

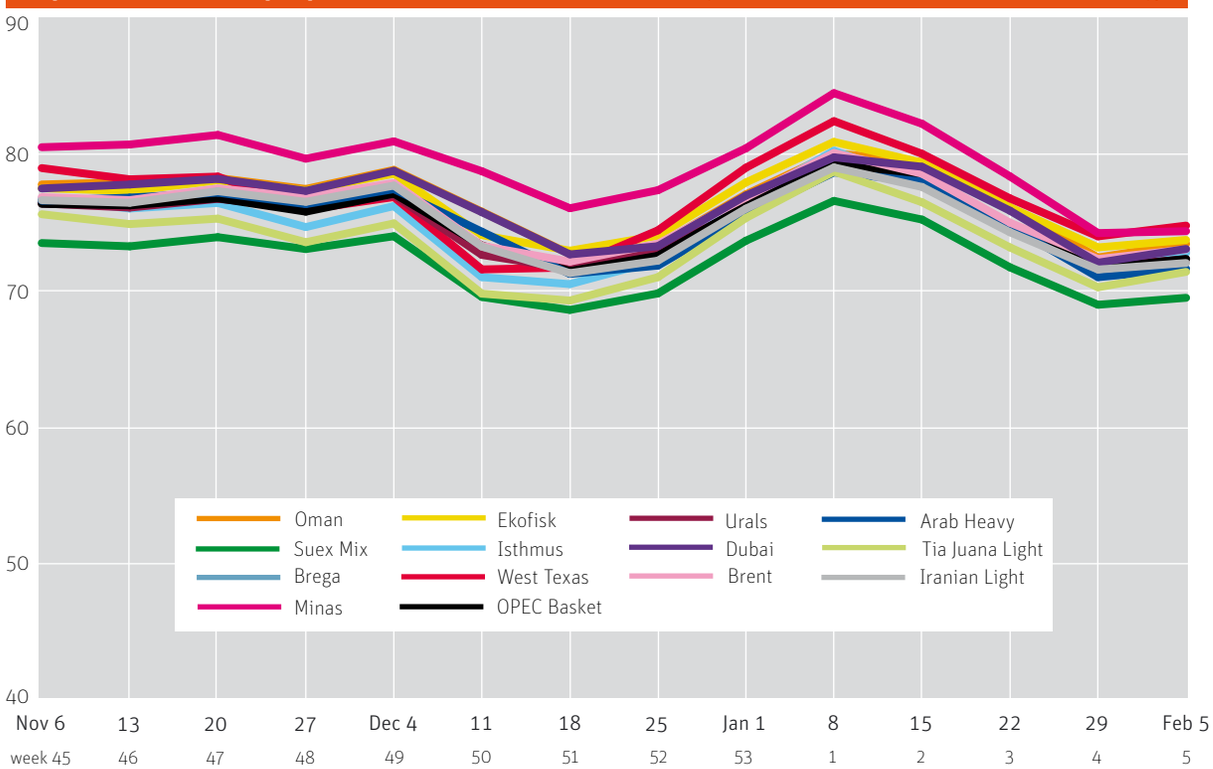
Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

Sources: The netback values for TJL price calculations are taken from RVM; Platt's; Secretariat's assessments.

Graph 1: Evolution of the OPEC Reference Basket crudes, 2009–10 *$/b*



Graph 2: Evolution of spot prices for selected non-OPEC crudes, 2009–10 *$/b*



Note: As per the decision of the 109th ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108th ECB, the basket has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board). As of June 16, 2005 (ie 3W June), the ORB has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference. As of January 2009, the ORB excludes Minas (Indonesia).
Upon the request of Venezuela, and as per the approval of the 111th ECB, BCF-17 has been replaced by Merey as of January 2009. The ORB has been revised as of this date.

Table and Graph 3: North European market – spot barges, fob Rotterdam

$/b

		naphtha	regular gasoline unleaded	premium gasoline 50ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
2009	January	44.54	41.40	45.98	59.72	61.48	34.38	33.08
	February	52.70	45.39	46.48	55.32	51.13	41.82	36.50
	March	43.82	48.36	52.02	55.90	55.33	36.43	37.29
	April	46.84	48.77	57.85	59.72	60.25	43.80	42.35
	May	52.58	59.66	70.76	64.03	64.87	50.34	51.19
	June	62.74	71.18	81.07	75.69	78.47	59.46	59.14
	July	43.75	42.79	48.83	55.32	53.89	35.81	36.50
	August	70.85	72.78	83.06	79.99	79.89	67.78	66.21
	September	65.82	65.55	74.81	74.77	76.57	64.52	62.96
	October	69.17	68.89	79.16	81.60	82.53	68.35	66.93
	November	74.60	72.67	83.50	83.25	85.40	73.68	71.03
	December	75.35	70.59	79.68	81.62	83.56	69.02	68.36
2010	January	79.05	71.54	84.65	84.11	86.46	72.55	71.29

Note: Prices of premium gasoline and diesel from January 1, 2008, are with 10 ppm sulphur content.

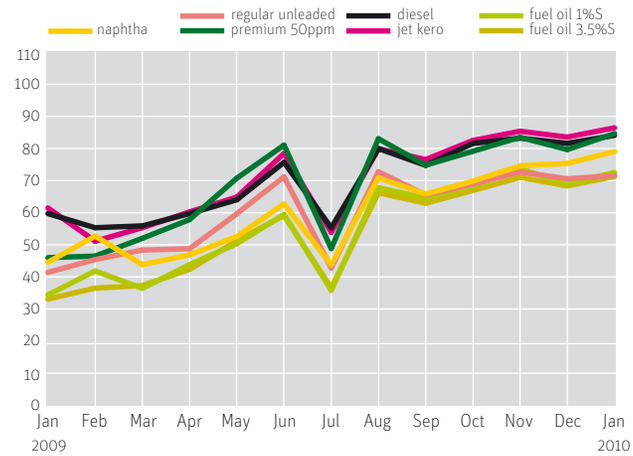


Table and Graph 4: South European market – spot cargoes, fob Italy

$/b

		naphtha	premium gasoline 50ppm	diesel ultra light	fuel oil 1%S	fuel oil 3.5%S
2009	January	36.11	44.30	59.14	36.58	32.11
	February	45.21	28.66	38.26	38.63	35.42
	March	42.05	26.66	35.59	39.37	36.74
	April	45.57	27.46	35.69	44.42	42.54
	May	50.74	32.51	42.25	52.93	50.93
	June	61.16	36.23	47.09	60.64	59.47
	July	41.92	24.42	31.74	38.63	35.42
	August	69.32	24.55	31.98	68.04	66.86
	September	64.30	22.77	29.66	64.92	63.10
	October	67.57	24.32	31.68	68.18	67.11
	November	72.83	26.21	34.15	72.97	71.00
	December	73.04	26.29	34.25	69.92	68.20
2010	January	76.30	27.10	35.18	72.10	70.82

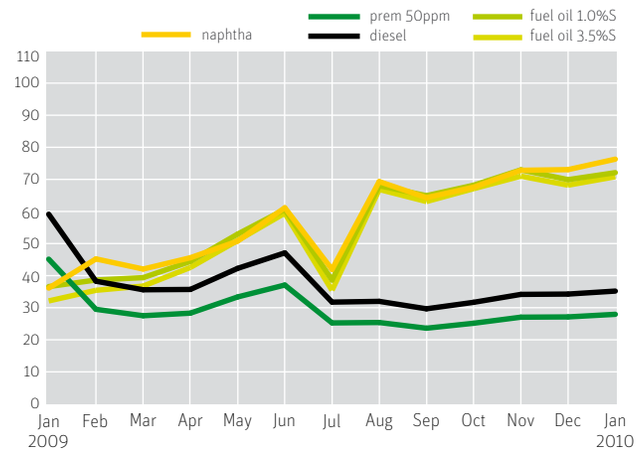
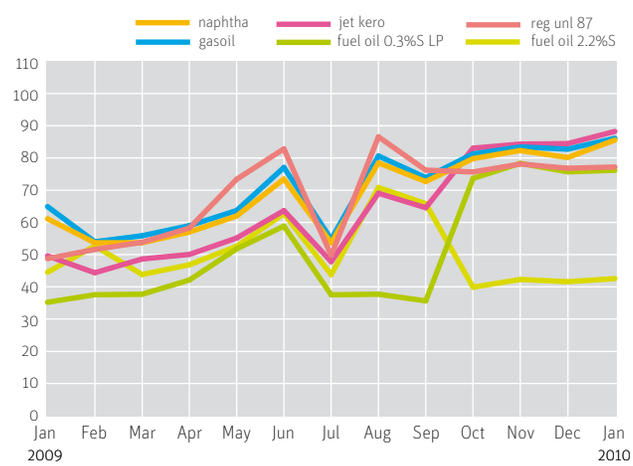


Table and Graph 5: US East Coast market – spot cargoes, New York

$/b, duties and fees included

		naphtha	regular gasoline unleaded 87	gasoil	jet kero	fuel oil 0.3%S	fuel oil 2.2%S
2009	January	45.51	48.74	61.15	64.91	49.59	35.21
	February	47.88	51.61	53.68	53.98	44.37	37.55
	March	51.79	53.83	53.69	55.86	48.64	37.70
	April	52.45	58.24	57.00	58.98	50.05	42.10
	May	65.60	73.39	61.98	63.68	55.14	51.77
	June	74.77	82.83	73.45	77.05	63.67	58.85
	July	70.12	49.78	53.68	54.79	47.82	37.52
	August	75.27	86.58	78.49	80.62	69.05	37.71
	September	68.97	76.22	72.67	73.89	64.55	35.63
	October	75.66	79.71	81.17	82.95	73.56	39.80
	November	78.12	82.30	83.42	84.31	78.34	42.29
	December	76.81	80.13	82.73	84.44	75.70	41.59
2010	January	77.79	85.54	86.11	88.23	76.17	42.55



Source: Platts. Prices are average of available days.

Table and Graph 6: Caribbean market — spot cargoes, fob

$/b

		naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S
2009	January	42.95	59.33	64.18	28.28	26.13
	February	46.49	15.95	54.21	31.66	29.92
	March	50.87	16.19	54.18	32.55	30.83
	April	51.75	18.02	59.42	36.95	45.02
	May	64.97	19.75	64.62	46.72	45.02
	June	23.47	23.47	77.63	54.73	53.24
	July	46.49	15.95	54.21	31.66	29.92
	August	74.51	24.93	80.47	64.29	62.76
	September	68.22	23.20	74.72	60.96	59.45
	October	74.90	25.78	82.99	65.50	63.97
	November	77.85	26.46	84.70	70.04	68.39
	December	78.45	26.18	84.67	68.60	66.96
2010	January	82.37	27.12	87.67	70.31	68.83

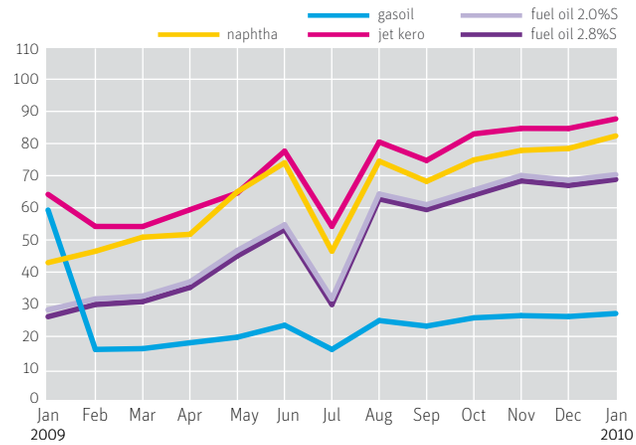


Table and Graph 7: Singapore market — spot cargoes, fob

$/b

		naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 180 Cst	fuel oil 380 Cst
2009	January	41.89	50.95	47.57	61.82	60.89	37.65	37.47
	February	46.84	63.61	55.42	39.76	52.85	40.66	50.48
	March	46.53	54.20	53.14	56.20	53.34	38.70	38.05
	April	49.35	60.46	58.27	61.14	64.07	45.66	44.90
	May	54.01	68.50	65.48	66.29	64.07	54.53	53.90
	June	65.86	77.15	75.01	77.92	76.45	62.77	62.34
	July	46.84	57.97	55.42	54.59	52.85	40.66	39.76
	August	70.37	82.13	80.13	80.34	78.67	68.23	68.03
	September	66.80	75.63	73.84	75.80	74.58	66.36	66.30
	October	69.20	77.71	76.05	81.95	80.07	68.85	68.86
	November	76.21	81.89	79.88	85.29	84.95	72.84	72.90
	December	78.28	81.85	78.95	82.69	83.24	72.79	72.65
2010	January	80.66	88.01	84.87	85.89	85.87	75.55	75.11

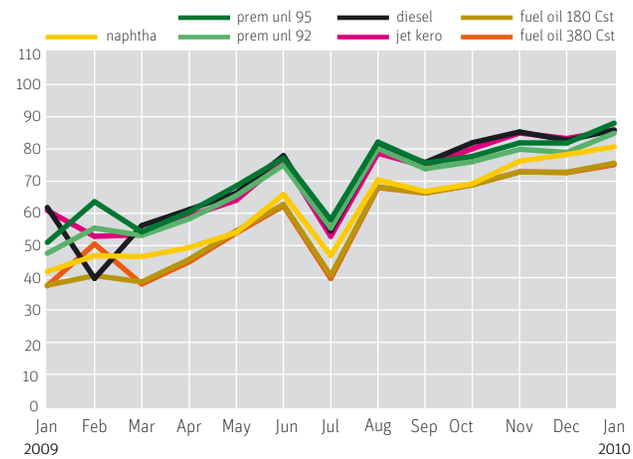
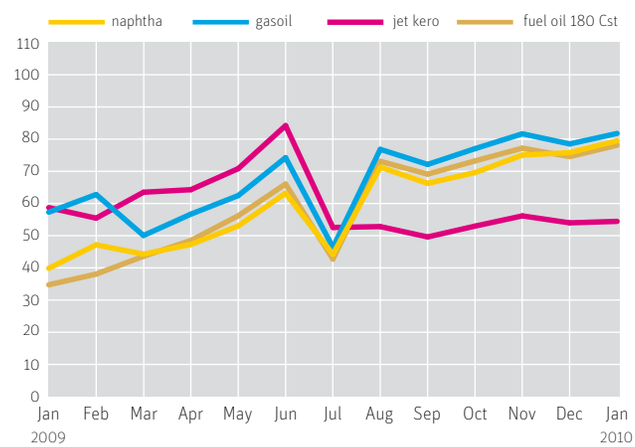


Table and Graph 8: Middle East Gulf market — spot cargoes, fob

$/b

		naphtha	gasoil	jet kero	fuel oil 180 Cst
2009	January	39.85	57.30	58.72	34.74
	February	47.16	62.80	55.44	38.07
	March	44.26	50.06	63.50	43.60
	April	47.28	56.69	64.29	48.51
	May	53.02	62.46	70.83	56.19
	June	63.19	74.25	84.21	66.06
	July	44.19	46.34	52.55	42.73
	August	71.30	76.83	52.83	73.11
	September	66.26	72.14	49.61	69.12
	October	69.61	77.04	52.97	73.24
	November	75.04	81.66	56.15	77.20
	December	75.80	78.51	53.99	74.57
2010	January	79.49	81.77	54.45	78.10



Source: Platts. Prices are average of available days.

Forthcoming events

Intelligent energy conference and exhibition, March 23–25, 2010, Utrecht, The Netherlands. Details: Society of Petroleum Engineers, Part Third Floor East, Portland House, 4 Great Portland Street, London W1W 8QJ, UK. Tel: +44 207 299 3300; fax: +44 207 299 3309; e-mail: spelon@spe.org; website: www.spe.org.

9th Georgian international oil, gas, energy and infrastructure conference and showcase (GIOGIE), March 24–25, 2010, Tbilisi, Georgia. Details: ITE Group plc, Oil and Gas Division, 105 Salusbury Road, London NW6 6RG, UK. Tel: +44 207 596 5233; fax: +44 207 596 5106; e-mail: oilgas@ite-exhibitions.com; website: ite-exhibitions.com.

Oil and gas satellite communications, March 24–25, 2010, London, UK. Details: SMi Group Ltd, Unit 122, Great Guildford Business Square, 30 Great Guildford Street, London SE1 0HS, UK. Tel: +44 207 827 6000; fax: +44 207 827 6001; e-mail: client_services@smi-online.co.uk; website: www.smi-online.co.uk.

ERTC FCC training course, March 24–26, 2010, London, UK. Details: Global Technology Forum, Highview House, Tattenham Crescent, Epsom Downs, Surrey KT18 5QJ, UK. Tel: +44 1737 365100; fax: +44 1737 365101; e-mail: events@gtforum.com; website: www.gtforum.com.

ERTC sulphur recovery processes, March 24–26, 2010, London, UK. Details: Global Technology Forum, Highview House, Tattenham Crescent, Epsom Downs, Surrey KT18 5QJ, UK. Tel: +44 1737 365100; fax: +44 1737 365101; e-mail: events@gtforum.com; website: www.gtforum.com.

Mastering global LNG, March 24–26, 2010, London, UK. Details: International Faculty of Finance, 8th Floor, 29 Bressenden Place, London SW1E 5DR, UK. Tel: +44 207 017 7190; fax: +44 207 017 7802; e-mail: enquiries@iirltd.co.uk; website: www.iff-training.com.

Smart electricity world Asia congress 2010, April 5–8, 2010, Singapore. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Power and electricity world Asia 2010, April 5–9, 2010, Singapore. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Power and electricity awards 2010, April 6, 2010, Singapore. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

OilTech Kazakhstan, April 6–7, 2010, Atyrau, Kazakhstan. Details: ITE Group plc, Oil and Gas Division, 105 Salusbury Road, London NW6 6RG, UK. Tel: +44 207 596 5233; fax: +44 207 596 5106; e-mail: oilgas@ite-exhibitions.com; website: ite-exhibitions.com.

Atyrau oil and gas, April 6–8, 2010, Atyrau, Kazakhstan. Details: ITE Group plc, Oil and Gas Division, 105 Salusbury Road, London NW6 6RG, UK. Tel: +44 207 596 5233; fax: +44 207 596 5106; e-mail: oilgas@ite-exhibitions.com;, website: ite-exhibitions.com.

Oil and gas outlook Africa 2010, April 6–9, 2010, Cape Town, South Africa. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Africa oil forum, April 7, 2010, Casablanca, Morocco. Details: Platts, 20 Canada Square, Canary Wharf, London E14 5LH, UK. Tel: +44 207 1766142; fax: +44 207 176 8512; e-mail: cynthia_rugg@platts.com; website: www.events.platts.com.

North American oil trade and compliance forum, April 8–9, 2010, Houston, TX, USA. Details: Platts, 20 Canada Square, Canary Wharf, London E14 5LH, UK. Tel: +44 207 1766142; fax: +44 207 176 8512; e-mail: cynthia_rugg@platts.com; website: www.events.platts.com.

25th Annual global power market conference, April 11–13, 2010, Las Vegas, NV, USA. Details: Platts, 20 Canada Square, Canary Wharf, London E14 5LH, UK. Tel: +44 207 1766142; fax: +44 207 176 8512; e-mail: cynthia_rugg@platts.com; website: www.events.platts.com.

EOR conference at oil and gas West Asia, April 11–13, 2010, Muscat, Oman. Details: Society of Petroleum Engineers, Dubai Knowledge Village, Block 17, Offices S07-S09, PO Box 502217, Dubai, UAE. Tel: +971 4 390 3540; fax: +971 4 366 4648; e-mail: spedub@spe.org; website: www.spe.org.

7th African petroleum forum, April 12–13, 2010, London, UK. Details: Global Pacific Partners, Suite 7, 4 Montpelier Street, Knightsbridge, London SW7 1EE, UK. Tel: +44 207 589 7804; fax: +44 207 589 7814; e-mail: babette@glopac.com; website: www.petro21.com.

ERTC introduction to refining, April 12–14, 2010, London, UK. Details: Global Technology Forum, Highview House, Tattenham Crescent, Epsom Downs, Surrey KT18 5QJ, UK. Tel: +44 1737 365100; fax: +44 1737 365101; e-mail: events@gtforum.com; website: www.gtforum.com.

International conference on health, safety and environment in oil and gas exploration and production, April 12–14, 2010, Rio de Janeiro, Brazil. Details: Society of Petroleum Engineers, PO Box 833836, Richardson, TX 75083–3836, USA. Tel: +1 972 952 393; fax: +1 972 952 9435; e-mail: spedal@spe.org; website: www.spe.org.

Developments in CCS technology, April 13, 2010, London, UK. Details: SMi Group Ltd, Unit 122, Great Guildford Business Square, 30 Great Guildford Street, London, SE1 0HS, UK. Tel: +44 207 827 6000; fax: +44 207 827 6001; e-mail: client_services@smi-online.co.uk; website: www.smi-online.co.uk.

Drilling automation, April 13–14, 2010, Galveston, TX, USA. Details: Society of Petroleum Engineers, PO Box 833836, Richardson, TX 75083-3836, USA. Tel: +1 972 952 393; fax: +1 972 952 9435; e-mail: spedal@spe.org; website: www.spe.org.

Oil and gas outlook Brazil 2010, April 13–15, 2010, Rio de Janeiro, Brazil. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 11 516 4000; fax: +27 11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

European bunker fuel, April 14–15, 2010, Rotterdam, the Netherlands. Details: Platts, 20 Canada Square, Canary Wharf, London E14 5LH, UK. Tel: +44 207 1766142; fax: +44 207 176 8512; e-mail: cynthia_rugg@platts.com; website: www.events.platts.com.

Vacancy announcements

Head, PR & Information Department

Application deadline: March 27, 2010

Job description:
The PR & Information Department is responsible for presenting OPEC's objectives, decisions and actions in their true and most desirable perspective. It disseminates news of general interest regarding the Organization and the Member Countries on energy and related matters and it carries out a central information programme and identifies areas for the promotion of the Organization's aims and image. The Head plans, organizes, coordinates, manages and evaluates the work of PR & Information Department in accordance with the work programme and the Department's budget so as to optimize its support to the Secretariat in achieving its objectives. The work aims at creating and maintaining a positive image of the Organization and at ensuring the dissemination of publications and journals at highest professional standard.

Required competencies and qualifications:
- Advanced University degree (PhD preferred) in Media Studies, Journalism, Public Relations, International Relations or relevant Social Sciences;
- A minimum of 12 years (ten years in case of a PhD degree) in journalism, information management and/or public relations in the media or in an energy-related establishment with a minimum of four years in a managerial position, preferably at large national, regional, or international institutions;
- Training/specialization in modern information practice and techniques; professional management and leadership; knowledge of energy development issues is an asset and Membership of a professional body (PR or Journalism) is an advantage;
- Excellent communication and analytical skills, strategic thinking, motivation/planning skills, problem solving skills.

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The post is at grade B reporting to the Director, Support Services Division. The compensation package, including expatriate benefits, is commensurate with the level of the post.

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Applicants must be nationals of Member Countries of OPEC and should not be older than 58 years. OPEC has a policy of non-discrimination which encourages all qualified candidates to apply.

Applicants are requested to fill in a résumé and an application form which can be received from their country's Governor for OPEC.

In order for applications to be considered, they must reach the OPEC Secretariat through the relevant Governor not later than March 27, 2010.

Petroleum Trade & Transport Analyst

Application deadline: April 19, 2010

Job description:
Within the Research Division, the Petroleum Studies Department is responsible for providing pertinent and reliable information and analyses in support of decision-making and policy-making in Member Countries. It carries out research programmes and studies on short-term petroleum market developments with the aim of issuing reports on a regular, as well as *ad-hoc* basis, highlighting important issues for their use and consideration. It conducts regular forecasts, elaborates and analyzes oil market scenarios and prepares and publishes reports on these findings. It promotes OPEC's views and technical analysis on short-term oil market developments to the industry at large and the general public via the OPEC Monthly Oil Market Report, as well as other reports, presentations and related podcasts. And it prepares and contributes to reports to be submitted to the Economic Commission Board, the Board of Governors, the Ministerial Monitoring Sub-Committee, as well as papers for various OPEC publications. The Petroleum Trade & Transport Analyst studies and analyzes pertinent dimensions of international and regional trade in crude oil and oil products, and assesses the short-term impact of movements of freight rates. Furthermore, he/she monitors and analyzes developments in oil transportation and prepares consolidated reports thereon to the Governing Bodies.

Required competencies and qualifications:
- University degree (advanced degree preferred) in Economics or energy-related fields;
- A minimum of eight years (six years in case of an advanced degree) of related work experience;
- Training/specialization in energy analysis, oil and product transportation and knowledge of oil market developments;
- Analytical, communication and presentation skills.

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Applicants must be nationals of Member Countries of OPEC and should not be older than 58 years. OPEC has a policy of non-discrimination which encourages all qualified candidates to apply.

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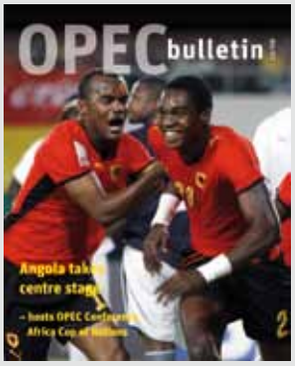

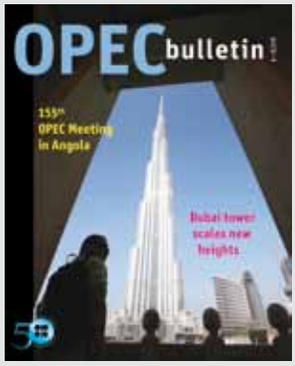

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