He knows there’s a well out there.
So do we.

Why are nine out of ten appraisal wells drilled by OMV Exploration & Production GmbH successful? Just as the camel finds water where others see only sand, we find oil where others can’t. But it’s not only us to use the most advanced technology: our colleagues from OMV Gas & Power GmbH do so too when transporting the gas we have produced. OMV is not only a pioneer in the Nabucco Gas Pipeline project, but is also fully committed to being a progressive player in the LNG business. OMV places its competence and knowhow into action for a secured energy supply.
Timely Seminar exceeds expectations in crisis period

The Fourth OPEC International Seminar could not have been held at a better time.

By March 18, when key decision-makers and experts from the world oil industry, governments, academia and related areas gathered in the Festsaal, in Vienna’s Hofburg Imperial Palace to begin the two-day Seminar, the dust had more or less settled from the seismic shock that had struck the industry half a year earlier, in the wake of the calamitous events in the financial sector and the widespread economic decline. It was, at last, easier to view the impaired landscape and gain a better perspective of the way forward.

It was time to grasp the nettle. The Seminar provided an ideal place for this, with its top-calibre participants setting aside their regular activities to focus their minds on the leading issues of the day facing the industry.

Everyone was in the same boat, when it came to the need to handle the fallout from the economic crisis in a prompt and effective manner — whether their frontline activity was oil supply, environmental harmony or sustainable development. There was, indeed, common recognition of the fact that, while these three pursuits had their own individual challenges, they were also inextricably linked, as had been made clear at the Third OPEC Summit in Riyadh in 2007, when they were described as the three themes embodying the Organization’s guiding principles.

It did not take long to discover that there was a convergence of views among the informed gathering on key fundamental issues affecting the welfare of the industry in the present troubling and uncertain climate.

First, the industry was under severe pressure and, in the face of repeated downward revisions to demand forecasts, was already suffering project cancellations and delays, staff cutbacks, credit restrictions and so on. It was acknowledged that the short-to-medium-term market outlook was highly uncertain, with no end in sight to the malaise. The longer-term outlook for demand was less affected by the current economic developments and, with demand forecast to rise again after the crisis, would continue to need the timely provision of sufficient production capacity to help ward off future boom/bust cycles.

In the light of all this, it went without saying at the Seminar that the industry should ride out the present crisis as best it could. At the same time, however, participants recognised that the industry should do all it could to ensure that it was well prepared for the recovery in demand growth, as this happened. But there were clear obstacles here, such as companies being forced to cut back on existing production facilities in the present downturn, as well as letting go of valuable resources, particularly highly trained staff. On top of this, producers made a strong case for addressing the fundamental misalignment of current spot prices of crude with the higher levels required for investment in future capacity.

Frank, open and insightful discourse on other key issues, including the build-up to the latest round of climate change negotiations in Copenhagen and petroleum’s role in sustainable development, underlined the OPEC Seminar’s growing reputation on the international energy conference circuit.

Indeed, we believe that this year’s Seminar exceeded expectations, in enhancing knowledge and understanding across the industry in a cogent and pertinent fashion at this very difficult time.

We are confident that — with so many key decision-makers and influential parties present — this will be reflected in the actions of the industry in the coming weeks, months and years, as it gets to grips with the damaging fallout from the global economic crisis and seeks to turn the crisis into a springboard for challenging new opportunities, from which producers and consumers alike will benefit.
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The OPEC Bulletin welcomes original contributions on the technical, financial and environmental aspects of all stages of the energy industry, research reports and project descriptions with supporting illustrations and photographs.

Editorial policy

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Conference Notes

Ministers to review market as uncertainty remains over economic recovery

Secretary General's Diary

El-Badri visits Algeria — Secretariat’s drive to boost ties with Member Countries continues

Newsline

News update from OPEC Member Countries
The 4th OPEC International Seminar was held in Vienna’s Hofburg Palace on March 18–19, 2009. Key decision-makers and experts from OPEC and other parts of the energy world discussed a wide range of topical issues affecting the industry, against a backdrop of global financial turmoil and economic malaise.

This special issue of the OPEC Bulletin provides a comprehensive report on the Seminar, outlining highlights from each session, carrying exclusive interviews with participants and covering associated activities, such as the presentation of awards.

Throughout, an effort has been made to capture the flavour of the frank and open exchanges, both in the conference centre and on the sidelines, to enlighten readers on the insights gained at the event, the diversity of expressed views, the areas of common ground and the contrasting positions.
Delegates agree that oil industry must focus on the future, despite global economic woes

by Keith Aylward-Marchant

In times of crisis, it is all too easy to lose sight of underlying fundamentals and longer-term realities. This is as true for the oil industry as it is for any other business sector.

With the world now facing its biggest economic crisis since the Great Depression of the 1930s, there was some apprehension that the 4th OPEC International Seminar, held in Vienna on March 18–19, 2009, would be dominated by discussions about the impact of the global financial turmoil and economic downturn on the energy industry, to the exclusion of other important, longer-standing issues.

As it turned out, such discussions were, indeed, prominent, particularly on the first day. This was hardly surprising, because the severe economic crisis had already caused much hardship for the industry, its effects could be felt right along the supply chain, and it was still seen very much as an open issue, with no clear ideas about its eventual course and the timing and extent of the much yearned-for recovery.

Such discussions, however, were never allowed to take over the event, and a good airing was given to the other, carefully conceived topics on the agenda, covering issues which have been foremost in energy circles in recent years, such as future supply and demand trends, the environment and sustainable development. This conformed to the overall theme of the Seminar — *Petroleum: future stability and sustainability*.

The OPEC International Seminar is now regarded as one of the premier events on the world energy calendar, due to the top-calibre participation and the high level of discussion on leading topical issues. The media have found it an invaluable source of information about today’s oil industry.

For the second time in a row, the Seminar for 2009 was held in the grandiose surroundings of the Hofburg Imperial Palace, in its spacious Conference Centre (Festsaal), which was an inspired choice for such a prestigious and insightful event.

It attracted a large number of decision-makers and experts from the energy world, and, understandably, its focus was on the oil sector and, more specifically, OPEC.

The participants, numbering around 750, included Ministers from OPEC’s Member Countries and other oil-producing and oil-consuming states, heads of intergovernmental organizations, chief executives of national and international oil companies, renowned academics and specialist media.

Their vast pool of knowledge and expertise enlivened the gathering, offering valuable insights and a diversity of views on the challenges facing the industry in the present difficult times.

The beauty of such events as this is that their benefits can be reaped both formally and informally. This year’s OPEC Seminar was no exception.

The formal part took place in the Festsaal and, after the welcoming address by the President of the OPEC Conference, consisted of four main sessions, one special session and a closing panel discussion.

Each main session had a panel of five to seven experts, including a keynote speaker and an OPEC Minister as
There was widespread agreement that the investment requirement for future production capacity was huge, in order to meet steadily growing demand, the replacement of obsolete fields and the tough environmental challenges. Moreover, this had to be done in a sustainable manner, with continued improvements in efficiency on both the demand and supply sides and in harmony with environmental needs.

Furthermore, while the development of alternative energy and renewables was welcomed, it was recognized that, in practice, they could not hope to compete with fossil fuels, due to the sheer size of the energy sector and the fact that fossil fuels had long-established advantages, such as low cost and versatility. This was likely to remain the case well into the future. Therefore, in spite of the extreme pressure facing the industry at the present time, as a result of the world economic crisis, it had to keep its focus fixed firmly on the future, to be ready to meet the upturn in demand, when it came, despite the many uncertainties about the timing and extent of this. This would help prevent the continuation of the damaging boom/bust cycle.

However, it would require, among other things, achieving a fair price for crude, which would support sufficient investment in production capacity throughout the economic downturn. There were also calls for the reintroduction of an oil price band.

Turning to other issues, there was general agreement on the role of technology in ensuring an environmentally sound and sustainable global energy future, while recognizing the continued importance of oil. In particular, the potential of carbon capture and storage was emphasized, and speakers called for financial and regulatory frameworks to help commercialize this technology.

In addition, oil producers urged developed countries to take the lead in greenhouse gas mitigation efforts, given their historical responsibility and their technological and financial capabilities.

Finally, the Seminar enhanced understanding of the many challenges facing the industry today among knowledgeable and influential members of the energy community, and made an important contribution towards dialogue, at a time when the industry most needs it. This will clearly influence the way the industry handles these challenges in the future, benefiting producers and consumers alike.
I would like to welcome you all to this important event, the fourth in the OPEC International Seminar series. Let me restate our objective in establishing this series. It is to provide a high-level forum for respected academics, senior policymakers in government and top industry leaders to critically examine key issues affecting the oil industry, in particular, and the energy sector, in general, with a view to broadening our understanding of these issues and finding solutions to the challenges they pose.

The theme of this Seminar — *Petroleum: future stability and sustainability* — has been chosen to allow us to address some of the most pressing and complex challenges currently confronting the oil industry and the global economy.

The financial and economic crises facing the global economy are having major knock-on effects on the energy industry and the oil market in particular. This has led to a contraction in oil demand, as well as a fall in oil prices. The implication of this situation for the future stability and sustainability of the petroleum industry will be critically examined in the course of the next two days. This will be done against the background of consensus in the industry that, for the foreseeable future, fossil fuels will continue to be the major source of the world’s energy supply.

Gathered with us for this event are many of the global energy sector’s most prominent voices. They include Ministers from OPEC and non-OPEC Countries, consuming nations, top officials from inter-governmental bodies, captains of industry and renowned academics.

Later this evening, we shall be hosting a gala dinner, courtesy of Sonangol. The occasion will also feature the presentation of awards to three distinguished personalities, who, through their works, have advanced the cause and understanding of the oil industry. The awards are the OPEC Award, the OPEC Award for Journalism and a special posthumous award. I look forward to seeing all delegates and members of the press at that occasion.

I would like to use this opportunity to thank their Excellencies, the Ministers, speakers, other participants, and members of the press for honouring our invitation. Let me also thank all those who contributed to organizing this event: the national oil companies and our sister Organization, the OPEC Fund for International Development (OFID), for their sponsorship of some of the activities, the staff of the OPEC Secretariat, the IBC Global Conferences, co-organizers of this Seminar, the staff of the Hofburg Palace, and VC Media for their support.

The 4th OPEC International Seminar is now open.
Day 1 — March 18, 2009
Session One:
Mapping the future energy scene

Objectives:
- Global trends in the energy sector.
- Short- and long-term impact of global economic cycles on the world oil market.
- Challenges facing producers and consumers, and implications on the energy sector.

The main challenge facing the energy industry today remains what kind of economic, energy and environmental models it should develop and pursue to achieve a sustainable growth path, Dr Chakib Khelil said when he opened the first session.

In the last decade, the industry had experienced robust growth on the back of a sound economic performance. But this had led to shrinking spare capacity throughout the energy chain and created upward pressure on prices.

“More recently, the financial crisis and the ensuing sharp economic downturn ... (have) put new pressures on the industry, in terms of widening slack capacity, decreasing revenues and thus investment potential,” he stressed.

However, despite this, there seemed to be converging views in the industry on several fundamental issues, “even if they still sometimes differ on the ways and means to address them,” he said.

One was the need for better information and data, where the Joint Oil Data Initiative was making good ground. Another was the need to address environmental challenges, where ‘win-win’ solutions could be devised through cooperation in technology. And a third was that the steady development of the petroleum and energy industry required higher oil prices than those observed so far in 2009.

“There are some encouraging moves in the right direction in the interests of all stakeholders,” Khelil noted.

He believed that the first session needed to address three important questions. What conclusions can be drawn from the severe market volatility of the last decade? Will recent energy policy moves towards renewables fully materialize and what will be the implications for...
hydrocarbons? And are there other avenues for producer-consumer cooperation, beyond data transparency and the promotion of carbon capture and storage?

Reflecting upon developments over the past half century, Gholamhossein Nozari said, in his keynote address, that past misunderstandings within the oil industry had been replaced by new opportunities: “As OPEC Members, we should continue our positive presence in the global arena, through interactions and enhanced cooperation with other producers and consumers.”

But, despite its enormous development in the 20th century, the global oil and gas industry was facing many challenges, particularly now. “Under these conditions, OPEC has always tried not only to help stabilize the situation, but also to prove that it has a global outlook and its strategies are adopted within the framework of international interests,” he emphasized.

Nozari then listed some oil and energy challenges facing OPEC.

The critical issue of uncertainty about long-term oil demand, which jeopardized OPEC investment in future production capacity, had to be tackled through dialogue and cooperation with consumers. Energy security should cover both supply and demand and would “depend on enhanced interactive international relations based on respect for the rights of all countries.”

Consumer energy policies, including unfair tax systems, hindered OPEC efforts in meeting its commitments. Instead, he felt that consumer policies should deal with challenges like “providing financial resources to revive stalled projects, overcoming bottlenecks in the supply chain, removing political tensions from the Middle East, limiting the influence of speculators and, finally, stabilizing financial and exchange markets.”

Producers might be unable to meet their oil supply development targets, without consumers’ financial and technical cooperation. “Natural resources are not a source of wealth, unless they are developed by huge investments, which are beyond the financial ability of producing countries,” he said.

Nozari called for greater regulation of financial markets, bringing transparency and control, so that they could play their basic roles, rather than destabilize oil markets.

Climate change policies and measures should be comprehensive and balanced, to take their impact on producers into account, recognizing common, but differentiated responsibilities. Industrialized countries, with technical and financial capabilities, should assist oil producers and other developing countries with mitigation measures, such as carbon capture and storage.

He said producers supported energy diversification, but this should not threaten the world’s food resources. The world community should assist producers through relevant technology transfers. His own country, Iran, had to use all available energy sources to attain economic development. Furthermore, adopted policies in the current global economic conditions should not promote a new round of protectionism, he advised.

“Mapping the energy future means linking the short, medium and long terms; they cannot be treated in isolation,” said Abdalla Salem El-Badri.

It was essential to develop a sustainable energy future. To do so, one had to look at all the core issues, such as: the reasons behind the current crisis; oil prices; supply and demand; projects on the table; the investments; the costs; human resources; technology; the environmental challenges; and policy targets.

He highlighted specific areas for attention: confidence had to be restored and the world economy put back on track; it was essential to find and sustain a stable, realistic oil price; it was critical for the industry to maintain an adequate skills base, even during an economic downturn; and the research, development and deployment of technology had to continue, including cleaner technologies, such as carbon capture and storage.

El-Badri added: “The overall goal is to provide a stable setting in which investments and expansion flourish, economies witness stable growth, and where better access to modern energy services help make energy poverty a thing of the past.”
Continuing with this theme, Nobuo Tanaka, said: “We must keep our eyes fixed on the medium-to-longer term picture, at the same time as we address current economic problems.” The current global financial problems were nothing short of critical and would make the investment challenge all the more difficult.

However, he added: “The current crisis should be viewed as an opportunity — for both consumer and producer countries — to ensure investment in a cleaner, more secure energy future. A new clean energy deal can — and must — be placed at the heart of economic stimulus packages globally.”

He called for an energy revolution, to avoid “abrupt and irreversible” climate change, and this would require emissions reductions in all regions, as well as further investment, so as to enhance the use of low carbon technologies.

“But let me emphasize here that this will not spell an end to conventional fuels — far from it,” Tanaka stressed.

Noé van Hulst emphasized the issue of increasing interdependence. “We still hear a lot of rhetoric about independence, and there is an obsession about energy independence,” he said.

“But I strongly believe that this is not the structural trend. The structural trend is that producing countries and consuming countries will need each other more and more. The interdependence between consuming and producing countries today is higher than during the previous (OPEC) Seminar, two-and-a-half years ago. And, at the next Seminar, it will still be higher than it is today.”

“The International Energy Forum (IEF),” he said, “came traditionally out of oil from the producing and consuming countries, but we are now going to tackle gas as well.” He added that the IEF was “more and more ... moving towards finding practical ways to improve market transparency in oil and gas, to improve investment conditions, and to look at how to tackle the sustainability of oil and gas.”

Jeroen van de Veer said there should be a coordinated international approach to “how we can build a more sustainable worldwide energy system.”

He asked: “How does one define ‘sustainable’? If one applies it to our energy world, I think (it means) we offer future generations the same energy possibilities that we enjoy today. We also deal with greenhouse gas emissions.

“Concerning energy, I see three main areas: supplying sufficient quantities of oil and gas; carbon dioxide abatement measures; and value-driven partnerships between national oil companies and international oil companies.”

By ‘value-driven’, he indicated that both parties should be happy with the partnership, which should be long term. “I think both parties can be happy if you bring different things to the table. For example, Shell can bring ... technology, global learning, better safety, contract leverage, financing, developing national staff. Then we would try to form a partnership, where the other partner brings different things to the table. Above all, partnerships should have trust and fair dealing, as well as longevity.”
The theme of the second session was selected long before the global financial crisis erupted in the second half of 2008, exacerbating the downturn in the real economy and spurring the plunge in oil prices.

And so it was particularly timely that the Seminar was devoting a session to oil and the financial markets about half a year after the onset of the crisis, when the dust was beginning to settle, allowing a clearer view of the enormity of the situation.

Dr Rilwanu Lukman, chairing the session, said that the financial turmoil had presented “a very difficult situation” for the industry. While the occurrence of recession was not new in the world, “this current recession is especially severe and is affecting all sectors of the global economy and all countries.”

The OECD countries were hit particularly hard, as were all their business partners. “For us in the oil sector, we have seen prices fall to just $40/barrel from a high of over $140/b, and we recently came out of an OPEC Conference, having taken a decision that we hope will continue to stabilize the market,” Lukman noted, referring to the decision of the Conference three days earlier to retain the existing production agreement and place the emphasis on improving output compliance.

He said that most observers and analysts did not believe that the current situation would be resolved soon and “certainly not before the end of 2009.”
In the light of all this, he hoped that the speakers in the second session would be able to shed some light on the current very difficult situation and possibly suggest some ways out of the dilemma.

Prof Paul Stevens, delivering his keynote address, said it was important to learn from history and he compared the differences between the oil market events of the 1970s and those of the last seven or eight years, focusing on upstream investment.

“There has been a tendency among analysts to look at the 1970s and say it was all about supply. Then they look at the events of the last seven or eight years and they say that it is all about demand. I actually think that this view is quite wrong,” he said.

In the 1970s, there had been a lack of investment on the part of the international oil companies (IOCs). There had also been a demand issue, with oil demand growing very strongly.

“Since 1998, in my view, there has been inadequate investment by both the IOCs and the national oil companies (NOCs),” he said. The causes of this were very different to those of the early 1970s, because “there has been a fundamental change in the underlying theory which drives investment.”

In the late 1980s and early 1990s, a “value-based management” approach by the IOCs meant “leakage out of the investment pot for the industry.” In 2005, for example, the six largest IOCs invested $54 billion into the industry and gave back $71bn to their shareholders in the form of higher dividends and share buy-backs. That money could otherwise have gone into exploration, development and production.

For the NOCs, a theory of “principal-agent analysis”, which emerged in the 1970s and 1980s, saw severe “information asymmetry” affecting some companies. The “agent” — the management of the NOC — produced the oil and knew the true cost of doing this, and this generated profits that went to the “principal” — the controlling ministry — which could use the profits for the benefit of the country as a whole. This resulted in many NOCs being starved of funds.

Admittedly, said Stevens, these had not been the only drivers of inadequate investment in the oil industry. The IOCs, for example, suffered from serious managerial constraints, while, for the NOCs, there was the whole issue of depletion policy.

However, concluded Stevens, the oil markets now had a “temporary reprieve”, arising out of the economic recession leading to lower oil demand. But eventually the world would come out of recession, demand would increase dramatically and, “if we have not had the necessary investment, then, three-to-five years down the road, the industry will be facing potentially a serious supply crunch.”

John Lipsky said that the recent extraordinary fall in oil prices was, first and foremost, a natural response to the abrupt, dramatic change in global economic growth prospects: “For now, the main threat to further oil market instability stems from the prospect that the global economy could weaken further in the coming quarters. Aggressive policy support measures have reduced these risks, but financial strains and economic weakness have
formed a corrosive feedback loop that continues to be a threat to the global outlook.”

The most pressing priorities were to stabilize the global financial system and provide an effective stimulus to global aggregate demand. With effective policy actions, the global downturn could be curtailed, and a recovery could start to get under way, said Lipsky.

“Looking ahead, however, the durability of any global economic recovery will in part depend upon developments in oil markets. To avoid excessive swings in prices, producers, consumers, financial investors and market regulators need to do their share to improve the transparency, functioning, oversight and, ultimately, the supply-demand balance in global oil markets,” he said (see page 47 for more on Lipsky’s address).

Masaaki Taniai proposed three sets of measures for producers and consumers to take, to stabilize the market. First, he hoped producers would invest from medium- and longer-term perspectives and pursue development projects in a transparent manner, so that foreign investment could be attracted. Consumers should promote private investment by using all available policy measures. It was also important “to advance measures on new energy and energy-conservation, in order to use fossil fuels sustainably and for a longer time.”

Secondly, he said: “Now that the oil price is determined by the price in the futures market, oil interests should pay more attention to the oil futures market.” This would be more effective with greater cooperation among producers, consumers and international organizations.

And thirdly, since producers and consumers were in the same boat named “global economy”, producer-consumer dialogue should be enhanced, so that both sides could share a common view on efforts to stabilize crude oil markets.

Prof Sadek Boussena said the main lesson to be drawn from the recent oil price experience was the decisive importance financial markets now had in oil price determination.

Other lessons were that: the role of speculation in oil pricing had increased — but “this price collapse should ... be a lesson for the new players with their false interpretations of how the oil markets work”; oil markets were clearly integrated into the global economy; more players, especially non-commercial participants, more transactions and quicker reactions, thanks to electronic tools, had increased volatility; financial market prices were perhaps sending good signals for speculators’ short-term investment purposes, but not for the physical oil industry; and producers and consumers had a common interest in greater market stability, through stronger regulation of energy financial markets.

But Boussena warned that, when the oil market outlook improved, speculators still seeking a profitable class asset would return, on long positions, to oil futures markets — “in that case, anticipation and speculation in financial markets could take the relay and help oil prices rebound, before the economy bottoms out.”
Session Three:
Oil production capacity expansion — upstream and downstream

Objectives:
- Investment capacity expansion plans in the short-to-medium term, as well as investment needs in the long term.
- Uncertainties, particularly related to oil demand, affecting the required level of upstream investment.
- Challenges facing national oil companies/international oil companies and potential areas for cooperation.
- Current situation and prospects for the downstream sector and the impact on oil market stability.

Chairman
Mohamed bin Dhaen Al Hamli, Minister of Energy, United Arab Emirates

Keynote speaker
Ali I Naimi, Minister of Petroleum and Mineral Resources, Saudi Arabia

Speakers
Rafael Ramirez, Minister of Energy and Petroleum, Venezuela
Dr Hussain Al-Shahristani, Minister of Oil, Iraq
David J O’Reilly, Chairman and Chief Executive Officer, Chevron Corporation

Mohamed bin Dhaen Al Hamli, chairing the third session, reminded participants that, at the last OPEC International Seminar in September 2006, the oil market was beginning the surge that saw prices peak at more than $140/barrel in July 2008. Prices were then above $60/b and rising, and the market was being driven by rapidly rising demand, notably from China and India, as well as by an increasing number of speculators and investors.
Accordingly, producers were being urged to invest heavily to meet the growth in demand. Pressure came from all sides, with multilateral organizations stressing the need to overcome the low levels of spare capacity.

Producers, including the United Arab Emirates, responded by taking on new projects across the whole hydrocarbons value-chain, said Al Hamli.

Engineering companies responded in tandem, by raising their prices. The price of steel rose dramatically, and, today, many of these projects were nearing completion. They had proved to be very expensive investments, at a time when oil prices had declined sharply.

Understandably, he added, many countries were now reviewing their investment plans: “OPEC estimates that demand will fall by one million barrels/day, and even this is subject to downward revision, due to the situation with world economic growth, which is still declining.”

At the same time, producers recognized the need to take a long-term view of the current global economic crisis. Al Hamli continued: “In the absence of real energy alternatives, especially for transport fuels, the future for oil and gas in the years to 2030 and beyond remains strong. Lower commodity prices and an easing of engineering and construction costs may offer short-to-medium-term possibilities to invest in new production capacity in a more cost-effective and measured way.”

Ali I Naimi developed this theme in his keynote address: “In what analysts have called our ‘instant society’, it is easy to lose perspective on the long-range, the time-intensive; ours is a long-term business. Petroleum itself, a substance millions of years in the making, cannot be rushed; neither can the exploration, discovery and development that take many years, if not decades in some cases, to bring into production.”

Experts had predicted that, by 2030, the global population would grow from the current 6.7 billion to 8bn, raising energy consumption by half to meet economic development needs, even after accounting for continued progress in energy efficiency. These projections expected that fossil fuels would continue to meet 80 per cent of world energy demand through the next few decades and that oil would retain its leading position — with its proven reliability, security, acceptability, cost-effectiveness and safety, as well as its massive infrastructure.

However, the recent extraordinary economic and financial events, he said, had created the global crisis and caused a dramatic price slide for oil and gas, with continued downward revisions to demand, after the longest
bull run in the history of oil markets. “Compounding this clouded outlook,” said Naimi, “are calls to lessen or end dependence on oil, particularly from certain regions.

“In such an uncertain demand environment, long-range petroleum industry initiatives suffer. Inconsistencies and unknowns are not conducive to future investments, when long-term, capital-intensive industries require a good financial return and stable prices, as well as clarity of future demand.”

Referring to the impact of unsustainably low oil prices, he stated: “This danger is inherently linked to the ability to strategically plan oil capacity expansions to meet future demand. In a low-price environment, the trend is often to focus on survival instead of expansion. If we place a low priority on preparing for the future, that lack of action can come back to haunt us, through supply shortages and another round of high prices.” Furthermore, it was difficult to see when things would turn round or what the long-term economic aftershocks might be.

Also, Naimi advised against pinning too many hopes on alternative — or “supplemental” — energy sources, since they might not meet their high expectations and instead divert investment from proven hydrocarbons.

For its part, Saudi Arabia would stay the course with its long-term capital investments for oil and gas capacity expansion and related programmes, to enhance world energy supplies.

Rafael Ramirez pointed out that, in the medium and long term, and after the present crisis, “an unquestionable fact will once again become evident: natural resources are, in general, becoming more limited, and oil is not only a natural resource of prime importance, but also one that is not renewable and is running out. Every day there are fewer locations where oil can be produced at a low cost.”

Also, it was important to find “a fair price for our natural resources. We believe that, only with a floor price of $70/b, will it be possible to sustain the investments that we need to undertake, in order to guarantee a growth in OPEC production capacity to the levels that will be required.”

Furthermore, when speaking about increasing production capacity, Ramirez said: “We should start by reasserting the sovereign right of producing countries to administer and regulate access to the exploitation of their natural resources.”

Specifically, he added: “The growth in our (Venezuela’s) production capacity will have as its centrepiece the development of the Orinoco Oil Belt.”

Dr Hussain Al-Shahristani said Iraq’s strategy for the efficient utilization of its petroleum resources was based on fair market shares for crude oil and gas in the world energy market, on the one hand, and on adding value to its petroleum, through oil refining and gas processing activities, on the other. Big increases were planned all-round for the petroleum sector, upstream and downstream and using fully its associated gas.

“This strategy endeavours to maintain energy market stability globally and social and economic sustainable development locally, taking into consideration the urgent need for the reconstruction of Iraq’s vital infrastructure, that was damaged after decades of wars, sanctions and neglect,” Al-Shahristani added.

This, he continued, required substantial financial resources that might not be readily available, given the current world economic crisis and its effect on crude oil demand and, subsequently, prices. Thus, cooperation with IOCs was a key element in Iraq’s policy for the development of its petroleum resources and sourcing the financial investments required.

David J O’Reilly, bringing the IOC perspective, said: “We find ourselves in one of our industry’s most challenging times — dealing with global economic recession, while planning for the world’s long-term energy needs.

“Reliable, affordable and abundant energy helped drive the prosperous periods in the past, and it is essential for a healthy global economy and social climate in the future.”

Thus, he supported calls for investment to continue in the tight global economic climate: “The challenge to all is whether IOCs and NOCs can continue to invest in capacity additions for the long term in an environment where margins and cash flows are very low.”

The long-term capacity challenge was not about resources, he said: “We know they are there.”

Instead, the key prerequisites for investment were: financial system stability; access to resources; a commitment to invest in assets and skilled people; the development and application of innovative technologies; and confidence that the fiscal climate would be stable for the duration of decade-long projects.
Day 2 — March 19, 2009
Session Four:
Technology and environment

Objectives:
- Advances in oil and gas upstream technologies.
- The role of technology in environmental protection.
- Potential impact of technological developments on demand for oil.
- Effect of environmental regulations and fuel specifications on the downstream industry.

Chairman
Dr Shokri M Ghanem, Chairman, Management Committee,
Libya National Oil Corporation

Keynote speaker
Liv Monica Bargem Stubholt, State Secretary, Ministry of Petroleum and Energy, Norway

Speakers
Murli Deora, Minister for Petroleum and Natural Gas, India
Mike O’Brien, Minister of State for Energy, Department of Energy and Climate Change, United Kingdom
Yvo de Boer, Executive Secretary, United Nations Framework Convention on Climate Change (UNFCCC)
Dr Olivier Appert, Chairman and Chief Executive Officer, Institut Français du Pétrole
Dr Mohammad Al-Sabban, Senior Economic Advisor to the Minister of Petroleum and Mineral Resources, Saudi Arabia, Head of Saudi Arabian Delegation to the UNFCCC

Technology has played a pivotal role in upstream and downstream operations since the birth of the modern oil industry, Dr Shokri M Ghanem said in his opening remarks to the fourth session.

It had provided the world with the means of meeting its growing need for energy, to sustain economic growth. At the same time, the increased levels of energy consumption had brought greater environmental challenges, including water and air quality requirements and waste management.

The issue of climate change and the role of energy were "core issues" that topped the agendas in all major
international fora, stressed Ghanem: “Many people think that the environmental situation is getting worse; therefore, rapid and effective action by governments and industry is urgently needed.

“Technology is perceived to be an important vehicle to save the environment, and the world must invest heavily to develop appropriate environmental technologies,” he maintained. “The goal is to achieve sustainable development, that is socially equitable, economically viable and environmentally sound.

“Increased energy efficiency, clean fuel technology, carbon capture and storage (CCS) and renewable energy are all important subjects in helping reduce damage to the environment.”

Ghanem said that environmental technologies were now all around us — wind turbines, solar panels, cleaner cars, biofuels, recycling systems for waste and water, and so on. These technologies were all designed to prevent or reduce environmental impacts.

However, while the effects of technological advancements on production costs, supply, demand and economic growth were well-known, there was much debate about environmental impacts. For example, what would be the effect of environmental regulations on supply and demand, prices and economic growth? How would the financial crisis and economic slowdown affect the environmental debate?

Liv Monica Bargem Stubholt, quoting United States Secretary of State Hillary Clinton — “Don’t waste a good crisis” — stressed the need to make the best out of the present economic downturn and invest through it.

“We need to put a strong emphasis on technology development and research, to make sure that we manage to meet the many expectations that the petroleum industry is faced with,” she said in her keynote address.

These expectations included addressing environmental issues on a broad scope and, as she noted, technological developments were central to this.

“First, we are expected to curb emissions of the traditional substances being emitted to the sea and on land ... all the substances hazardous to the environment,” she
stated. Norway had had a “zero emissions objective on produced water and other toxic substances” for a decade and had managed to reduce these emissions by 99 per cent.

Secondly, producers were expected to make the most of the finds already made, in other words, “husband our resources to the best of our ability” through enhanced oil recovery. Recovery rate expectations from the giant Ekofisk field, for example, had risen from around 17 per cent more than 35 years ago to 50–52 per cent today.

Thirdly, the industry was expected to deliver “even more substantially” on oil spill preparedness — this was even more critical as Norway moved into deeper waters and the Arctic.

And fourthly, the industry was expected to meet the challenge of global warming. “We need to address global warming, not only because we are part of the problem, but, perhaps, just as importantly, because the petroleum industry has the capacity and the competence to be of help in curbing carbon dioxide emissions,” she stressed.

Two key areas actively addressed by Norway were CCS, where the country had 13 years of offshore storage experience in the Sleipner field, and offshore wind production, where a full-scale floating wind turbine was planned to start-up later this year.

Three main CCS challenges provided financial incentives in the initial stages, setting-up satisfactory regulatory mechanisms and acquiring international support and cooperation.

For wind, she said: “A fairly robust assessment is that the wind resources outside the coast of Norway can be as much as a hundred times as much as our present electricity production onshore.”

Stubholt closed by saying that all the operational and political challenges facing the industry could be met by, or facilitated by, technological developments.

Murli Deora said that, even as a developing country whose per capita energy consumption was among the world’s lowest, India was conscious of the need to use green technologies and had taken measures to improve energy efficiency. “But the present economic downturn is adversely affecting the promotion of renewable sources of energy.”

He added: “At this conference, we have to collectively resolve that our efforts towards lower carbon footprints are not allowed to be put on the backburner, despite the global economic downturn … all stakeholders, including policymakers and captains of industry, have to work proactively in this direction.”

He believed technology would play an even greater role in the hydrocarbons sector in the future, but there was the need to: first, arrest the alarming declines in production rates in existing fields; secondly, improve access to technology and financial resources for producing countries; and thirdly, implement downstream projects to have adequate desulphurization and upgrading facilities, “as we shall need to process in the future a greater quantity of crude oil of the heavier and more sour variety.”

While continued investment in traditional energy technologies was needed, said Mike O’Brien, “the challenge of climate change means it is also important that we create the conditions for a lower emissions economy.”

The United Kingdom had “a long history” of technological innovation, developing new ways of getting to
deep-water oil and gas in the North Sea, for example: “And we intend that Britain today will play a leading role in developing supply chains for low emissions technology, because we foresee internationally a vast expansion of renewables, new nuclear power stations and CCS.” The size of the challenge meant “global cooperation on a scale that we have not seen before.”

The deployment of CCS would result in a whole new global industry and “we should start laying the foundations for this.” This would need reducing costs through commercial-scale demonstrations, looking at capacity-building and developing a supply chain and new skills.

“OPEC can take the lead in carbon dioxide storage and offer this as a service,” he added. “OPEC nations could become the first movers in a new global CCS market.”

Yvo de Boer also took up this theme: “OPEC Members have an important role to play in investing in research and development of clean sources of energy. This would yield win-win solutions for both climate change and peak oil concerns. It would also put OPEC at the cutting edge of the transition to a low-emissions economy.”

Abu Dhabi provided an example of “seizing the opportunity and constructing the world’s first renewable energy city.”

De Boer continued: “Constructive involvement in economic transitions can give groups a powerful place in designing the transformation. At the same time, it can enable them to simultaneously manage the environmental, economic and strategic risks of the transition.”

December’s round of climate change negotiations in Copenhagen offered “the opportunity to play an important role in history and drive forward sound solutions to a global problem.”

Four political prerequisites had to be resolved there, with clarity on: ambitious targets for industrialized countries; nationally appropriate mitigation actions by developing countries; the generation of sufficient
financial and technological support for both mitigation and adaptation; and the institutional framework to deliver support for mitigation and adaptation.

“Today we cannot mention the energy sector without mentioning the environment, and vice versa,” said Dr Olivier Appert. “So technologies have to be developed to ensure long-term energy supply, while protecting the environment on a local scale and providing answers to global climate change.”

He saw three technological pathways to reducing CO₂ emissions.

The first was to improve energy efficiency, and doing this “in the transport sector has a special importance, since this technology consumes the bulk of oil products and has the fastest-growing emissions profile.”

The second was reducing the CO₂ content of consumed energy, with a special focus on power-generation and the transport sector.

And the third was CCS.

However, added Appert: “There is not one unique response to climate change, but a bunch of different solutions.

“Developing these technologies will require well-focused R&D programmes, demonstration projects with adequate funding, as well as a large corporate effort at international level between producing and consuming countries, national and international oil companies and research centres.”

But this would take some time and need some “important funding”.

Focusing on the Copenhagen meeting’s quest for a post-Kyoto agreement, Dr Mohammad Al-Sabban said: “The problem we are facing is that the existing commitments under the United Nations Framework Convention on Climate Change and the Kyoto Protocol are not being fulfilled in the area of technology transfer and mobilizing financial resources to developing countries … it is crucial to have the existing commitments fulfilled, and then we need to agree on practical new commitments in Copenhagen.”

Many countries, he said, were putting more emphasis on energy security than addressing climate change: “Mixing these two objectives is a worry. If we are to address climate change, we need commitments from the industrial countries, voluntary reductions from the developing countries, together with financial and technological support.

“In any new agreement, we need to minimize the spill-over effect on developing countries, not only oil-producing countries, but also all other countries that are going to be impacted by higher energy prices.”

He emphasized: “The oil producers should not bear the heaviest burden. We are ready to bear our fair share, but definitively not more than that.”
Panel Discussion:
Petroleum for sustainable development

Objectives:
- Prospects for sustainable development and outlook for implementation of the Millennium Development Goals in the light of the current financial crisis.
- Important role petroleum plays in achieving sustainable development.
- Role of development funds in promoting sustainable development.

Sustainable development, said panel chairman, Abdullah bin Hamad Al Attiyah, was a condition that met the needs of the present, without compromising the ability of future generations to meet their own needs.

“It is a process of change, in which the exploitation of resources, the direction of investment, the orientation of technological developments and institutional change, are all in harmony and enhanced, both in the current and future potential to meet human needs and aspirations,” he affirmed.

The strategy for sustainable development, he stated, was aimed at promoting harmony among human beings and between humanity and nature.

Al Attiyah maintained that the relationship between energy production and use and sustainable development had two important features.

“The first is the importance of adequate energy services for satisfying basic human needs, improving social welfare and achieving economic development. In short, this means enabling energy to be a source of prosperity.

“The other is that production and the use of energy should not in the end endanger the quality of life of
current and future generations, and should not exceed the current capacity of the core system,” he added.

In looking at the global economic situation, Derlis Palacios Guerrero said that while poverty, injustice, illness and environmental degradation still existed on the planet, “we will not be able to truly speak of safe nations.” He said it was essential to know what energy security actually meant for sustainable development, as consequences of consumption. We have to increase energy supplies and we have to do it to reduce poverty. But this could lead to a vicious cycle with severe consequences for the environment. This is not unavoidable — we can and we must improve all our products so that they are cleaner and more environmentally friendly, so that they lead to sustainable development in the future.

“If added to energy efficiency and the use of cleaner products, together with an improvement in all the processes in power generation and transportation, plus fostering the responsible use of renewable energy, these can all add up to a sustainable future.

“This would entail economic benefits, social and health benefits for communities. However, there is a fundamental fallacy at present that the international community has not gotten over the lack of will to share the know-how and to send this in the right direction for the benefit of the entire human species.

“This must start to change with a sensitized global perspective for the benefit of the countries that are developing countries,” he said.

For Brazil, producing energy in an environmentally friendly manner was a top priority for the government. Not yet a big oil producer, Edison Lobão said that, in February, output stood at around 2.25m b/d, most of which was consumed locally. And in spite of the global financial crises, the petroleum industry in Brazil was experiencing a “historic moment” with the discovery of new and considerable oil reserves on the continental shelf in the south-east of the country.

“Exploration and production activities being carried out right now are in perfect harmony with the best environmental standards,” he stated.

The minister pointed out that the energy matrix of Brazil ranked among the cleanest on the planet with 46 per cent of renewable energy, compared with the global average of 14 per cent.

Some 85 per cent of the nation’s electricity supplies were from renewable sources, while the world average was just 18 per cent.

Brazil’s energy expansion plan for 2008–17 estimated total investments of $352 billion, of which $246bn was for oil and gas, $83bn for electric power, and $23bn for biofuels.

Under the plan, oil production was forecast to rise to 3.5m b/d, while gas output would reach 81 million cubic metres in 2017. Production of ethanol should rise by 150
Lobao stressed that Brazil had a longstanding experience in the production and use of biofuels, which in their sustainable form, adhered fully with the country’s economic, social and environmental requirements, as well as ensuring energy security.

The quantity of land used for the cultivation of sugar cane and oil seeds used to produce biofuels corresponded to just 0.8 per cent (6.4 million hectares) of the total area of the country and less than two per cent of its arable land.

“We do not give privilege to biofuels, in detriment to food production. We have about 90m ha of land at our disposal to plant food,” he disclosed.

“The Brazilian experience thus shows the feasibility of the production of green energy. And through the biofuels industry, we are creating millions and millions of jobs in Brazil,” he added.

Concerning energy poverty, Suleiman J Al-Herbish said it was so crucial that he thought combating it should be declared the ninth Millennium Development Goal.

“Today, one-fourth of the world’s population living in rural and poor urban areas still does not have access to electricity and more than one-third of humanity relies on biomass as its principal source of energy for cooking and heating,” he said.

According to him, fighting energy poverty meant ensuring continuous access by the poor to affordable modern energy services — lighting, cooking and transportation.

“Energy is not just about electricity, it is also about fuel. Electricity is not always the most appropriate energy source for all needs. Petroleum products are needed for transportation, cooking and heating, as well as to produce electricity,” he said.

In 2000, OPEC Heads of State, at their Meeting in Caracas, Venezuela, urged industrialized countries to recognize that “the biggest environmental tragedy facing the globe is human poverty”, while fighting energy poverty was recognized by the OPEC Summit in Riyadh, in November 2007, as being essential for poverty eradication and sustainable development.

Al-Herbish pointed out that the OPEC Fund for International Development (OFID) had, at the heart of its mandate, the spurring of sustainable development in non-OPEC developing countries. It was tackling energy poverty within a coherent development framework, based on sustainable development principles that relied on three inter-dependent and mutually supportive pillars — economic development, social progress and protection of the environment.

The task of eradicating energy poverty, he said, was immense, but OFID had gained extensive experience in the subject. It organized a successful ‘Energy poverty in Africa’ workshop in Abuja, Nigeria last year and was actively involved in an ‘Energy for the poor’ initiative with the World Bank, called for by King Abdallah of Saudi Arabia, which, by mobilizing donor communities, aimed at providing assistance to help the poor and low-income people to access energy in an affordable way.

“OFID is helping to coordinate the stakeholders’ actions regarding this initiative in which the World
Bank and the Saudi Fund are actively participating. We have contributed to the conceptualization of this initiative,” noted Al-Herbish. “We have already identified concrete energy poverty alleviation projects totalling $500 million.”

“OFID will continue to combat energy poverty and to foster pro-poor policies as part of its global mandate, and welcomes collaboration with the energy industry and other financial institutions,” he added.

Turning to the notion that sustainable development relied exclusively on the development of ‘green’ energy, Paulo Scaroni, said energy markets did not work like that. What was probably somewhere in the region of $60–70/b. But was there any way to stabilize the market around this level? he asked.

“The hard part here is not deciding what needs to be done … the difficulty is finding the best way to do it.”

One idea might be to use long-term contracts, obligating sellers to provide, and buyers to purchase, predetermined quantities of oil at agreed prices. Another idea could be to establish a sort of global stabilization fund, or an international capacity market, whose main task would be to remunerate spare productive capacity in the world petroleum market.

This fund could be fed by a sort of excise tax on affected oil, also affected other energy sources and oil must therefore be at the centre of any concept of sustainable development.

Oil market stability at a reasonable price was essential for sustainable development. But unfortunately, there were two daunting obstacles to achieving that stability.

“Firstly, we must determine what a ‘reasonable’ price for oil might be. And, secondly, we need to find ways to stabilize the oil market at this reasonable price,” he said.

Scaroni said that, in taking all the main parameters into account for the various stakeholders, the best price oil products, and would be managed by an independent body.

“These ideas could also be combined to create a new framework for oil price stabilisation,” he maintained. “But for any new contractual framework to be really effective, it would need to be endorsed by a significant number of the world’s most important producers and consumers. “And that is why we hope that other market operators will participate actively in the discussion to create a truly viable new model which would benefit our industry, producing countries, consuming countries, and contribute to the sustainable development of the world,” he added.
Regarding the challenges facing the oil industry, Jim Mulva said all stakeholders needed to be attentive to the changes taking place — in particular over alternative energy and for action on climate change.

“It does not matter whether we are international oil companies, national oil firms, exporting countries, consuming countries, or end-users — we are all vitally invested in society’s quest for sustainability,” he said.

The time had come to adapt to a changing market, he said, in listing six requirements.

“First, in order to maintain its sustainability, the industry needs the ingenuity provided by good people … we must adapt and recruit in new ways and from new pools of human resources.

“Next comes technology. We need new advancements throughout the industry. We need another infusion of technology to streamline our operations and reduce costs, particularly in today’s depressed price environment.

“Third, we must further enhance our environmental performance by providing our products in cleaner forms and we must overcome the environmental challenges associated with unconventional production. We must also use our technology and other abilities to help develop alternative energy and address greenhouse gas emissions.

“Fourth, we will need to make enormous capital investments in the years ahead, in order to meet future demand. Despite the current downturn, we must continue our traditional willingness to undertake major development projects, while mitigating risks. The corollary is that government must also adapt to the market’s realities. Its role is providing fiscal stability and sanctity of contracts.

“Fifth, within our industry, we need broader attitudes toward cooperation. Tomorrow’s projects will entail extremely high levels of financial and physical scale and technical complexity. The overall demands are often too vast for any one player. We must combine our strengths in new models of cooperation, and in new forms of joint ventures and participation.

“And lastly, we are facing the challenge of helping the public adapt to the market’s realities. Fossil fuels will still supply 80 per cent or more of world energy, even in 2030. There are no fast, easy or inexpensive replacements. But the public views fossil fuels as stumbling blocks on the path to alternative energy. We must address these misperceptions by educating the whole of society.”

Mulva concluded: “The market is changing and it requires us to adapt, in order to ensure our sustainability, as well as that of petroleum.”
At a special Seminar session, the OPEC Fund for International Development (OFID) gave a presentation on a study assessing the expected impact of first-generation biofuels on global food security, rural development and climate change.

Entitled Food security — implications of an accelerated biofuels production — the study, commissioned by OFID to the International Institute for Applied System Analysis (IIASA), asked the question: what would happen at the global level if all of the current targets for biofuels set by developed and developing countries are realized on time?

OFID Director-General, Suleiman J Al-Herbish, who chaired the session, told delegates that the issue of biofuels was very important to OFID’s activities, since supporting sustainable agriculture and food security in developing countries was a component of OFID’s mandate, the main thrust of which was to help eradicate deprivation and poverty in the world’s poorest nations. Over 120
developing countries around the world were benefiting from the actions of OFID, which was contributing to the attainment of the Millennium Development Goals, aimed at eradicating extreme poverty and hunger.

The OFID head noted that, from a historical point of view, the relationship between food and energy was not anything new. In 1900, at the World Exhibition in Paris, Rudolph Diesel demonstrated that the engine that now bears his name could run on peanut oil. Four years later, a French car, fuelled by ethanol, broke the world speed record. And during the 1930s and 1940s, although not a common practice, vegetable oils were also used for diesel fuel, especially during World War II.

“More recently, in the 1960s and early 1970s, the relationship of food-energy was inversed for a few years with one of the ways suggested for solving a food shortage being to prepare high-protein food ingredients synthetically from oil.

“Today, as we all know, the debate is about transforming food into energy,” he added.

First-generation feedstocks

Al-Herbish pointed out that biofuels currently accounted for less than 1.5 per cent of the global transport fuel mix. Among the first-generation feedstocks, sustainable sugar cane production under rain-fed conditions in former pasture and grassland areas offered an attractive biofuels option, both environmentally and economically, as demonstrated by Brazil.

“The question is what about first-generation feedstocks in other parts of the world where measures to stimulate biofuels production for domestic and international markets are being put in place? What is the global impact?” he asked.

Over the last three years, said Al-Herbish, OFID had participated in many international fora addressing the issue of biofuels development, such as the 15th and 16th Sessions of the United Nations Commission on Sustainable Development, the UN Summit in Rome last June and other regional meetings.

“It was clear in all these meetings that there was a call for more scientific studies on the sustainability of biofuels. Policymakers are unable to agree, since the impact of biofuels development at global and regional levels is not clear,” he affirmed.

He stated that points of disagreement were, among others, the impact of biofuels output on the environment and competition with food crops for land and water.
“There has been a lack of comprehensive assessments, including thorough analyses of the potential impacts of biofuel developments on international food prices, food insecurity, greenhouse gas savings, as well as the risks of biodiversity loss,” said Al-Herbish.

He explained that the objectives of the IIASA study were three fold. Firstly, it aimed to present a comprehensive review of the status of biofuel developments around the world and the policy regimes and support measures driving this evolution.

**Novel feature of the study**

Secondly, the study sought to assess the agro-ecological potential of all major biofuel crops — both first and second-generation.

And thirdly, it set out to comprehensively evaluate the social, environmental and economic impacts and implications of biofuel developments on climate change mitigation, agricultural prices, food security, land use change and sustainable agricultural development.

Al-Herbish pointed out that the report aimed at providing global and regional results — country specific results were not included.

“The novel feature of this study is that its findings are quantified as they are derived from a scenario approach based on a peer reviewed modelling framework,” he said.

Three officials spoke on the study during the session. **Faris Hasan**, Director for Corporate Planning and Economic Services at OFID, covered the general situation with biofuels today, looking at current targets set by both the developed and developing countries, while **Rachid Bencherif**, OFID Senior Planning Analyst, gave an overview of the societal and rural development results of the study, such as the impact on agricultural prices, cereal production and the risk of hunger.

In addition, **Dr Mahendra Shah**, a senior scientist at IIASA, discussed the modelling framework and offered some key results relating to climate change issues (see biofuels feature on page 72).
OPEC honours outstanding achievement at glittering gala dinner

One of the highlights of the 4th OPEC International Seminar, held on March 18–19, 2009, at Vienna’s Hofburg Palace, was the presentation of various awards to deserving individuals who have distinguished themselves in their areas of calling. These were made by Angola’s Minister of Petroleum and OPEC Conference President, Eng José Maria Botelho de Vasconcelos, assisted by Secretary General, Abdalla Salem El-Badri, at a splendid gala dinner attended by OPEC and non-OPEC Ministers, ambassadors, members of the OPEC Governing Board, journalists, analysts and other invited dignitaries. The OPEC Bulletin’s Ulunma Angela Agoawike reports.

The sumptuous officialdom of Vienna City Hall was an apt venue for the awards ceremony. This time around, three awards in different categories were given out. They were the OPEC Award, the OPEC Special Award (posthumous) and the new OPEC Award for Journalism.

The 2009 OPEC Award was conferred on Prof Paul Stevens, an Emeritus professor at the Centre for Energy, Petroleum and Mineral Law and Policy of the University of Dundee.

In a citation, read by Siham Abdulrazzak Razzouqi, Kuwait’s OPEC Governor and Chairperson of the OPEC Board of Governors, Stevens was described as someone with a long and illustrious career in academics and research. His unrelenting commitment to the field of energy economics was evidenced by the vast number of highly acclaimed publications that he had produced. Razzouqi noted that Stevens was someone who had made a lot of contribution towards creating an understanding of the oil industry.

Responding, Stevens thanked OPEC for conferring on him “such a prestigious award”. He congratulated the Organization for introducing the award in 2004 as, according to him, it was “a good thing to acknowledge the contribution of academics in helping the understanding of the international oil industry.”

Instituted in 2004, the objective of the OPEC Award is to recognize and honour academics and researchers who have made “an outstanding contribution to knowledge of the petroleum industry and oil-related issues, particularly those whose work has contributed to enhanced cooperation between oil producers and consumers.” The first recipient of the OPEC Award was Prof Robert Mabro of Saint Anthony’s College, Oxford University, in 2004. He was followed by Prof Peter Odell, professor emeritus of international energy studies at Erasmus University, Rotterdam, in 2006.

The 2009 OPEC Special Award was a posthumous award conferred on Prof Thomas W Waelde, Director of the Centre for Energy Petroleum and Mineral Law and Policy of the University of Dundee from 1991–2001. Waelde, who died last year at the age of 59 in a tragic accident, was described as a leading scholar and practitioner in the field of international energy and resources. The award was accepted on behalf of Waelde by his widow, Dr Charlotte Waelde, and son, Max.

The citation of Prof Waelde was read by Dr Ibibia L Worika, OPEC’s General Legal Counsel, and a former student, who described the late university professor as his mentor. (A tribute to Prof Waelde can be found in the November/December 2008 issue of the OPEC Bulletin.)

Receiving the Award on behalf of her late husband, she told the audience that Prof Waelde “would have been deeply touched by the fact that the community of energy specialists with whom he worked held him in such high esteem.” He would also have been “particularly pleased to be held in such high regard as someone who remained an independent thinker in his field,” something he considered to be of the highest importance.
The third award to be conferred was the OPEC Award for Journalism. It went to Dr Walid Khadduri. Reading the citation on Khadduri, OPEC’s Public Relations and Information Head, Dr Omar Farouk Ibrahim, described him as a respected journalist and academic who, through his incisive analysis and reporting over four decades, had helped explain the workings of the industry.

Khadduri was a man who had earned a good reputation for his objective and balanced reporting, who never held back, even when he disagreed on issues, and it was these qualities that, over the years, endeared him to many he came in contact with.

For Khadduri, receiving the award was indeed “a great honour”. He used the occasion to shed more light on what oil reporting entails, while paying tribute to pioneers in this specialized branch of energy journalism, people such as Jim Tanner of the Wall Street Journal, Wanda Jablonski and Ken Miller of Petroleum Intelligence Weekly and Ian Seymour of the Middle East Economic Survey.

Welcoming guests to the dinner, which took place at the glittering Vienna City Hall, de Vasconcelos remarked that the dinner had become a regular part of the OPEC Seminar agenda and was “our own way of saying thank you for participating in the event.”

Jointly sponsored by Angola’s Ministry of Petroleum and the National Oil Company of Angola, Sonangol, the dinner provided the Minister with the unique opportunity to talk about his country, Angola, which he said was concentrating its efforts at rebuilding the nation after a protracted civil war that left most its infrastructure destroyed and its citizens displaced.

“Our priority since the war ended has been to rebuild our infrastructure as fast as possible, alongside the important task of improving the living standards of our people.”

Continuing, de Vasconcelos said: “We still have much to do ... our government policy of investing in the energy sector will continue to receive priority as we work hard to develop our economy in general. We are determined to provide a conducive environment for others to make contributions to our development efforts, both in the energy sector and in other areas.”

Angola, the Minister said, “holds huge potential in Africa. We encourage investors to come and partner with us for the mutual benefit of all. There are many projects in the energy sector that are open to foreigners to come and participate in.”

He pointed out that the country’s investment promotion council was ready at all times to provide potential investors with the information they required.

“One important scheme that our government is embarking on is the LNG project. We decided to embark on this project, in order to increase our resource base and also to limit gas flaring,” he explained.

On the rising profile of Angola as a major oil producer and exporter, de Vasconcelos pointed out that his country had come a long way in joining the ranks of the world’s leading oil producers. By joining OPEC in 2007, he said,
L–r: Prof Paul Stevens; Eng José Maria Botelho de Vasconcelos; Abdalla Salem El Badri.
L–r (below and right): Dr Walid Khadduri; Eng José Maria Botelho de Vasconcelos; Abdalla Salem El-Badri.

Dr Walid Khadduri (r); with Abdullah bin Hamad Al Attiyah.
“we have shown that we want to help lead the important energy debate.”

He restated the commitment of Angola to contributing to the realization of the objectives of OPEC.

In accompanying remarks, Sonangol’s Chief Executive Officer, Mateus de Britto, explained to guests the activities of the national oil concern and the extent the country had gone to in its exploration and production activities since oil was first discovered in onshore locations in 1955, as well as the future plans of Sonangol to further develop the country’s oil industry.

He highlighted some of the corporate social responsibility activities of the state oil firm, which included the provision of education and health facilities. He mentioned specifically the opening of a petroleum-based university, which, he said, would educate future generations of Angolans.

Throughout the evening, guests were entertained by some of the best of Angola’s traditional and contemporary music, which included performances by a cultural troupe and the country’s rising music stars, Yolande Simedo, and guitarist, Matias Mesio. This was over a sumptuous buffet dinner and drinks.

Before the dinner, Seminar participants were treated to a cocktail reception hosted by the OPEC Fund for International Development (OFID), which followed an OFID special session on biofuels.

And one day before the Seminar proper, the Algerian national oil company, Sonatrach, hosted delegates to a pre-Seminar cocktail evening at the Intercontinental Hotel. This was followed by a speakers’ dinner, hosted by the Nigerian National Petroleum Corporation (NNPC), which featured entertainment by two Vienna-based Nigerian musical dance troupes.

The reception was meant to be an ice-breaker for the Seminar proper, giving participants the opportunity to meet one another in an informal setting before the serious business of trading ideas started the next day. And it served the desired purpose as guests mingled, exchanged pleasantries and business cards, while sipping drinks and picking at the “finger food” provided.
L–r: Dr Charlotte Waelde; Abdalla Salem El-Badri; and Eng José Maria Botelho de Vasconcelos.

L–r: Dr Charlotte Waelde; Max Waelde; and Prof Paul Stevens.

Dr Ibibia L Worika

Prof Thomas Waelde
After each session, participants in the audience were given the opportunity to ask questions. This resulted in some lively debate.
**Closing remarks**

**Dr Hasan M Qabazard**  
Director, Research Division, OPEC Secretariat and Chairman of the Seminar Steering Committee

We have come to the end of the 4th OPEC International Seminar. It has, no doubt, been very informative, and as Abdullah bin Hamad Al Attiyah, Deputy Prime Minister and Minister of Energy and Industry of Qatar, rightly noted a while ago — very productive. I would like, on behalf of the Secretary General, to thank Your Excellencies for creating time from your very busy schedules to honour our invitation to this very important event. I would also like to express our gratitude to the speakers, executives of international and national oil companies, international and inter-governmental organizations, academics, researchers and students who have joined us for this Seminar. A special word of appreciation to members of the press who assisted in disseminating news about the Seminar.

May I also use this opportunity to thank our national oil companies who subsidized the Seminar through sponsoring some of the activities. We are particularly grateful to Sonangol, Sonatrach, Qatar Petroleum, Kuwait Petroleum Corporation, PDVSA and the NNPC. The OPEC Fund for International Development (OFID), our sister Organization, has been most supportive since we started this series. We are most grateful.

Finally, let me express our appreciation to our Ministers and Governors for the support we have received in organizing this series. A special gratitude to the Secretary General for his support, all members of the Steering, Technical and Organizing Committees, as well as IBC Conferences for their support.

I would also like to thank the authorities of the Hofburg Palace, Rathaus, Hotel Intercontinental, the Vienna Police and all those who contributed in one way or the other towards making this Seminar a success.
OPEC Seminar seeking to mitigate, resolve global problems — Conference President

José Maria Botelho de Vasconcelos, Minister of Petroleum of Angola and President of the OPEC Conference, officially opened the 4th OPEC International Seminar. Later, the OPEC Bulletin’s Alvino-Mario Fantini caught up with the Minister and asked him, among other things, how the global financial crisis was affecting his country.

Since petroleum in Angola is a raw material which has contributed more than 50 per cent to the country’s GDP and close to 80–90 per cent of total exports, the crisis is having an extremely large effect on our country’s development. Angola is in the process of national reconstruction and we have many programmes and projects underway. We are trying to develop these with, in a certain sense, great care. At this moment, the government is carefully analyzing how to prioritize these programmes and projects so that the crisis may not have such a large impact on Angola’s development.

Can Angola serve as an energy model for other countries in Africa?

Angola has very broad experience in the energy sector. We have enormous potential in electricity, which can be used profitably. We also have potential in petroleum, which has been growing since 1955 and, at this moment, continues growing. Thus, Angola could be seen as serving as a model — especially because we are, at this time, the second-largest producer of petroleum in Africa. Among other African countries, some of which do not have petroleum, and others that have petroleum, but in relatively low quantities, our position could be considered a model. We have also been able to define a model for contracts that has been studied as an example to be followed at the international level.

The OPEC Seminar has brought together a lot of high-level people like you. What do you expect to gain from this event? What is its importance?

The countries and organizations that are represented here at various levels are meeting at a time when we can discuss the situation experienced by each of our countries. In the end, they have concerns and interests that are divergent in terms of points of view. The petroleum industry — and, especially, OPEC — facilitated this meeting, in order to allow us all to reflect and engage in a permanent dialogue, so that global problems may be mitigated and resolved. Thus, each time we meet through these Seminars and also through individual high-level meetings, we can find more points in common with each other — despite our divergent interests.

How is the current global crisis affecting prospects for your country?

The financial crisis, which has developed into an economic crisis, has deeply affected commercial activities in many developed countries. Since the economic development of these countries has relied on the flow of petroleum production, we can confirm that this crisis has a very large influence. This is something we are discussing at this Seminar.

Since petroleum in Angola is a raw material which has contributed more than 50 per cent to the country’s
OPEC Seminar
now one of world’s best — Al Attiyah

Abdulah bin Hamad Al Attiyah, Deputy Prime Minister, Minister of Energy and Industry of Qatar, chaired the final panel session of the Seminar. He then spoke briefly with the OPEC Bulletin’s Ulunma Angela Agoawike and told her how, in his opinion, the Seminar had grown to become one of the most prestigious events of its kind.

To what extent have the expectations of the OPEC Conference been met with regard to it setting up the OPEC International Seminar series?

The OPEC Seminar is the right place to be to listen to the views of the experts. It provides an opportunity for individual and bilateral discussions, as well as sharing ideas. Today, the OPEC International Seminar is one of the most prestigious energy Seminars in the world with leaders of the petroleum industry participating. You saw them here in the past two days — participating from 8.30 am until the evening. All of them are interested in listening to one another, so as to know how we can deal with all the issues affecting the industry.

What areas of improvement, if any, do you see for the Seminar?

There are a lot of areas we can improve on, although I think the Seminar is managing to improve by itself. Obviously, I hope the fifth in the series will be better than the fourth.

I understand you are going to host the World Petroleum Congress (WPC) in 2011. Can you share with our readers the significance of the hosting of that event?

Yes we are — and I think it is a very good development. We (Qatar) are the first country in the Middle East to host the WPC. Of course, I was surprised when I heard that. You know the Middle East is the major oil-producing region in the world, but the WPC is normally held in Europe. So, we are very proud that we are the very first Middle East country to bring the WPC to what I think is the right place.

What are your expectations for this meeting?

In 2011, no one will know how the oil market will be, or what the price of oil will look like and whether or not it will be the right price. No one can predict that. So, in Doha in 2011, it will be interesting to know how the WPC will handle the challenge.
The current low oil price is impeding investment in the oil industry, governments should encourage more transparency in the oil market and speculation in the paper oil market must be addressed. These were the three key messages from the International Energy Forum’s Noé van Hulst when he spoke to the OPEC Bulletin on the sidelines of the 4th OPEC International Seminar.

Van Hulst concurred with OPEC’s view that the current low oil price environment is set to bring about future supply shortages. “Prices are relatively low and this, of course, negatively effects investment.”

He explained that this posed a potential problem, “because in two, three years time when the world economy will recover again, demand will pick up.” He said that if too much investment was postponed or cancelled now, “then we might set ourselves up again for a supply crunch and price hikes two, three, or four years from now.” He added that OPEC’s role remained “extremely important” — being an Organization that united a large part of the market — and said he believed it was acting responsibly.

Concerning transparency, van Hulst called for governments to encourage further improvements, making specific reference to the Joint Oil Data Initiative (JODI). “We have seen significant improvement in 2008, but more is needed in terms of the monthly submissions for supply, demand, and stocks.” He also called for “active participation” in building an annual investment database so that “the market knows better how much investment is taking place and how much delay there is in the investment.”

Van Hulst, who had earlier addressed the first session of the 4th OPEC International Seminar, also urged better international coordination with regards to oversight of the financial markets.

“I do sense a growing consensus that, yes, financial markets have played a role in the overshooting and also undershooting of prices and that we also need to start tackling that issue as well,” he said. “The G-20 can and actually should play a role there, since they are anyway looking at the global financial architecture.”

The oil price required to encourage investment was very difficult to gauge, “but it is probably higher than it is today because it needs to be closer to the sort of levels where difficult oil projects still have a valuable business case,” van Hulst maintained.

He added that if investment could be maintained, and if transparency and oversight was improved, the chances of a future oil price spike could be reduced.
More transparency, accurate data critical to reducing oil price volatility — IMF’s Lipsky

Addressing delegates assembled at the Hofburg Palace in Vienna, Lipsky said that to avoid excessive swings in prices, producers, consumers, financial investors, and market regulators needed to do their share to improve the transparency, functioning, oversight and, ultimately, the supply-demand balance, in global oil markets.

Speaking on Economic shifts and oil price volatility, he stressed, however, that the most pressing priorities today were to stabilize the global financial system and provide effective stimulus to world aggregate demand.

“With effective policy actions, the global downturn can be curtailed and a recovery can start to get under way,” he maintained.

However, Lipsky pointed out that the world was facing “extraordinary conditions” in the global financial system and economy, with important consequences for the global oil market.

He said the recent fall in crude prices was, first and foremost, a natural response to an abrupt, dramatic change in global economic growth prospects.

Aggressive measures

“For now, the main threat to further oil market instability stems from the prospect that the global economy could weaken further in the coming quarters. Aggressive policy support measures have reduced these risks, but financial strains and economic weakness have formed a corrosive feedback loop that continues to be a threat to the global outlook,” he said.

Pointing to the acute oil market volatility seen, Lipsky said that when he spoke at the International Energy Forum in Rome in April, 2008, the IMF’s average petroleum spot price stood at $115/barrel. Two months later,
at the Jeddah Energy Forum, it had risen to $135/b. By year-end, it had slumped to $36/b.

“In recent days, it has fluctuated around $45/b. Needless to say, such dramatic price variations over a short period have had large consequences for oil consumers and producers, as well as for policymakers around the world,” he affirmed.

Looking at the reasons for the sharp oil price fluctuations, Lipsky said that, clearly, the dramatic decline in oil prices since July 2008 was first and foremost a response to an unexpectedly rapid and sharp deterioration in near-term global economic growth prospects.

“From today’s perspective, it seems likely that global output will contract in 2009 on an annual average basis. There is no modern precedent for such a severe downturn. As a result, oil markets have had to adjust quickly to the prospect of a sustained period of weakened consumption in both advanced and emerging market economies after many years of robust demand increases,” he observed.

Lipsky said that global growth was not expected to recover any time soon as the financial crisis would have lasting effects on credit and capital flows. In particular, economic growth in the emerging and developing economies was unlikely to return quickly to the very high rates seen during 2003–07.

He pointed out: “Oil demand today appears likely to grow at a more modest rate over the next five years, or so, compared with the paths that were projected only nine to 12 months ago. That said, the opening up of higher cost oil reserves to help satisfy rising demand remains inevitable, even though the relevant demand will not emerge until later and perhaps more gradually than assumed previously.

“Hence, we still expect prices to rise as the global economy recovers, although not at the dramatic pace recorded in 2007 and first half of 2008,” he said.

However, Lipsky pointed out that recent oil price movements had been striking: The price of crude oil had fallen by more than 70 per cent from its 2008 peak.

“This represents the largest percentage drop ever experienced over such a short period, surpassing even the declines of 1986,” he maintained.

**Fall in inflation**

Lipsky noted that the oil price decline had already contributed to a sharp deceleration in headline inflation across the globe. Combined with the effects of rising economic slack, average inflation in the advanced economies was expected to decline from 3.5 per cent in 2008 to a record low of 0.25 per cent in 2009. In emerging and developing economies, inflation was expected to subside to 5.75 per cent in 2009 and five per cent in 2010, down from 9.5 per cent in 2008.

“The fall in inflation has created much needed room for monetary policy easing,” maintained Lipsky.

Falling oil prices were also boosting household purchasing power. Although this had not been sufficient to prevent sustained weakness in consumer spending and business investment, lower oil prices would contribute, along with expansionary monetary and budget policies, to an eventual stabilization in aggregate demand and recovery in growth.

Lipsky said that while oil price declines undoubtedly brought stabilization benefits to the global economy, “we should remain cognizant of the longer-term risks of low prices and heightened volatility.”

He said today’s developments reduced the net present value of potential projects and curtailed the oil sector’s internal free cash flows. Moreover, the recent elevated levels of price volatility had raised uncertainty about project returns.

“All of these factors have contributed to the deferral of capital expenditure, particularly for those marginal investment projects that had depended upon the high crude oil prices of 2005 to mid-2008, such as Canadian oil sands extraction,” said Lipsky.

“The lower that prices drop now and the longer they stay low, the greater will be the negative impact on future supply. In other words, today’s low prices could be setting the stage for another price run-up in the future.”
the stage for another price run-up in the future,” he warned.

Asking whether the world simply had to live with large swings in oil prices and high volatility, Lipsky said, yes, it most probably did to some extent. Nevertheless, there was scope for policies to help reduce oil price volatility and limit the scale and frequency of large price swings, as well as for actions to cushion their economic impact.

On the demand side, he said, policy efforts should focus on strengthening the responsiveness of domestic end-user prices to changes in market conditions, including through the pass-through of price changes in international markets.

“Oil demand would become more price responsive, even in the short term, reducing the tendency for large price movements. Well-targeted subsidies could protect the groups most vulnerable to large oil price changes,” he affirmed.

On the supply side, continued Lipsky, stable and predictable investment and tax regimes would help encourage adequate investment.

“Acknowledging the changing structure of the oil industry, there are advantages to greater cooperation and synergies between national and international oil companies. Well-designed partnerships could take advantage of their different strengths, thereby increasing investment in the oil industry as a whole,” he said.

**Market transparency**

“More timely global and accurate data on oil demand, supply, and inventories are critical to reducing oil price volatility, given current difficulties in assessing oil market conditions. Markets still rely on a narrow set of data, notwithstanding welcome progress under the Joint Oil Data Initiative.”

Lipsky stressed that greater market transparency and much strengthened regulatory oversight would help to maximize the benefits that financialization offered, while, at the same time, reducing the potential risks to price stability from “momentum” trading.

“In particular, more frequent and more disaggregated data on investment flows into exchange-traded derivatives contracts would shed more light on the factors influencing the price discovery process. And as commodity financial markets are global in reach, market oversight requires greater coordination among regulators. The progress being made in this regard through the Financial Stability Forum and other relevant bodies is welcome,” he concluded.

**Producers, consumers need to agree on acceptable price — Odell**

Producers and consumers need to come together to find a price level that is acceptable to both. That is the view of Peter Odell, Professor Emeritus of International Energy Studies at Erasmus University, Rotterdam.

Odell, who received the 2006 OPEC Award at the Organization’s 3rd International Seminar, was speaking on the sidelines of the 4th OPEC International Seminar. “If they can get together to try to evolve a price level that is acceptable to both ... then we will be onto a good thing, onto stability,” he told the OPEC Bulletin. Odell also warned that speculation in the paper oil market could lead to an oil price spike in the future unless it was checked. He urged those in power to devise a mechanism to regulate against it.
Alvaro Silva-Calderón, former Energy and Mines Minister of Venezuela, and Secretary General of OPEC in 2002, made a welcome return to the Austrian capital for the Seminar. Although he did not address the gathering, the OPEC Bulletin managed to obtain a copy of a paper he had prepared, incorporating comments about the oil market situation and how he feels the industry and the global economy would benefit from more concerted cooperation among the main stakeholders, especially non-OPEC producers, and a collective formula for setting fair and reasonable prices.

“The time seems to have come to request a deeper, more formal cooperation — one based on a more binding character — extended to non-OPEC producers, as well as consumer countries and their energy organizations.”

OPEC was formed as an effort to avoid the damages suffered by petroleum-exporting countries as a result of the unilateral setting of prices that private oil companies carried out, often with the consent of the governments of countries of origin.

These prices were not set through consultation with producing countries, nor were they fixed reasonably in an open and transparent market. Rather, the large oil companies handled the setting of prices according to their own convenience and in the strictest confidence.

OPEC proposed to change this situation by dealing with price levels in a more rational way and by committing itself to market stability — so that the interests of producers, consumers and investors would be considered. In other words, the Organization would contribute to the regular supply of petroleum demanded by consumers, while also trying to avoid abrupt price oscillations (volatility).

It has not been easy for OPEC to fulfill these tasks since, in order to respond to world demand in a balanced way, it has had to fundamentally manage the relation of its petroleum supply with that of other non-OPEC oil producers. This has required the Organization to adopt cooperative approaches as an indispensable work tool.

In concrete terms, this has meant, in the first place, cooperation among its Members to pursue the Organization’s objectives — based on the obligations assumed at the Organization’s founding. This has been improving with time.

In the second place, since OPEC Member Countries are not the only suppliers of crude oil to the world market, it has meant strictly voluntary cooperation with non-OPEC producers, since no formal agreements exist between OPEC and non-OPEC producers.

And, in the third place, it has meant cooperation with the international organizations composed of the large petroleum-consuming countries, in a constant search for both demand commitments and the investments needed for the energy security on which consuming countries insist.

The recent increase in petroleum prices above the $100/b level took place in a context of market oversupply. Because of this, when some sectors were worried about elevated price levels and asked OPEC to increase its production, the Organization justifiably ignored those calls. OPEC argued that rising oil prices were occasioned by extraneous drivers — in particular speculation resulting from a lack of regulation over the market. OPEC has been proven right.

Now that a dramatic drop in prices has occurred, OPEC has tried to avoid a deeper fall in prices — or even to turn it around — through production cuts. Nevertheless, in spite of efficient compliance by Member Countries, a price level has not yet been achieved that is considered
sufficient to attract the necessary investments in the petroleum sector, to continue projects and provide for the development needs of producing countries. The effect of the production cuts seems to have been neutralized by the erosion of petroleum demand caused by the world economic crisis.

Speculation and market chaos have definitely had an impact on the recent rise in oil prices. The effects of such market disorder have now led to the present world economic crisis, which is again influencing prices. Thus, it is clear that the crisis did not originate with petroleum price volatility but, on the contrary, that the crisis is producing the deterioration in energy prices.

It seems to be sufficiently clear that supply and demand — the so-called market fundamentals — are not the only determinants of prices and their volatility. Since market stability and reasonable prices continue to be the goals to which the Organization has made a commitment, it is now necessary to use other means, in order to achieve these goals. OPEC has been aware of these other means. But it now seems to be the time to use them more firmly for the achievement of more concrete ends.

Cooperation has been a hallmark of the Organization for many years and it has accordingly made many inroads to this effect. But it seems not to have had the proportional reciprocity from those to whom such cooperation has been proposed. The so-called non-OPEC producing countries — which are not bound by formal commitments, like the ones that bind OPEC Members — act individually, making it difficult to have them as partners when it comes time for cooperation. To be sure, because of their importance, some of them receive special attention from OPEC.

Countries like Russia, Mexico and Norway have been called upon to participate in cooperative efforts and the first two regularly attend meetings of the Organization. Nevertheless, in spite of statements signalling their conformity, or solidarity, with the Organization’s decisions, they have yet to make true cooperation with the Organization more concrete, especially with regards to market stabilization.

The time seems to have come to request a deeper, more formal cooperation — one based on a more binding character — extended to non-OPEC producers, as well as consumer countries and their energy organizations. Like OPEC, they are all similarly interested in market stability and energy security, both in the present and in the future.

If consumer countries, especially large ones, feel the effects of high prices and continuously ask for greater energy security, they should also understand that low prices put that security at risk and that it is necessary to stabilize demand and seek a reasonable price.

A reasonable price would guarantee the development of hydrocarbon sources and the maintenance of spare capacity. It is important to note that adopting a comfortable position as a beneficiary of low prices, while adopting an alarmed attitude when prices rise is contrary to the spirit of cooperation.

Private investors should also be asked to cooperate. Like consumers, investors are important elements in the achievement of OPEC’s founding goals. In pursuit of its objectives and commitments, OPEC has already approached countries and organizations that comprise both consumers and investors (i.e., the IEA, IEF). But the time seems to have come to propose to them a more concrete and binding form of cooperation.

In addition to cooperation, which involves coordinating interests and obtaining the consent of actors outside OPEC, it is important to also rely on the strengths of the Organization and those of its Members. One of these strengths is currently in operation: better compliance with production agreements.

Improving the mechanisms of control for the achievement of such compliance will not only help Member Countries honour production agreements, but will also help avoid mistrust and reduce the need to resort to secondary sources for production monitoring.

Considering the need for expanded cooperation, the internal improvement of compliance with production agreements and the use of reliable information, the Organization should consider anew the possibility of reaching a reasonable price by using a fixed internal mechanism.

This could be an instrument that would improve on — and achieve a greater efficiency than — the price band, which has already been tried in the past.

Although it was not strictly applied, the price band was an attempt that served as reference for the pursuit of a reasonable price. It was abandoned because of the effects of a significant price elevation which went beyond the parameters expected by the price band. These could have been revised and brought up to date, instead of simply abandoning the price band system.

Currently, OPEC Member Countries utilize individual formulae for the determination of prices (for budgetary purposes) that not only take into account external market benchmarks, but which also incorporate their own parameters — especially at the moment of requesting premiums, or offering discounts.

Since OPEC is fundamentally based on cooperation and solidarity, and following the guidelines established in the Statutes of the Organization and in its Long-Term Strategy, Member Countries should be looking for a collective formula that will produce a reasonable and certain price level that will benefit producers, consumers and investors — as well as the world economy as a whole.
Carbon capture and storage holds “great potential” for reducing emissions — de Boer

Yvo de Boer, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC), addressed the Seminar during the fourth session on the second day in a speech that covered ‘Technology and environment’. The OPEC Bulletin’s Keith Aylward-Marchant caught up with him after listening to his presentation and asked him to expand on a few of the points he made, especially concerning carbon capture and storage (CCS).

I picked up one particular quote from (your address) this morning, where you said: “Fighting climate change should not be about fighting oil. It should be about fighting emissions.” Can you please elaborate?

The answer is that what we need to do to address climate change is to get emissions down, and, basically, the atmosphere does not care how you get emissions down, as long as you get them down.

And so I think we need to look at a variety of technological opportunities and policy opportunities that apply to different energy-carriers, in order to get those emissions down.

I think, for example, in the case of coal and oil, CCS holds a great deal of potential.

And so, if you can, in fact, by using CCS, burn oil and coal without generating greenhouse gas emissions, that is fine, as far as addressing climate change is concerned.

Are you confident and assured about the future role of oil in this increasingly carbon-constrained world, in meeting the forecast rising levels of demand for energy in the coming decades?

Even under ambitious climate change scenarios, demand for oil will continue to increase. It will increase less than under a business-as-usual scenario, but the demand will continue to increase.

At the same time, I think that a number of oil-producing countries are planning to become energy-producing countries, looking at the potential of hydrogen production, or solar energy exports. I think diversification holds part of the solution, as well.

Do you sometimes feel that OPEC is over-sensitive about the possible impact of climate change mitigation measures on future oil demand?

I think OPEC Countries are rightly frustrated, in a number of cases, to see that coal is being subsidized, while oil is being penalized. And many oil-producing countries rely very heavily on the production of oil for their economic prosperity and survival. And so I think it is justified that they want to be sure that they are not the only ones picking up the bill for climate change.

Do you feel that OPEC, as an Organization, or its Member Countries individually, are doing enough to tackle the climate change issue?

I think that countries around the world are beginning to come to grips with this issue now. That is why there
is going to be a big negotiating process in Copenhagen at the end of this year. Yes, countries are looking at this issue, including oil-producing countries, looking at the way they can produce oil more efficiently, reduce flaring of gas when they extract oil and produce greener energy products. And so countries around the world are clearly looking at what this means to their future.

In this morning’s session, there was a big emphasis on the role of CCS in reducing the level of emissions in the future. One of the big problems, as was mentioned here, is the enormous amount of financial investment that has to be made and paid at the beginning, when there is quite a lot of risk involved. Are you optimistic that the industry will be able to overcome these financial problems and other technological hurdles in the near future and get CCS up and running in a major international way?

That depends on a number of things.

First of all, I do not think you can expect industry to do all this on their own. I think you need support from governments. I think you need public money to support this.

Secondly, I think you need energy prices that are more reflective of the emissions that are related to how you produce energy. In other words, we need to make CCS more cost-effective, by increasing the price of fuel production that does not take climate action into account.

In other words, we need government support, we need more research and development, we need more pilot projects, we need to bring the price of the technology down and, at the same time, craft climate policy in such a way that options like CCS, which are clean, become more cost-effective.

This really is quite a massive task. Is there a danger that the debate could just stall over the next five, ten or 15 years, before people really get going in a big way? The climate change situation could, by then, become much more serious.

It is a huge agenda. You are absolutely right. At the same time, I believe that we will, in Copenhagen at the end of this year, craft a global response to climate change. It will not be the final answer. It will be another step on a long journey. I think CCS has an important place on that journey. But we cannot solve all of the problems today.

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OPEC Seminar hits mark with the media

More than 100 journalists from across the globe attended the 4th OPEC International Seminar and gave the event a resounding thumbs-up, citing unrivalled access to the energy industry’s most important voices, stimulating debate and excellent event organization.

“...There are very few forums like this where you have all the OPEC Ministers, a large number of CEOs, consumer country ministers and oil experts all together,” commented the Middle East Economic Survey’s OPEC and Gulf Editor, Rafiq Latta. Speaking to the OPEC Bulletin on the sidelines of the event, Latta described the Seminar as an “invaluable opportunity” at a “critical time”.

Among his highlights were seeing the Saudi Arabian and Iraqi delegations, as well as “getting a steer on what is happening with the global economy and the dynamics between it and the oil market and industry.”
From a UK perspective ...

Stable oil market vital for shared future prosperity

Mike O’Brien, the United Kingdom’s Minister of State for Energy, Department of Energy and Climate Change, spoke to the OPEC Bulletin’s James Griffin on the sidelines of the Seminar about the present economic situation, the current climate for energy-related investment and his country’s relationship with OPEC.

“The current economic situation is affecting all countries”, said Mike O’Brien, the UK’s Minister of State for Energy, in an interview on the sidelines of the 4th OPEC International Seminar. “Businesses and consumers in the UK are suffering, as I am sure are businesses and consumers in OPEC Countries,” he stated.

From an energy perspective, he said energy ministers must remain vigilant because of the sector’s vital nature and stressed that the UK government’s role is “to ensure that the short-, medium- and long-term environment for energy investment remains healthy and that any barriers identified are swiftly removed.”

He added that there remained a vibrant energy sector in the UK that was continuing to invest. Citing a number of specific sectors, he said “companies are investing in renewables, as well as technologies, such as new nuclear; the French energy company, EDF, recently bought the UK’s nuclear operator, British Energy, for over £12 billion and will be building at least four nuclear reactors in the UK over the coming decade.”

Despite this upbeat assessment, O’Brien did highlight that there were various short-term difficulties facing some energy investors, particularly in the renewable arena. However, he stressed that “we are determined to meet the (renewable) targets for 2020, which will dramatically increase the amount of electricity we get from technology such as wind.

“We have already passed Denmark as the leading country for offshore wind, and trebled renewables in the last five years. We believe that with the right decisions, we can see the continued growth in the renewables sector that we need.”

O’Brien was also asked his views on carbon capture and storage (CCS) technology and was quick to underscore that “we need as many projects as possible around the world to help develop this technology to the point where it is commercially viable. We want to see CCS deployed as soon as possible.” He added that the UK government was supporting one of the world’s first demonstration projects and also highlighted the “important step” taken by the European Union to make finance available for CCS demonstration.

It was evident he viewed the deployment of CCS as an opportunity to develop a whole new industry and was keen that other countries also participated.

Speaking about OPEC Member Countries, O’Brien said they “have the advantage of already possessing the geological resources, the industrial expertise and, in many cases, suitable infrastructure to play a part, and benefit, from this process.”

On the topic of OPEC, he stressed that the UK’s relationship with the Organization was vital to its energy interests. “Dialogue and cooperation between producing and consuming countries is needed now more than ever,” he maintained.

O’Brien highlighted the role of the International Energy Forum in this regard and underlined that “consumers and producing nations do have shared interests,” and recent experiences had shown they “are able to work together for a common purpose.”

Concluding, he said that when “living in unprecedented times of economic turmoil, it is easy to play a blame game and slip back into entrenched positions, rather than work together to create new and innovative solutions.”

And on the issue of the oil market, he felt there was agreement “that a stable and better functioning oil market is vital to our shared future prosperity.”
What is your analysis of volatility in the price of crude over the past year?

When the price of oil went up from $40/barrel to $147/b, in the same way, it went down. No one expected $147/b. Even today [at the OPEC Seminar] somebody said prices could go to $200/b. I remember when the Petroleum Minister of Iran came to see me two years ago and he was telling the press that maybe we would see $200/b. Two years back, the price was $27–28/b, but then it went up to $35/b. What is surprising and shocking is not that prices eventually went to $147/b, but that they have gone down.

So, as a consumer, as an importer of oil, India does not justify that prices should go to $35/b, or $40/b. There should be a medium price. But unfortunately, some of OPEC’s Member Countries were not ready to accept that. Like in Jeddah, they were not ready for this because the price was about $100/b. I told them the price should settle down at around $65/b or $75/b, but they were not ready for this at that time. So now, when it has gone to $35/b or $40/b, they are backing up.

What do you think has contributed to this volatility?

As far as oil prices going down are concerned, there are several reasons. There is this general recession around the world — that is affecting prices. But OPEC has done a good job in responding. They have stopped reducing production, which would have been very bad. If you reduce production, there will be supply shortages and I do not think the market will improve like that. It will also create unnecessary chaos, more people will lose jobs and it will hurt the [global] economy. And when the global economy is hurt, in general, this will also affect energy and oil especially.

What about BRIC (Brazil, Russia, India and China) economies and other countries that are in development. Are their energy markets insulated from the effects of the economic crisis?

I can tell you that, of course, we are affected adversely. But in India we are affected very minimally. Why? Because we have massive demand [for oil] from so many people.
So they are still hungry for energy?

They are hungry for anything they can sell. Not only energy, but everything. Kerosene, for example, is one product which the poor use a lot. The Bharat Petroleum Corporation sells kerosene at nine rupees a litre. By comparison, Evian bottled water costs 12 rupees a litre. Also, 110 million cylinders of LPG, which is a fuel for housewives, is sold every month and delivered to homes. We also just now have reduced the price of petrol.

In Delhi, we were selling petrol at the pump at 47 rupees per litre and now it is being sold at 41 or 40 rupees. The same with diesel, which is the biggest form of energy consumed because it is used by our farmers. So, they are affected, but the most important thing is that people should not lose their jobs. Growth must not stop. Prices, inflation, recession may happen, but if growth stops then people will be affected very much.

Does the Indian public understand the role that your Ministry plays in protecting and helping them?

Very much. They are very much alive [alert] to these problems. The public knows everything.

Still many ‘ifs’ to global economic recovery — BP executive

BP Group Chief Economist and Vice President, Christof Rühl, one of many oil executives that attended the 4th OPEC International Seminar, spoke to the OPEC Bulletin’s James Griffin about his views on how the current global economic downturn is impacting the international oil market, climate change mitigation and BP itself.

The global economy and the continuance of strong OPEC compliance rates are the two main dynamics at play when looking at the oil market for the rest of 2009, according to Christof Rühl, BP Group Chief Economist and Vice President.

In an interview conducted on the sidelines of the 4th OPEC International Seminar, he said it is important to “look at the economy and the extent to which it will stabilize and halt the recent oil demand fall.” Rühl added that if, in the second half of the year, the economy stops contracting and “the world ends up with a decline, in terms of GDP, of around 1.5 per cent,” and additionally, if OPEC can “hold its current line” on compliance rates, then this should support prices and a reduction in inventories.

He stated that he thought this was the most likely scenario, but was keen to stress there were a number of “ifs” involved in this.

Looking beyond the short-term, Rühl said that he was a “little more skeptical as the cost of bailing out banks, as well as the large costs related to the fiscal stimulus packages, have to be repaid one way or another.”

Alongside the obvious debt involved, the BP offi-
Economic recovery should not be hampered by energy bottleneck — Taniai

Masaaki Taniai, Vice Minister of Economy, Trade and Industry, of Japan spoke at the OPEC Seminar during the session on ‘Oil and financial markets’. After his address, in speaking to Alvino-Mario Fantini, the minister spoke of the need for “working together” to overcome the current economic crisis and ensuring that the conditions in the energy market did not hinder the recovery.

Back in August, your Minister said that crude prices were abnormal. Now they have changed and have gone in the other direction. Do you think they are still abnormal?

As you said, back in July last year, the price was about $140/b, or $150/b — or in this range. For consuming...
countries this price range is abnormal. But on the other hand, with the price levels that we are seeing today, it is difficult to describe that level as abnormal. But I would like to emphasize that such volatility, or swings, in such a short period of time are a big problem, for consumers, as well as for producers.

**Considering Japan’s geographic position, does your Ministry have a vision for Japan’s role as an energy leader in the region? What role do you foresee for Japan?**

You have mentioned the regional leadership of Japan. Actually, Japan is this year host to the 3rd Asian Ministerial Energy Roundtable meeting, which brings together consuming and producing countries. At that roundtable meeting, we would like to discuss mid-to-long-term perspectives on how we can stabilize the crude oil energy market.

That is very important, both for consuming and producing countries. These countries have to have a common recognition and goal for the stability of the market. In this regard, Japan is going to exercise leadership.

**I believe you have entered into some kind of formal relationship with Qatar as an LNG supplier. What can you tell us about the relationship with this OPEC Member Country?**

Regarding LNG, firstly, Japanese electric power utility companies have a long track record — a history of doing business with Qatar. They have had a longstanding interest in Qatar with LNG and they have been importing LNG to Japan from Qatar. So, in this way we have a long history between our two countries. Now, going forward, there is a big complex at Ras Laffan, Qatar, and that is where we are cooperating as well.

In terms of the cooperative relationship between Japan and Qatar, of course LNG is one of the biggest pillars of that cooperation. In Ras Laffan II, that cooperation is going forward.

**Let us speak about the global situation. You talked about it yesterday and I very much enjoyed your presentation. Could you describe how Japan is reacting to the crisis and what it will do to make sure that the different sectors of its economy do not implode as they have in other countries?**

As far as Japan is concerned, our real economy is greatly impacted. Rather than a financial crisis, our real economy is affected very much. But since we are having a G-20 meeting soon, I think it is very important that each government will cooperate with each other and coordinate their policy measures, in order to tide over this challenging crisis.

As far as Japan is concerned, already in the autumn of last year, we have implemented a fiscal stimulus package to the tune of two per cent of GDP. And now [the Japanese] parliament is discussing an additional fiscal stimulus package — again, to the order of two per cent of GDP. So the Diet, or parliament, is discussing additional measures.

**How do you see OPEC’s role in global affairs and how might you characterize Japan’s relationship with OPEC, now and perhaps in the future?**

For this OPEC Seminar, Japan for the first time has sent a high-level representation, which is me this time. I think it is very significant and meaningful to come to this open forum, which is held every two years and this is a very good opportunity for us.

Regarding the role to be played by OPEC, I think we have to understand that producing and consuming countries should not confront each other regarding long-term perspectives. I hope that OPEC will work hard so that we will be able to have a consensus between OPEC Member Countries and the consuming countries — that we have to work together rather than confront each other.

The current global economy is in a dire situation. But when the economy finally turns around and starts to recover, I believe that oil prices, or the energy market, should not serve as a bottleneck for economic recovery. And for that I think there is a role to be played by OPEC.
Interdependence the way forward — Appert

Olivier Appert, Chairman of Institut Français du Pétrole (IFP), who addressed the fourth session of the Seminar, spoke briefly to Steve Hughes, in which he called for increased interdependence to meet the energy challenges of the future.

He told the OPEC Bulletin that statements that called for energy independence were counterproductive. Instead, said Appert, dialogue should be improved to increase energy interdependence and address the myriad challenges facing the energy industry. Speaking on the sidelines of the 4th OPEC International Seminar, he said that independence for consuming countries was “totally impossible”. Rather, he called for nations to “build interdependence”. He added that it was clear that energy demand was set to grow and that there was a consensus among analysts that fossil fuels would satisfy as much as 75 to 80 per cent of energy needs for a number of years.

With this in mind, Appert called for policies and technologies to rise to the challenge and promote carbon capture and storage (CCS) techniques, energy efficiency and alternative sources of energy. He said it was impossible to discuss the environment without considering energy, and that OPEC Member Countries were playing a significant role in CCS development, referring specifically to Algeria’s In Salah project — one of the largest CCS schemes in the world. Appert, who earlier spoke during the Seminar’s ‘Technology and environment’ session, said that if the environmental challenges and future growth in energy needs were not addressed in the short term, a new energy shock could become a reality within the next two to four years.

Coping with the economic stress — Bharat Petroleum

Ashok Sinha, Chairman and Managing Director of the Bharat Petroleum Corporation, in India was one of many oil company executives that attended the OPEC Seminar. Alvino-Mario Fantini spoke to him briefly in the splendid rooms of the Hofburg.

Can you tell me a little about your company?
I am the head of Bharat Petroleum, which is mainly involved in downstream activities, although we do have certain upstream interests. We are in refining and marketing. By the end of 2009, we will produce about 600,000 b/d. We are a $30 billion company and have 8,500 gas stations. The firm has India-wide presence in all products.

Does the current economic crisis put any stress or pressure on your company’s activities?
Yes, we have been under stress for the last nine months. It has eased at the moment because the government simply could not afford to raise domestic prices in line with international rates.

Because there would be a social convulsion?
There is no way ... for example, kerosene goes to the poorest of the poor — to be used for lighting and cooking — and, similarly, LPG. What the government did was cap prices for the last nine months. This put stress on us because our margins went negative. They have now come back, except for two products — kerosene and LPG. But the government has found certain mechanisms to compensate us. But at those levels there was no way even the government could have compensated us. So we [are] just kind of easing off a little bit. I do not think we are out of the woods yet.

It sounds as if your company has been fulfilling a kind of social function.
Well, we are part of the government of India and this helps. Our ownership lies with the government. They have found compensating mechanisms, but they were not enough once prices went through the roof, beyond $100/b. Then, even the compensating mechanisms began to break down. But, yes, in general, we try to do a lot of corporate social responsibility.

What do you hope will come out of the OPEC Seminar?
Yes, we do meet most of the people here, most of the ministers, in various other fora. In the last year, we have met many of them in Riyadh, in London, in Madrid, in Delhi, and in Jeddah. The decisions OPEC was struggling with would have been quite stressful for us if they had taken another two or three million barrels out of the market. But we are now at a point at which both producing and consuming nations can renew relations. We know everybody and we deal with everybody, so it is not about creating new friendships, or anything, but more about seeing where we are as part of an ongoing dialogue.
The write stuff ... clarifying the case for oil

Acclaimed energy journalist, Walid Khadduri, was presented with the OPEC Award for Journalism at the 4th OPEC International Seminar. He was handed the award at the Sonangol-sponsored Gala Dinner in Vienna’s City Hall. Khadduri’s informed reports, incisive columns and critical analyses of energy issues have earned him unparalleled respect throughout a long and varied career. A former Editor-in-Chief of the Middle East Economic Survey (MEES), he is currently Economics Editor of Dar Al-Hayat. The OPEC Bulletin’s Steve Hughes caught up with Khadduri during the Seminar to ask him what the award meant to him, and more.

What does winning the award mean to you?

It really means a lot after 25 to 30 years in the profession. I think it is recognition for the profession more than me. OPEC is recognizing the oil journalists who really are an essential part of the business and industry. It is good encouragement, I think, for future generations of journalists too.

Why did you choose journalism as a career?

In oil journalism, there is something new every day. It is never dull — and it is global. You really have to follow things all the way from China to Mexico — and of course in the Middle East. But you have to keep up with things. Politics, economics, oil, the world environment — they go together. It keeps your mind active, it keeps you interested.

Do you feel you have a responsibility to write?

Now I am in Beirut. I chose Beirut because I wanted to get back to the Arab world and I also write in Arabic. I have a weekly column in Al Hayat. I think it is important for me
to write to the Arab public about the oil industry and oil policies, because there are a lot of misconceptions and misunderstandings that need to be clarified. Oil is not an easy subject to clarify to the public — it is complicated. It has many intricate subjects. So I try to write to the public in a simplified way.

You have had a long and varied career. Can you share some highlights with us?

When I was Editor of MEES, I tried to go to the producing countries — go to the fields, to the engineers and the workers. I went to Libya, to Yemen, Algeria, Oman, Iraq — and it was really interesting for me. And also my awards. My first was in 1993 from the International Association of Energy Economists. The second prize I received was from King Abdullah of Saudi Arabia during the Third OPEC Summit of Heads and State and Government in 2007. And that pushed me to go on.

What lies ahead for the oil industry?

There have always been challenges — they are just different today. The relationship between the international oil companies and the national oil companies is an issue. And so is the question of the environment. I see that the industry has to pay more attention to the environment — and not just be defensive, but play an active positive role. And then there is providing enough supplies in the proper time as demand increases — that is a really big challenge.

What are you currently working on?

I am in the process of retiring. So — at least at MEES, where I am now a consultant — I am trying to be a bridge between the old contacts and relations and the new ones. That is how I see my role now. I’m not travelling as much these days.

What do you have planned for your retirement?

I have six grandchildren, but none in Beirut. I even have one grandchild that I have not seen yet.

Dr Walid Khadduri, respected journalist and eminent scholar, was the proud recipient of the inaugural OPEC Award for Journalism. The Award was established to recognize and honour journalists/analysts whose careers have been devoted to objective and balanced reporting, the analysis of the energy sector and, who through their in-depth knowledge of the oil industry, have created a better understanding of the sector.

Khadduri’s work — his writings, his editorial columns, his political acumen and his leadership — has set the standard for all other energy and oil industry reporters. He has more than four decades of experience as a journalist covering the economies of the Middle East and the oil industry generally. His articles have been widely read and his analyses well respected. His intimate knowledge of the industry and its many stakeholders have catapulted him to the front ranks of oil and energy reporters, and made him one of the world’s most admired and authoritative energy journalists.

Khadduri is equally an accomplished scholar with an academic background that is as impressive as his journalistic career.

He received an undergraduate degree in the social sciences from Michigan State University in 1963 and a doctorate in International Relations in 1972 from the prestigious School of Advanced International Studies (SAIS) at the Johns Hopkins University in Washington DC, a school that has been a training ground for many eminent world leaders in diverse fields.

From 1973 to 1975, Khadduri was a well-respected member of the political science faculty at Kuwait University. He also served as Director of Research at the Institute for Palestine Studies in Beirut and has gone on to lecture extensively on energy, oil and Middle Eastern politics at various times.

He also worked for seven years as Director of Information and International Relations at the Organization of Arab Exporting Countries (OAPEC) in Kuwait, before joining the Middle East Economic Survey, (MEES).

Khadduri later became Editor-in-Chief of that publication before accepting a full-time post as Economics Editor of Dar Al-Hayat, for which he continues to write a weekly column.
Crucial for oil producers to know consumers’ future demand levels

Prof Paul J Stevens, winner of the 2009 OPEC Award, addressed the OPEC Seminar during the second session, which looked at ‘Oil and financial markets’. After his speech, he gave an interview to the OPEC Bulletin’s Ulunma Angela Agoawike, in which he spoke of the overwhelming success of the Seminar, the importance of both security of oil supply and demand and the need for some form of regulation in global markets to prevent future crises occurring.

You have just been conferred with the OPEC Award for 2009, what does that mean to you?

It means a great deal to me as it is always nice to be acknowledged for work that you have done over many years and to be acknowledged by OPEC is particularly important for me. The reason is that I have always had great sympathy for the developing countries that form OPEC and it is very important to remember that OPEC consists of countries that are, for the most part, relatively poor. Also, it means I am now among a very small select group of energy economists, like Robert Mabro and Peter Odell, who were earlier honoured with this award and this gives me great pleasure indeed.

How would you assess the role OPEC plays in the oil market?

OPEC obviously has the power and ability to manage the oil market at a theoretical level. But, in practice, it is much more complicated than that because OPEC has its own problems in terms of internal cohesion and consistency. It also faces the very serious problem of inadequate information in the oil market.
In essence, what OPEC has to do is sit down and say: “What is world oil demand going to be? We do not know what it is; and what is non-OPEC supply going to be? We do not know what that is either.” And then OPEC has to decide whether it wants to stabilize prices, or maybe see the price going down or up. On the basis of that, it then determines its production decisions. But faced with that uncertainty, it is very difficult and sometimes OPEC has got it wrong. You want to go back to Indonesia in 1997, it overestimated demand and underestimated supply, but it is a difficult business.

**Is that not the point OPEC has been trying to make for some time now — linking security of supply to security of demand, telling consumer countries to be more open with their demand figures to enable the Organization plan on the supply side?**

Yes, and that is an entirely reasonable point. I am a UK citizen and, in the UK, everybody is talking about supply security and how important it is that we are able to get access to the energy that we want on a reliable basis. But for the oil-producing countries that are highly dependent on oil revenues, being able to know what the demand side is, is absolutely crucial.

If you are an oil-producing country and you are sitting down somewhere thinking of how much to invest in spare capacity, how can you make that decision sensibly when you have no idea what the oil demand is going to be? So, to me, security of demand is just as important as security of supply.

And in some ways, arguably more so because people forget that the oil producing countries, the OPEC Members, are in most parts poor developing countries. And therefore, anything against their interests is bound to have an even greater impact than it does against the industrialized countries.

**In recent times, the price of oil has declined to an extent that producers now argue that it does not encourage investment in spare capacity. Yet, the consumers seem not satisfied and would still prefer that it declines further. How can we achieve**

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**Prof Paul J Stevens**, winner of the 2009 prestigious OPEC Award, has enjoyed a long and illustrious career in the oil industry. His ceaseless commitment to his chosen field has made an enormous contribution to the understanding of issues within the industry and continues to move the global energy debate forward. Similarly, his deep-seated knowledge and insightful research has inspired industry peers and students alike, thanks to his numerous books, academic papers and lectures and his dedication to a wide range of oil and energy-related bodies and organizations.

An economist and Middle East specialist by training, Stevens is someone completely immersed in the industry. He has academic degrees from Cambridge University, Manchester University and the School of Oriental and African Studies of the University of London. He began his academic career 36 years ago as Assistant Professor at the American University in Beirut and subsequently taught at the University of Surrey, England, and at the Centre for Energy Petroleum and Mineral Law and Policy, of the University of Dundee, Scotland.

While at Surrey University, he was a founder member of the Surrey Energy Economics Centre and joint creator of the Third World Energy Policy Studies Group. And at Dundee, he taught courses in Petroleum Policy and Economics, International Development in Energy Policy and Energy Economics.

His reputation as a scholar and researcher earned him external examinership at the University of London, University of Durham, Imperial College, University of Malaysia, University of Sheffield, University of Aberdeen, and both Oxford and Cambridge Universities.

In addition, Stevens has been a member of the editorial board of The Journal of Energy and Development and of the University of Tehran’s International Journal of Energy Management; a council member of the International Association of Energy Economists and of the British Institute of Energy Economists; an Associate at the Oxford Policy Institute; and a Senior Research Advisor at the Oxford Institute of Energy Studies.

He has passed on his unparalleled experience and knowledge by teaching courses on petroleum policy and economics, international developments in energy policy, energy economics and more. In addition, his research work — including that on the determination of oil prices, transit pipelines, forecasting energy demand and deregulation — is highly-prized by the industry. His publications include Oil and Politics: The Post War Gulf; Energy Policy and Structure in the People’s Republic of China; Cross Border Oil and Gas Pipelines: Problems and Prospects; OPEC and the World Oil Market 1973-1982 co-published; Joint Ventures in Middle East Oil: 1957–75; Saudi Arabian Oil Policy: Its Origins, Implementation and Implications; The Interaction Between Oil Policy and Industrial Policy in Saudi Arabia; A survey of Structural Change in the International Oil Industry; Lower Oil Prices and Oil Exporters of the Third World; Energy Policy in the LDCs; Oil and OPEC; Future Energy prices: Vertical Integration and Consumer Interests; Contemporary Oil Exploration and Development Policies in the Gulf; OPEC and Oil revenues; The World Oil Market in 1990 After the Gulf War; Pipeline Regulation and the North Sea Oil Infrastructure; and The Political Economy of Oil in Transitional Economies.

Since 2007, Stevens has been joint organizer of the ‘Resource Depletion, Dependence and Development’ project, a scheme funded by the Royal Institute for International affairs (Chatham House), which he joined on a part time basis. He is currently a Professor Emeritus at the University of Dundee.
The problem with the idea of the two sides agreeing—and you just expressed it well; the consumers want low prices and the producers want higher prices—is whether there is some middle ground and a price that can keep both sides happy. And that is very difficult to come up with. There has been a lot of talk in the last few days that the oil price needs to go to at least $70/barrel, in order to make it economical to invest in capacity.

I really cannot accept that because it is far too high. Admittedly, over the last few years, the cost of developing capacity has gone up, but that has been because of the problems in the service industry—the cost of hiring rigs, the cost of steel etc. But, as we now go into recession, and oil demand goes down, it is very likely that service parts and the cost of production are going to go down as well.

But I think some OPEC Members are confused as to what price they need to invest in capacity and what price they need to balance their budgets. If you look at some OPEC Members, they are pursuing policies of social welfare, spending a great deal of money, which means they do actually need very high prices, in order to balance their budgets.

And that may be very legitimate because the bulk of these countries are relatively poor, but the governments themselves have to answer the question—can we justify carrying on this level of spending?

**When you talk about welfare programmes, one would automatically equate that with western countries where safety nets, like social security, exist. What is the difference?**

Yes, it might be, but the difference is that the developed countries are rich and the developing countries are poor. And it is basically a case of what you can afford. But of course, people in developing countries should be entitled to the same level of income as in developed countries. But, in reality, that is simply not realistic and there has to be a degree of reality there.

**In the course of the Seminar, there was a lot of talk about the impact of financial markets on oil prices. With what has gone on since last year, would you advocate greater control of the market, or should it be left to develop and react to changes on its own?**

I am not a great believer in leaving things to the market. The problem is that markets very rarely work properly because they are subject to market failure. The idea of leaving everything to the market is a grave mistake. Governments have responsibility to intervene to correct market failure and we are clearly seeing that in the case of the financial crisis, whereby governments were too eager to leave things to market forces and basically failed in terms of their regulatory role.

**From all that you have done in this area, you are in a good position to assess the theory of peak oil and its proponents. So, how would you make that assessment?**

I dislike peak oil theories intensely; I think they are seriously flawed methodologically. I think it is far more realistic to think in terms of a plateau, in other words, you reach a level that you say can supply long term before it begins to decline again. Also, a problem I have with the peak oil theory is that they talk about the peaking of conventional oil.

Check with them what they regard as being conventional and they come up with definitions that are not helpful. When a motorist drives up to fill his tank, he does not say I do not want some of that unconventional gasoline, because, indeed, gasoline is gasoline.

**How do you assess the OPEC Seminar and its outcome?**

It has been an excellent Seminar. One of the reasons it has been such a good event is because you are getting people together who are at a very senior level of the international oil industry, and not just the producers, but also the consumers at a senior government level, as well as heads of the international oil companies.

This gives an opportunity for discussion and dialogue and there is no question that the more these issues are discussed and debated among these people, the better it will be for the future. Somebody made the point that ten years ago, with the IEF, IEA and OPEC on the same platform, it would have produced very different views on the nature of the oil market, but at this Seminar, there has been a convergence of views of what is going on. So, this sort of dialogue is extremely important.
From a students’ point of view ...

The OPEC International Seminar attracts a wide-ranging and diverse group of participants, who travel from all parts of the world to be part of a gathering that has become one of the leading events of its kind. And, apart from the usual interest from industry experts, analysts and the media, many students — perhaps future decision-makers — come to rub shoulders with the top stakeholders in the global energy industry. Here are a few of their impressions concerning the latest Seminar.

From Ecuador, J Borja Duche, was invited to attend the Seminar by the Ministry of Mines and Petroleum of Ecuador. “I studied petroleum engineering and they selected the best student. That is why I am here. All the topics discussed have been very interesting. I was especially interested in what the Minister of Mines and Energy of Brazil, Edison Lobão, talked about. It was very interesting to hear him speak about biofuels and I think that is an important component for the future.”

From Brazil, Francisco Rojas Navas, said he was doing research for his doctoral thesis on the oil industry in São Paulo, Brazil. “I found the Seminar very interesting, to hear so many people speak about the challenges of energy as being everybody’s — producers and consumers — and that we all have to work together. That was the most important message. You can see that there are initiatives to have a dialogue on both sides. Another thing I found interesting was, yesterday, when the OPEC Fund for International Development gave a presentation on food security. However, I think it is more important to be talking about job security — which is important so that consumers can then purchase food.”

From Mexico, Bruno Verdini Trejo, said that, in his case, the Mexican Energy Secretariat received an invitation to nominate a student representative recently graduated from an Austrian university. “That is why I was able to attend. I have been studying political science and international relations. These past two days have been a very interesting experience for me. On the one hand, simply being in Vienna is fantastic because Vienna is a cultural powerhouse and the musical offerings are fantastic. On the other hand, speaking about the Seminar these past two days, I especially enjoyed the discussion on the first day on the effects of speculative activity on the financial system. I was also interested by the discussion on energy poverty and the comments regarding this from the International Monetary Fund’s First Deputy Managing Director, John Lipsky.”

From China, Zhao Lin, of the China University of Petroleum, Beijing School of Business Administration, said he had really enjoyed the Seminar. “I received a lot of useful information that I cannot get from elsewhere. From this Seminar, I also have a better and more detailed understanding of OPEC and what it does.” He said that, in keeping with some of the speakers, he was also convinced that demand security was as important as supply security. “This is my first time of coming both to Vienna and to the OPEC Seminar and I hope to come back.”
OPEC’s two former Deputy Secretaries General, Dr Fadhil J Al-Chalabi and Dr Ramzi Salman, both of Iraq, were in attendance at the OPEC Seminar. Both have devoted their careers to the energy industry and have a wealth of experience about the oil sector. While they were in Vienna, Keith Aylward-Marchant took the opportunity to ask each of them for their views on the present situation in the oil market, particularly from an historical perspective.

OPEC goes from price-maker to price-taker — Al-Chalabi

Dr Fadhil J Al-Chalabi was OPEC’s first Deputy Secretary General, holding the post from October 1978 to June 1989. This included five years as Acting for the Secretary General from mid-1983, in the absence of a formal appointment for that position during that period. Since leaving OPEC, he has been Executive Director of the Centre for Global Energy Studies in London, the United Kingdom.

There is a general feeling of gloom and helplessness surrounding the oil industry and other sectors of the world economy at the present time, in the light of the financial turmoil and the recession. This is very similar to the mood in the industry in the early 1980s, when there was heavy downward pressure on the oil price up to 1985 and then the full-scale collapse of the price in 1986. How would you say that today’s situation compares with that of a quarter of a century ago?

There are basic differences in the structure of the industry between the OPEC of the 1980s and OPEC now. In the 1980s, because of the falling call on OPEC oil, OPEC was under pressure to defend a price, because of the fierce competition with non-OPEC producers at the time of the (emergence of the) North Sea and the other newcomers in the oil industry. And so, at that time, OPEC was
struggling to defend a price, which was very difficult to
defend, because of OPEC’s shrinking market share, to
the advantage of the newcomers.

At that time, despite the fact that OPEC was losing
market share, OPEC was still the real price-maker. One
reason for this is that OPEC had abundant spare capac-
ity of production. What made OPEC the real price-maker
was that oil was not the subject of a commodity in an
exchange, like what is going on now. The importance
of the New York Mercantile Exchange (NYMEX) and the
futures market was very limited.

Today, it is the other way round. Now, OPEC, I believe,
is more of a price-taker than a price-maker, because of
the influence of the stock exchange, and that oil became
a primary commodity like any other commodity, subject
to huge variations in prices.

Also, it is very important to note that, at that time,
OPEC had very substantial spare capacity, whereas now,
before the (recent) drop in the price, spare capacity was
very tight.

So the absence of a sufficient cushion, in the form of
excess production capacity, disappeared, and that was
one reason why the price soared so much, because the
market was so tight.

Therefore, you cannot compare what is going on now
with what happened in the 1980s.

There has been a structural change, in the sense that
other forces are contributing to the formation of the price,
not only OPEC.

OPEC has lost a lot of market share, and this loss has
reduced its role as a price-maker.

(In the early 1980s), for example, Arabian Light was
the marker crude. Now, the marker crude is West Texas
Intermediate (WTI) or Brent, despite the fact that Brent
cargoes are limited and WTI is not exportable. This tells
you that the market has undergone radical change, so
that the sector in which OPEC is working has changed
and, therefore, its role in the making of the price has
been reduced enormously.

When was OPEC’s greatest price-making period?

In October 1973, OPEC decided to set the price itself,
independently from the oil companies. It decided to take
Arabian Light, Ras Tanura, as the marker crude. This con-
tinued until 1986, when there was a temporary collapse
in the quota system, after which Arabian Light was aban-
doned for a basket of various crudes in 1987.

This was one step towards making OPEC relinquish
its role as a price-maker to the others. For example, now
the futures markets — NYMEX and the others — are play-
ing a tremendous role in making the price. This has been
the case since the beginning of the millennium.

Of course, there are many other factors that have played
a key role in the soaring of prices to unheard-of levels.

Are there any lessons that we can learn from the
price-recovery in the late-1980s that can be applied
to the situation today, or is it too different?

It is too different, because the recovery in the late-1980s
happened with two (particular) factors. The first is that
the price of oil was low and this was encouraging consumers
in the United States and even in Europe. And the second
is that, because of the substantial spare capacity, OPEC
was still in a position to lead the market.

Now, it is different. At that time, demand was ris-
ing and this started to eat up the huge idle capacity that
existed then. However, OPEC did not invest enough to add
new capacity, because it had a lot of idle capacity. But
this idle capacity was being eaten up gradually, so that,
when, in 2004, for example, there was a huge increase
in consumption in China and the US, all of a sudden the
world faced a situation where capacity had become so
tight and people started to get worried about whether there would be enough supply.

Another factor is that, in variance with the 1980s, when emerging economies played no role, now they have been playing a (significant) role, like China, India and Asia in general.

**And, of course, in the 1980s, there was a very different situation with the former Soviet Union (FSU).**

Yes, at that time, the FSU was a net exporter, whereas now the Russian Federation is a major producer. And so you cannot really compare the two periods.

In my opinion, there has been a substantial transformation of the structure of the oil industry towards more free-market forces that contribute towards making the price.

OPEC now has only one role to play. When prices are down, it cuts production. That is all it can do. In the 1980s, OPEC was the real price-maker. Every producer was following OPEC. Now producers are following WTI and Brent.

There have been other major changes in the industry, of course, such as a greater amount of dialogue, and environmental concerns have risen.

In my opinion, the world now is heading towards a new era, where there are many sources of pressure on oil.

First, you have climate change and the emissions of carbon dioxide (CO₂). There is now (much anticipation) in America and the European Union, with President Barack Obama coming into the White House. Obama is increasing pressure to reduce the emissions of CO₂ and tackle climate change, to reduce the greenhouse effects.

And there is another source (of pressure) which is very important. The world is heading towards more efficiency in using fuel, even in the transportation sector, where oil has the dominance. There are changes now towards more efficient cars, towards new hybrid cars, towards new electric cars. This may take some time, but (it involves) producing a new type of automobile that would reduce the amount of gasoline or diesel oil that is necessary for a certain mileage. The trend is to use smaller cars. This will have the effect of reducing demand.

(Elsewhere), in power-generation, for example, there is now a comeback for nuclear power. The phobia of Chernobyl has disappeared.

Also, there are other geopolitical factors. (These have seen, for example) the Bush Administration and the Obama Administration repeating calls to reduce dependence on imported oil from the Gulf.

**Do you think it is realistic that they can do that?**

In the short term, it is not realistic, because it is not easy to replace this oil. But, in the long run, with more energy-saving and more efficient cars (there is now a technology for electric cars for which you can drive 80 kilometres without one drop of fuel!), perhaps this will take, at least, something like 15–20 years. Therefore, to reduce dependence on imported oil from the Gulf now is not feasible. But, with all these new developments, it could (become so).

**One final question about the present situation. What do you believe are the best measures for OPEC to adopt to cope with the present crisis? Do you believe it is doing enough already?**

Yes. OPEC has been successful in cutting back production by over three million barrels/day. This cut, although it is less than the committed cut of 4.2 m b/d, has had the effect of arresting the fall in the price. This is why you may have noticed that, with prices collapsing to $35/b, now they are at $45/b, or $47/b. I believe that this is a very good measure taken by OPEC, to stabilise the price within a range of $45–50/b.

Another thing is that one major source of the drop in demand has been the recession and the financial crisis. Once this is over — and I read the other day that the American Federal Reserve Bank President said that the year 2010 perhaps will find an end to this — a price of $45–50/b will encourage demand to grow, and this is good for OPEC.

I believe that what has been done so far is good.
OPEC needs return to price target system — *Salman*

Dr Ramzi Salman was OPEC’s second Deputy Secretary General — for six years from March 1991. This post was discontinued after his departure, as part of a major restructuring of the Secretariat. After leaving the Secretariat, Salman moved to Qatar to take up his present post of Advisor to Abdullah bin Hamad Al Attiyah, Deputy Premier and Minister of Energy and Industry.

Let us turn to the present market situation and look at the measures that OPEC has been taking. Do you think OPEC has been adopting the right approach in handling the present crisis?

I was very happy to see OPEC not cut production again. Cutting production is a tool to reduce supply. Production management has been OPEC’s tool.

But, unfortunately, OPEC is trying to influence the market without a target. OPEC does not declare (a target) now and for some time, since the Reference Basket price band (at the start of this decade). We have not had anything declared to say what we are after.

Another thing that is really important is the non-OPEC issue. After all, what we are seeing happened now is not the first time. We had an energy crisis in 1975. We also had a big problem in 1986, and, then, non-OPEC had to suffer with us, and they helped us to impose a new deal.

Then we had another problem in 1998. So this is not new. But (this time) it is much more severe and it is linked to other things, other than the oil scene and the energy scene themselves.

OPEC cannot keep saying that the price is low. What does it want? Nor can others say the price is high. What is high? What is high for me might not be high for you, or...
what is low for me might not be low for you. This is something which is very, very important.

I think OPEC will have to decide, sooner or later, what it wants, and let the world know clearly that this is its objective, its target. It has to have two levels again, like when it had $22–28/b (for the price band). If we take this range, and the average of $25/b, and correct it for the dollar and inflation, this will come today to around $62/b or $63/b.

This is what I published in a paper before the Jeddah Energy Meeting (in June 2008). I stated in that paper that we expected a price of $60/b by November. And this is exactly what happened.

But then we had the price collapse after that, because of other elements. Fundamentals no longer rule the market. Therefore, it is not a fundamental thing just to cut production.

(In declaring) its target, OPEC will have to go for a minimum and a maximum (price). The minimum will not be set by OPEC. It will be set by others. This is because, with prices as they are today, the drop in non-OPEC production will be much higher than before, because some of (those countries’) operations are no longer economic. And so the floor will be set by the non-OPEC alternatives, as of cost. Therefore, you might get something like $40/b being set as the floor.

OPEC will have to set the ceiling. The ceiling for OPEC should be the price which will stop competitors eating into OPEC’s market share. In other words, if we say that the cost of new production (in an important non-OPEC area) will be $80/b, then that will lead to the ceiling. Or it could be the tar sands of Canada, or other alternatives, such as wind and nuclear. Then it will be up to OPEC to choose the most competitive alternative and set the level where it is equivalent to the cost of that or less.

Won’t the costs of alternatives vary?

Yes, but OPEC should choose the most important. In the past, a lot of alternatives were developed for strategic reasons and governments financed them, whether it was through a tax on oil, or some other measure. Now, the consuming governments are not in a position to finance this any more. So they will have to stand on their own merits.

(With a new band in place) OPEC will work again within a range and use its production management tool to keep the price within that range.

Of course, now, if, with the situation as it is and we keep on dilly-dallying, and there is no investment in additional capacity, we will go through a cycle. This whole cycle is 8–12 years, if we look at history, and we will have a problem.

With no investment coming in and with non-OPEC production going down at more than seven per cent per annum, and with OPEC’s own production falling, this has to be compensated for. You must compensate for losses in capacity, plus (the need to meet) additional demand.

Today, the additional demand is not there and it is not a problem. But we have to look at it for the future. You cannot plan or deal with change on a short-term basis. The short-term basis only serves short-term purposes.

I think the technicians, institutes and organizations like OPEC will have to push people to think long-term and have an agenda for the next five, ten, 20 or 30 years. And make it flexible to change, depending on the circumstances.

But I see a problem coming soon, when you are losing capacity on both sides, you are not investing in new capacity and alternatives will not be developed as fast.

(Indeed) I expect things will recover in three-to-five years’ time, not before.

By recovery, you mean to go back to previous trends?

To go to stable, predictable and reasonable growth — I do not think we will achieve this before another five years. The wound is so deep. It is cut to the bone. If we want it to heal, this will take time.

Do you think that the crisis has also reflected the new realities in world politics generally, the new realignment of powers? Of course, in recent years, you had the big increase in energy demand in China and India. Is it almost the case of established world order having stood still, while certain developments have happened, and then suddenly it wakes up?

Yes, this is the case, and, of course, energy is a strategic issue. And for anything strategic, people will always have agendas. Different parties have different agendas. Even people within one organization have different agendas. This is something you have to
harmonise, to read into the future and see what the agenda is and then adjust for it. So the perspective must be long term.

Therefore, when we talk of transparency, we should talk of transparency of not just oil prices. We should also talk of transparency of agendas. “What are your plans?

After all, with the producer-consumer dialogue, the objective of OPEC was based on OPEC undertaking to supply, as set out in its charter. We will supply, but tell us what we have to prepare for. That was the idea of the dialogue. Come together, tell us what your plans are and what your needs are, for us to plan accordingly and make it available.

Unless this happens, we cannot, with the present political systems in the world, make sense of some of the decisions.

*But there has been a big increase in transparency, with the advances in producer-consumer dialogue over the past 15 years.*

In a quiet sea, when everybody is sailing, nobody ever deals with somebody else, or bothers about anybody else. In a rough sea, all the people in different boats try to get together, because they are all in danger. Since now we are in a situation of turmoil — that is why we are getting together.

As soon as things settle and go steady, we will see everyone going their own way. We have been through it before. We must go back to history and see what happened before. Human beings are creatures of habit.

*Are you generally optimistic about the future outlook for the oil industry over the next five, ten or 15 years?*

The oil industry will survive. The oil industry will continue. The oil industry is so huge that nothing will shake it. It is so vast and it will take care of any problem it meets. From the very beginning, it has always adapted, always adjusted and always met the challenges. And I think there will always be a will to meet the challenges.

But the only thing is that we have to follow the principle that, with all these challenges, it can only live if they are fair to both parties. And, if this cooperation goes on and it is fair cooperation, then I think there should be no problem.

**Brazil studying closer ties with OPEC**

Organizations like OPEC are extremely useful and Brazil has already been approached by some Member Countries of the group to consider closer ties, according to Edison Lobão, the country’s Minister of Mines and Energy.

Speaking briefly to the OPEC Bulletin on the sidelines of the OPEC Seminar, he said his country was studying such a move. “We have not determined when, but, at some point, we will respond. But we certainly understand that the existence of [OPEC] is extremely necessary to help improve relationships among [producing and consuming countries].” Concerning Brazil’s domestic oil operations, the minister said that, based on last year’s findings, on May 1, 2009, Brazil will have its first experience with the extraction of oil at the Tupi oil field [below the salt layer of the Santos basin] with an initial output of 30,000 b/d.

“We will move forward to the degree that we can commercialize the well. We have very large, very long-term expectations of greater activities. But we do not want to announce them until they are thoroughly examined and tested — so that they may be certified,” he added.
Biofuels: Food, fuel and climate change

Over the past few years there has been much made of the potential role biofuels could play in addressing such challenges as climate change, energy security and rural development. Their appeal has also been accelerated by a number of governments adopting polices and initiatives, including, in some cases, actual set targets for biofuels consumption. However, this higher profile has not only underlined the possible opportunities, it has also thrown up numerous concerns, many of which are discussed in a recent study commissioned by the OPEC Fund for International Development (OFID) and prepared by the International Institute for Applied Systems Analysis (IIASA). James Griffin looks at some of the issues raised by the report.
Released at the 4th OPEC International Seminar in Vienna on March 18, the report entitled ‘Biofuels and food security: implications of an accelerated biofuels production’, is, according to OFID’s Director-General, Suleiman Jasir Al-Herbish, in his foreword, a “seminal research work” that “assesses the impact on developing countries of wide-scale production and use of biofuels, in terms of both sustainable agriculture and food security.” He states that OFID has been aware of a lack of integrated scientific analysis in this regard, and it was important for an institution such as OFID to promote debate on issues of special interest to developing countries.

The study certainly offers much to discuss and deliberate. It reviews the global status of biofuels development, policy regimes and support measures and quantifies the agro-ecological potential of first-and second-generation biofuels crops. And it also presents an integrated evaluation of the social, environmental and economic implications of biofuels development on transport fuel security, greenhouse gas emissions, agricultural prices, food security, land use change and sustainable agricultural development.

Summing up the report’s conclusions succinctly, Al-Herbish says: “The study provides further evidence that current biofuels may have serious unintended consequences, particularly for developing nations, and could work against the Millennium Development Goal of reducing world hunger.”

This is reinforced by one of the principal authors of the report, Dr Mahendra Shah, a Senior Scientist at IIASA and Coordinator of UN Science and Policy Relations, who notes that whilst biofuels are being promoted as a potential solution to reducing greenhouse gas emissions, enhancing energy security and fostering rural development, there are many knock-on implications that need to be addressed. He states that “current biofuels development is being pursued without a thorough assessment of the potential consequences on issues such as food security and deforestation, or the stated potential to mitigate greenhouse gas emissions.”

Food prices and rising hunger

The study highlights that during the period from the late 1970s to the early 1990s, world food prices gradually halved and then stagnated until 2002. This was the result of several drivers, including demographic changes, technological developments and agricultural support policies that maintained relatively inelastic supply.

Between 2002 and 2007, however, the study points out that this long-term downward trend was reversed. World food prices in this period increased by some 140 per cent, due to a number of factors, including increased demand for biofuels feedstocks and rising agricultural fuel and fertilizer prices.

One of the factors has been “the increased demand for first-generation biofuels, which are largely based on cereal, sugar cane and vegetable oil crops,” which “is driving the price of food up, due to the competing demand for food, feed and fuel.”

Looking ahead, it estimates that achieving a six per cent biofuels use in the transport sector would lead to a 34 per cent increase in world cereal prices, and a
consequence is that it “will cause a serious deterioration in food security in developing countries.”

Given these figures, the report stresses that it is essential that biofuels development policies give serious consideration to the impact on food prices, as higher prices will profoundly affect food security.

Directly linked to this is the issue of rising hunger levels. The report states that the food price crisis in 2008 added a further 100 million to the world’s undernourished and “current biofuels targets will result in an additional 140m people being put at risk of hunger by 2020.” Even in an alternative scenario offered in the report, with relatively swift deployment of second-generation biofuels technologies, the results show an increase of 80m people.

These are huge numbers and obviously not just numbers, but real people. It should also be noted that if climate change itself is left unabated, it is a widely held view that the vulnerability of the poor will increase.

The report underscores the need for the international community to view food security and fuel security as interdependent, meaning that integrated solutions are required since both are critical to human survival and well-being. Biofuels should not bring energy and food into direct competition.

**Rural development and competition for land**

In some quarters it has been suggested that the development of biofuels could increase rural development. However, Al-Herbish says that the study does not support this notion. “On the contrary,” he says, “it indicates only a modest increase in income for farmers in developing countries, and when this is balanced against the increasing cost of food, it is not the anticipated win-win situation.”

In addition, the report highlights that the total global arable land use increases by between one to three per cent in the different biofuels scenarios presented, compared with a situation without biofuels. This number might seem small taken in isolation, but extrapolated out over a longer time period the figures become significant.

“The impact of the biofuels scenarios is to increase the net expansion of cultivated land during 2000–20 by 20–40 per cent, and by 15–30 per cent during 2000–30,” the report states.

According to Günther Fischer, another principal author of the report and Program Leader at IIASA, “achieving the 2020 biofuels targets using first-generation biofuels will require an additional 150–240 million tons/annum of cereal crops, which, in turn, would require an additional 30 million hectares of land for production. The results also highlight deforestation of some 15m ha by 2020, with the inherent risks of biodiversity loss.”

The issue of biodiversity is particularly significant, with the report stating that “biodiversity is the foundation of all crops and domesticated livestock and the variety within them. It provides and maintains ecosystem services essential to agriculture.” Any biodiversity loss could have major social, environmental and economic consequences and costs.

These figures and potential implications should certainly set a few alarm bells ringing. Perhaps the key takeaways are that where cultivated land is most needed for food, it should be used for food production, and any change in biodiversity needs to be mapped and monitored and kept to a minimum.

**Impact on climate change**

There have been many over the past year or so that have questioned whether biofuels are climate-friendly. Concerns include the impact on rainforests, the use of crops that may deplete soil nutrients and lead to soil erosion, the effect on water resources, particularly from the use of fertilizer and pesticides, and what additional carbon footprint is required to turn crops into biofuels.

The simple question put forward in the OFID study asks: will biofuels slow climate change? And whilst there is not a one line answer, the results show clearly that
estimated net greenhouse gas savings resulting from the expansion of biofuels can only be expected after 30 to 50 years.

The report states that “for shorter periods, from 2020 to 2030, net greenhouse gas balances are dominated by carbon debts, due to direct and indirect land use changes.” And “even for the period 2000–50, net cumulated gains (savings) of 15.1 to 27.0 gigatonnes carbon dioxide equivalent (Gt CO₂e) need to be compared with current annual greenhouse gas emissions of 6.4 Gt CO₂e caused by the transport sector,” it adds. (It should also be noted that the transport sector contributes less than a quarter of total global emissions, with the electricity and industry sectors supplying almost two-thirds.)

Summing this up, Shah stated at the OPEC International Seminar, that if biofuels are not going to mitigate climate change for the next 20 years, and the window of opportunity to mitigate is the next 20–30 years, then perhaps it is too late. And even when greenhouse gas savings are expected to be made from biofuels, it is about this time, the report states, that “climate change impacts will result in increased agricultural vulnerability, particularly in a number of developing countries.”

**Some positives**

Among first-generation feedstock, the study does note that Brazil has successfully implemented an environmentally and economically attractive biofuels strategy based on ethanol from sugar cane grown under rainfed conditions in former pastoral and grasslands areas. This programme was privatized in the late 1990s, after being strategically developed with public funding from the early 1970s.

Nevertheless, it was clear from the study and the OFID and IIASA presentations at the OPEC Seminar that it is imperative to move as quickly as possible to second-generation biofuels. The study emphasizes that there is substantial potential for the commercial production of second-generation biofuels produced on terrain other than cultivated land required for food and feed productions, such as tropical grasslands and woodlands.

It adds that this offers opportunities to develop innovative and mutually beneficial private sector and local community partnerships that would combine biofuels production for the market with food production by, and for the local community.

However, there are a number of caveats highlighted, such as the timely delivery of efficient and effective second-generation conversion technologies to commercialize second-generation biofuels on an industrial scale and at a competitive price. And in addition “these technologies, still at the laboratory experimentation and demonstration stage, require large-scale feedstock supplies and pose substantial logistical and sustainable management challenges,” the study says.

**Conclusions**

What is clear is that the issues of food security, energy security and climate change mitigation cannot be treated in isolation. There are many inter-linkages, and all are critical to social, economic and environmental sustainability.

The study highlights that biofuel development polices have a direct impact on these global challenges, but underscores that “it is national polices with national interests that have been the driving force of setting biofuel targets.” It is evident that the study sets out to reevaluate the situation, by providing an integrated global perspective on sustainable development, through a thorough analysis and evaluation of the policy options, as well as outlining the pitfalls and opportunities.

The study is certainly a valuable contribution to the debate, but it is plain from the tone of the study’s conclusion that the time for action is now. Shah points out that, for more than 30 years, there have been countless debates on the concerns of feeding cereals to livestock in a world where over one-sixth of the population lives with chronic hunger and debilitating poverty.

“There is a risk that we might spend the next 30 years debating the merits of feeding cereals to cars,” he says. “This time the situation though is different, as the entire world’s population will be affected if we fail to deal with the challenges of climate change mitigation, providing clean energy and ensuring food security, all of which are interrelated and need to be tackled together.”
Ministers to review market as uncertainty remains over economic recovery

As this issue of the OPEC Bulletin went to press, there were mixed signals about the true strength of the international oil market and its prospects over the short and medium terms. OPEC Ministers will undertake a further review of the market outlook in Vienna on May 28, at the Extraordinary Meeting of the Conference they have called for this purpose. The Bulletin’s Keith Aylward-Marchant reports.

It is a well-known fact that the outlook for the international oil market is closely linked to the health of the world economy, notably, at the present time, to the depth and duration of the global recession and the actions of the financial community, as it becomes subject to tighter regulations. Mixed in with these are the geographical and sectoral diversities of both the economic crisis itself and the remedial measures that seek to address this.

Furthermore, OPEC is concerned about the impact of the crisis on the world’s poorest communities — indeed, the repercussions may take years to work their way through and fully reveal themselves. It must not be forgotten that the causes of the crisis lay in the industrialized world.

In this complex, constantly changing environment, OPEC has two immediate areas of focus. These relate to crude oil prices. One is for the market to achieve and maintain high levels of price stability. And the other is to ensure that prices are at levels that can provide reasonable revenue to producers and support sufficient investment in future production capacity.

This is essential if the oil market is to prosper in the future and support sound world economic growth. Once the crisis is over and the dust has settled, world energy demand is expected to continue growing, with oil retaining its role as the leading source. The market must be ready for this.

Wild volatility and inappropriate prices have been dominant features of the international oil market in recent years. This came to a head in 2008, when crude prices started the year at $92/barrel for OPEC’s Reference Basket, rose to $141/b in July and fell to $33/b in December — at a time when there was no big change in supply and demand fundamentals and the market was well-supplied with crude.

Moreover, by the end of the year, prices had fallen to around half the levels required to attract enough investment to the industry, to ensure that production capacity can meet future demand, as this picks up again. There is a widespread belief that prices should lie within a range of around $60–80/b to support such investment.

OPEC has taken a series of measures to address the matter at hand.

Notably, in Algeria, in mid-December, it agreed to cut 4.2 million barrels/day from the actual OPEC-11 level of output in September 2008, with effect from January 1, 2009. This first had the effect of preventing a further fall in prices, and then it began supporting a steady rise.

By the time the Conference next met — in Vienna on March 15 — prices had been hovering around $42–44/b since the end of February, underlining a discernible increase in market stability.

However, a sombre mood was prevailing across the world economy at large, with global economic indicators forecasting a continued deterioration in the outlook, supporting a strong consensus in international circles that the crisis would get worse before it got better. As a result,
short-to-medium-term projections of world oil demand were being revised down continually.

OPEC Secretary General, Abdalla Salem El-Badri, summed up the situation at the March meeting, when, in assessing the impact on the oil industry of the economic malaise, he said: “Everything we touch, everything we try to talk about, everything is negative. Everyday, we are receiving negative information.” He believed that 2009 would probably be the most difficult year the world would face in the modern era.

Such a gloomy outlook informed OPEC’s decision on March 15 to maintain the status quo through greater compliance with the December agreement, rather than changing the agreement itself. El-Badri said that, through responsible and concerted actions, OPEC was just trying to “balance up” the situation: “We did not want to add to any more problems that are going on,” he said of the worst world economic crisis since the Great Depression of the 1930s.

It was at the March Meeting that the decision was made to convene again on May 28, to see how the market had performed in the meantime and “consider any further actions deemed necessary.” In the meantime, the Secretariat would continue to monitor market developments carefully.

Prices have strengthened steadily since the middle of March and the Reference Basket exceeded $56/b by the end of the first week of May, having gained around $6/b during that week, to reach its highest level for half a year.

Transition period

However, underlying this are mixed signals about the true state of the world economy and, ipso facto, future oil demand, and OPEC’s Ministers will be keenly aware of this, when they gather on May 28. On the one hand, the International Monetary Fund (IMF) is saying (in its World Economic Outlook, ‘Crisis and Recovery’, released on April 22) that while the rate of contraction (in the world economy) should moderate from the second quarter onward, world output is projected to decline by 1.3 per cent in 2009 as a whole and to recover only gradually in 2010, growing by 1.9 per cent ... (which is) sluggish relative to past recoveries.

On top of this, said the report, the current outlook was “exceptionally uncertain, with risks weighted to the downside.” Later, it continued: “Even once the crisis is over, there will be a difficult transition period, with output growth appreciably below rates seen in the recent past.”

Key economic indicators — such as the fall in capital flows, industrial production, oil consumption and international trade, along with the rise in unemployment — underline the gravity of the current downturn. In particular, global trade is forecast to fall by 11 per cent, compared with the three previous global recessions in 1975, 1982 and 1991, when it merely stagnated.

Encouragingly, on the other hand, the world economy has seen some positive developments recently, with a rally in stock markets, improved confidence and, generally, a more positive sentiment. Indeed, all the time, analysts are looking closely for developments that could provide an indication of the timing and speed of an economic recovery.

Some optimism

In the classic economic sense, all cycles have troughs, and the emergence from a trough — however deep, disruptive and long-lasting this trough may be, and however spasmodic, nervous and tardy the emergence may be — is, in itself, a positive development, even though the emergent economic activity levels may, at first, be well below pre-crisis levels. We may be near this point now and this may be spurring on optimism in some quarters.

However, while a positive approach in times of recession is always welcome, in stimulating economic activity, there can also be some downsides, such as fuelling speculation. Indeed, after the troubled events of 2008 in the oil market, OPEC’s Ministers will be looking very closely at what is strengthening oil prices at the present time, when they meet in Vienna at the end of May. They do not want a repetition of last year’s damaging events.

They are likely to ask themselves: To what extent has this strengthening been due to a shift in market fundamentals, and to what degree is it a product of heightened market sentiment and speculation? It is, after all, happening at a time when demand continues to contract and inventories have moved higher.

Clearly, the May 28 Meeting will not be an easy one for OPEC. But there are no easy solutions to most of the major problems affecting the global economy at the present time, and the oil market is just part of this.

In the final analysis, however, OPEC’s actions will be driven by its unswerving commitment to market order and stability and its recognition of the need to adopt a pragmatic, flexible approach to handling a very difficult situation, in harmony with the interests of both producers and consumers.
El-Badri visits Algeria

Secretariat’s drive to boost ties with Member Countries continues

In continuation of his Member Country visits, OPEC Secretary General, Abdalla Salem El-Badri, was in Algeria between April 25 and 28. Briefing senior executives from the country’s national energy company, Sonatrach, senior officials from the Ministry of Energy and Mines, the Foreign Affairs Ministry, as well as other ministries and parastatals, the objective of the visit was to enhance communication between the OPEC Secretariat in Vienna and Algeria, and to share the Secretariat’s thoughts on the current global economic situation and its impact on OPEC Member Countries. Dr Omar Farouk Ibrahim, Head of OPEC’s PR & Information Department, reports.
Four separate presentations were made by members of the Secretary General's delegation. These included a briefing by Dr Omar Farouk Ibrahim, Head of the Secretariat's Public Relations and Information Department, on the historical development of the Organization and its structures, preparations for the 50th anniversary celebrations of the Organization next year, as well as highlights of the current and future challenges facing the Organization.

A presentation on the latest oil market developments was given by Mohamed Hamel, Head of the Energy Studies Department, whose review noted the uniqueness of the current global recession, compared with previous recessions in the contemporary era.

Fuad Al-Zayer, Head of the Data Services Department, spoke on the importance of data to the work of the Secretariat, pointing out that the success of the Secretariat's research depends largely on the acquisition of accurate data in a timely manner.

In his welcoming address, Dr Chakib Khelil, Algeria's Minister of Energy and Mines, congratulated El-Badri for his reappointment as OPEC Secretary General. The Minister
Above: Delegates attend a dinner hosted by Dr Chakib Khelil, Algeria’s Minister of Energy and Mines; and below: members of the visiting Secretariat team meet with Algerian officials.
Below: Dr Chakib Khelil (fourth from left), Algeria’s Minister of Energy and Mines, shakes hands with Abdalla Salem El-Badri, OPEC Secretary General. Also present are Hamid Dahmani (fourth from right), Algeria’s Governor for OPEC and Director General at the Algerian Ministry of Energy and Mines, along with members of the OPEC Secretariat team (l–r): Sally Jones, Media Relations Advisor; Puguh Irawan, Statistical Systems Coordinator; Dr Omar Farouk Ibrahim, Head, PR and Information Department; Abdullah Al-Shameri, Head, Office of the Secretary General; Mohamed Hamel, Head of the Energy Studies Department; and Fuad Al-Zayer, Head of the Data Services Department.
The OPEC delegation, accompanied by Algerian officials, pictured on their tour of a number of historical monuments in the country.
commended the Secretary General for the professional way he has been handling the affairs of the Secretariat since taking up the position in January 2007.

On his part, El-Badri thanked the Minister, the Conference and the OPEC Board of Governors for the support he had been receiving from them. He noted that whatever modest success the Secretariat had achieved in the last two years could be rightly attributed to the support he had received from the governing bodies and the staff of the Secretariat.

The Secretary General also paid a courtesy call on Algerian President, Abdulaziz Bouteflika, where he briefed the President on his mission to Algeria and thanked him for the hospitality accorded to the Conference, other delegates and the press when Oran hosted the 151st Ministerial Conference in December 2008.

Bouteflika congratulated El-Badri on his reappointment, acknowledging that the global economic situation was putting the oil industry and OPEC Member Countries into very difficult times.

He urged El-Badri to continue to work tirelessly for the common good of OPEC Member Countries, consumers, the oil industry and the global economy in general.

Responding, El-Badri thanked Bouteflika and the people of Algeria for the support they had been giving to OPEC, recalling that the first OPEC Summit of Heads of State and Government was hosted by Algeria some 34 years ago.

The OPEC delegation was also hosted to a reception by the national oil company, Sonatrach. In brief remarks to the Secretary General, Mohamed Meziane, Sonatrach President Director General, assured El-Badri of his company’s preparedness at all times to assist the Secretariat. Responding, the Secretary General expressed his happiness at the reception accorded him and his team since their arrival in Algiers.

The OPEC delegation, which also included Abdullah Al-Shameri, Head of the Office of the Secretary General, Puguh Irawan, Statistical Systems Coordinator, Diana Golpashin, Videographer, and Sally Jones, Media Relations Advisor, visited a number of historical monuments in Algeria, including the Roman ruins in Tipaza, the tomb at Juba and the museum at Cherchell.
Algeria adopts right policy by financing development projects — IMF

Algeria — Algeria has adopted a “very good” economic policy by financing development projects, in spite of the crisis that hit the world economy, according to Amor Tahari, International Monetary Fund (IMF) Deputy Director of the Middle East and Central Asia Department. “It is excellent that countries such as Algeria continue to finance development projects and lay the foundations of sustainable growth and promote diversity of the economy,” he said during the presentation of the IMF’s latest report on the regional economic outlook for the Middle East and Central Asia. The most important aspect for him, was the “quality of expenses, rather than the level of expenses, and Algeria should continue focusing its expenditure on the reinforcement of production capacities, the improvement of the business climate and optimizing its financial system resistance,” he added. APS

Samsung Engineering wins Skikda refinery modernization project

Algiers — South Korea’s Samsung Engineering and Construction Company has won a contract worth $1.2 billion for the Skikda refinery renovation and modernization project. The deal was awarded to the firm after the examination of bids from four tenders, in the presence of the Minister of Energy and Mines, Dr Chakib Kheïl, the CEO of Sonatrach, Mohamed Meziane, and the Vice-President of Sonatrach Downstream Activity, Abdelhafid Feghouli. Samsung provided the lowest bid out of the other consortiums, which comprised Italy’s Saipem, South Korea’s Hyundai and Spain’s Technicas. APS

Angola invited to join International Renewable Energy Agency

Luanda — United Arab Emirates (UAE) Energy Minister, Mohamed Bin Dhaen Al Hamil, has invited Angola to join the International Renewable Energy Agency (IRENA), in order to improve the quality of energy in the country. The UAE intends to set up the headquarters of IRENA in Madar City, a town that is considered to have great potential in terms of research and information in solar energy. IRENA aims to promote broad and sustained use of all renewable energies in both industrialized and developing countries. The organization was founded in January 2009 in Bona, Germany and comprises 75 member countries. During his visit to Angola, Al Hamli, met with the country’s President, José Eduardo dos Santos. AngolaPress

Angolan government promotes activities to generate jobs, boost income

Luanda — The Angolan government intends to promote — between 2009 and 2012 — a period of economic activity that will generate jobs and boost income by implementing the construction of industrial enterprises, which is part of the programme of strengthening the private sector, aimed at boosting the socio-economic development of the country. Under the ‘Executive programme of the manufacturing industry sector’, the government is building the Viana industrial estate, estimated at costing $50 million, and funded by the Espírito Santo Bank. The project, which that started in 2006, is being constructed on an area of 50 hectares and will be completed in 2010. The estate, which will have 80 industrial units, is expected to provide 2,000 jobs. Another industrial park will be built in the Bom Jesus locality, in neighbouring Bengo Province, with an investment of $12m and financed by the African Investment Bank. This venture, which started in 2008 and is to be concluded in 2010, expects to provide 2,875 jobs. Similar infrastructure is being built in the provinces of Cabinda, Kwanza Norte, Benguela, Huambo, Uíge, Zaire, Bié and Huila, as well as factories in several parts of the country. AngolaPress

Iran-Iraq trade exchanges amounted to $4.4 billion last year

Kermanshah — Iran-Iraq trade exchanges stood at a value of $4.4bn last year, a trade official has announced. Kheirollah Khadem disclosed the amount while addressing a conference on the promotion of Iran-Iraq trade held in this western provincial capital city. He said Iran was making efforts to make Iraq its number one trade partner. Praising Iraq’s great export potential, he called on Iranian businessmen to pay due attention to Iraqi markets. IRNA

Five million metres of carpet woven in Iran annually

Qazvin — Some five million metres of carpet are woven in Iran each year by 1.2 million weavers. Announcing this, the Deputy Head of Iran’s National Carpet Centre, Mohammad Reza Abedi, told reporters on the sidelines of the Second Hand-Woven Carpet Festival that 80 per cent of the carpets produced were exported, while the rest were used inside Iran. Referring to Iran’s high position in the field of carpet production, he noted that, currently, European countries, especially Germany, as well as the United States and the Gulf littoral states were considered the best markets for Persian carpets. Some 60 per cent of Iranian carpets were exported to the US and European countries, he said, adding that the main rivals of Iran in this field were India, Pakistan, China and Nepal. IRNA
KOC to produce one billion cubic feet of natural gas by 2015

Kuwait — The Chairman and Managing Director of the Kuwaiti Oil Company (KOC), Sami Al-Rsheid, has reiterated his company’s endeavour to reach natural gas production of one billion cubic feet by 2015. In a statement to reporters after the conclusion of the 2009 Health, Safety and Environment Award, he said current KOC output of free gas stood at 100m cu ft/d, anticipating that this would reach 140–150m cu ft/d at the end of this month, which represented the first phase of the plan. The second phase aimed at attaining output of 600m cu ft/d by 2012. KUNA

Nigeria re-elected to UN Council

Abuja — Nigeria has been re-elected as a member of the United Nations Human Rights Council for a second term. The result of the election gives the country another three-year term, starting from June 19. A statement by the Nigerian Permanent Mission to the UN in New York said: “Our re-election to the Council is an acknowledgment of the remarkable work we did as Chair of the Council. It is also an expression of international goodwill and appreciation of Nigeria’s human rights record.” Other countries re-elected for a second term are Cameroon, Senegal, Bangladesh, China, Cuba, Djibouti, Jordan, Mauritius, Mexico, the Russian Federation, Saudi Arabia and Uruguay. New countries coming on board include the US, Belgium, Hungary, Norway and Kyrgyzstan. Nigeria headed the council between 2008 and 2009. Thisdayonline

Qatar a reliable source of LNG — report

London — The Qatar Liquefied Natural Gas Company, which started supplying the British market recently, will guarantee Britain a reliable source of gas as the North Sea basin goes into rapid depletion, according to a report in the Daily Telegraph. The first super-tanker from Qatar has delivered frozen gas at −160°C to the South Hook LNG Terminal in the south-west Wales port of Milford Haven. The biggest and most advanced LNG terminal in Europe, it will boast five giant storage tanks as large as the Albert Hall by the end of the year. “LNG has become a transforming force in the global energy market and a potential answer to Russian domination of Europe’s gas supplies,” the Telegraph noted. Qatar’s LNG fleet will send one ship to Wales every three days, each supplying enough to meet Britain’s gas needs for 24 hours. QNA

Dubai top city in 2008 for FDI

Dubai — The United Arab Emirates (UAE) continues to dominate the Gulf region in terms of foreign direct investment (FDI). In a special report published by the Financial Times, Dubai has, for the first time, been classified as the top destination city in the world for overseas investment, surpassing the likes of London and Shanghai. The UAE continues to lead the way in the Middle East and Africa, accounting for 50 per cent of total projects in the region. In its position as the top destination city for FDI for 2008, Dubai attracted a total of 342 projects, had $21 billion in capital investment and created over 88,000 new jobs. The UAE was once again the leading destination for FDI in the region with 480 projects, capital expenditure of $35bn and the creation of over 87,000 new jobs. For the Middle East as a whole, sources show that the total number of FDI projects amounted to 969, with capital expenditure of $154bn, and the creation of over 237,000 jobs. Commenting on the report, Dr Omar Bin Sulaiman, Governor of the Dubai International Financial Centre and Vice Chairman of the Central Bank of the UAE, said: “This report is testament to the strategy of both the UAE and Dubai ... a strategy of openness and diversification.” WAM

French companies eye urban planning projects in Abu Dhabi

Abu Dhabi — The Abu Dhabi 2030 Urban Planning Project has generated widespread interest among French businesses, many of whom have brought high-profile economic development projects to fruition, according to Bernard Kouchner, French Minister of Foreign Affairs. In an exclusive interview with the Oxford Business Group, Kouchner said: “Several French companies are world leaders in areas such as water distribution and treatment, transport infrastructure — especially railway transport networks — and urban street furniture.” These businesses, he said, now had their eye on urban planning projects undertaken in the United Arab Emirates, in general, and Abu Dhabi in particular. Kouchner voiced confidence that the UAE and other Gulf Cooperation Council (GCC) countries could play a significant role in seeking solutions to the global economic crisis, adding that adopting a proactive role on the international stage would reap dividends for the GCC. “The Gulf countries have an interest and a key role to play,” he said. “That was why France suggested that the GCC and the African Union be invited to the April 2009 G-20 London summit,” he stated. WAM

One thousand schools to be inaugurated in Venezuela in 2009

Caracas — One thousand schools, including establishments that have been repaired or are new, will be ready in 2009, out of which 800 should open in September. Venezuela’s Minister of People’s Power for Education, Hector Navarro, said in a television interview that the schools should start functioning in the next academic year. “Until September 15, the government will inaugurate one school per day, which will be active for the next academic year,” Navarro ratified. Furthermore, he said, the Bolivarian Revolution was boosting the socialist conception about education — schools as the centre of communitarian training. The government was also reinforcing professorships and regularly evaluating its teachers. “To build a new, different homeland requires constant efforts from the teachers. Education is the starting point to create the country’s new socialism,” he added. ABN
When grandparents die, often their stories and experiences die with them, resulting in a loss of culture and heritage. A new project recently launched in Vienna aims to help schoolchildren become more aware of their cultural identity and, equally as important, the cultural identity of others around them. ‘Open sesame’ was the order of the day when a special performance of Ali Baba and the Forty Thieves was staged in the city to mark the launch of a unique and promising scheme.

The OPEC Bulletin’s Siham Alawami reports.

Talespin performance of Ali Baba and the Forty Thieves with the ‘Elevenchor’ of the Vienna Boys Choir.
It had been a hard day. And here I was, in Vienna’s Leopold Museum, basically caught in two minds. I was about to watch a live and multicultural rendition of ‘Ali Baba and the Forty Thieves’, but all the time thinking I would just give it ten minutes and then leave. My mother, currently confined to a wheelchair, was waiting for me at home and it was already past 7pm. But I was also mindful of my responsibility for manning the OPEC stand at the museum. The Organization was one of the sponsors of the event and it was my responsibility to ensure that the parents and youngsters attending were provided with all the information necessary to make their evening a successful one. And who’s to know? One of those taking a leaflet could have been a potential OPEC employee a few years down the road!

My allotted ten minutes elapsed quickly, but, as they say, time flies when one is having fun. And I was having fun — even though I was still nervous about arriving home late. But I just could not leave — this show was really entertaining and I could see that a lot of work had gone into its production. The least I could do was stay and support it — and, apart from anything else, I really wanted to know what was going to happen to Ali Baba.

After one hour had passed, I knew I would be there until the end. Of course, I could have ‘googled’ the event the next day, to find out the end of the story, but there is another saying — don’t put off until tomorrow what you can manage today. The fact was, I really wanted to savour all of this splendid life performance, which featured the international talents of Iraqi illustrator, Rima Al-Juburi, American composer Jason Gray, together with the ‘Elevenchor’ of the Vienna Boys Choir and the ‘Talespin’ ensemble.

This diverse group formed the centre-piece for the kick-off of this unique project on April 22.

On the opening night, over 400 guests from the diplomatic community — Viennese schools, the United Nations and the City of Vienna — packed the museum to find out more about ‘Mother Tongue and Cultural Identity’, the theme of the show.

With the Austrian Press Agency covering the event, welcoming and introductory speeches were given by prominent guests, including Maher Nasser, Director of the UN Information Service (UNIS), Sonja Kato-Mailath-Pokorny, Vienna City Adviser, Dr Elisabeth Leopold, Founder of the Leopold Museum, Shirin Kitani-Akrawi, wife of Tareq Akrawi, Iraq’s Ambassador to Vienna, and Ferdinand Breitschopf, Inspector for Music for the Vienna Board of Education. There was also a strong representation from OPEC, the United States Embassy, the City of Vienna, and the Vienna International School (VIS).

The project

The scheme is a wonderful concept. It encourages students, aged 10–18, to submit original works of art — music, performance, literature, or fine art — that express...
Students are invited to reflect on who they are and are then encouraged to express themselves in a variety of ways. The aim is to allow those participating to develop an understanding of their cultural identity, as well as honouring and understanding the identities of others.

The project will culminate in a gala event in February 2010 to coincide with ‘International Mother Language Day’. Throughout the duration of the scheme, which is open to all Viennese schools, there will be a strong focus, not just on the finished work, but on the process of discovery and learning, with support from the organizers.

Both individual and group projects will be accepted and all submissions will be exhibited at the end of the scheme, with three submissions to be performed live at the final gala evening.

“With some reflection about one’s heritage and mother tongue, youths across Vienna will have the unique opportunity to express who they are through the arts,” explained Chadwick Williams, Project Creator and Coordinator.

“We hope for students to further develop and strengthen an understanding of their cultural identity, as well as other cultures. This project will provide youths with a framework and an opportunity to display their unique identities. Naturally, we hope for students to affirm who they are in a globalized society, while simultaneously broadening their understanding and acceptance of their peers’ cultures,” he said.

Williams also described the long-term vision of the project: “We hope to extend participation countrywide and possibly to other countries.”

UNIS is offering active support for the scheme, in the

At the event were (l–r): Mag Thomas J Resch, Chief Executive Office, International Relations, Vienna; Siham Alawami, PR Specialist at the OPEC Secretariat; Maher Nasser, Director of the UN Information Service (UNIS), Sonja Kato-Mailath-Pokorny, Vienna City Adviser; and Chadwick Williams, Project Creator and Coordinator.
context of its Creative Communities Outreach Initiative, spearheaded by the Department of Public Information in New York, which encourages UN entities to engage with the creative community in various forms, such as television, film and the arts, in order to reach new and different segments of society with messages of tolerance, human rights and cultural diversity.

Introducing the project’s theme, UNIS’ Nasser said: “Traditionally, folktales and stories play an important role in the life of a community. They are used to entertain and educate both the young and old and particularly to teach children about a community’s traditions and values.”

He pointed out that times had moved on and “we now live in the information age of theatre, opera, movies, television and the internet. These have taken over the traditional function of conveying important cultural information and messages.”

Nasser told the audience, however, that the basic function of storytelling had not changed, even though the medium used had. “All the media in existence today are potential vehicles for reinforcing important messages of ethics and the necessity to respect human rights — important messages that are enshrined in the UN Charter and the Universal Declaration of Human Rights,” he stated.

Speaking on behalf of the Vienna Board of Education, Breitschopf spoke of the central role played by music as a universal language in conveying cultural information and in defining identities — both collective and individual.

“Finding oneself — one’s own cultural identity — seeking answers to the eternal question ‘who am I?’ are important issues in the life of any young person between the ages of 12 and 16 and the source of much confusion,” he maintained.

Music, said Breitschopf, could play a key role on the road to achieving that personal discovery.

**About Talespin**

Talespin was inspired by the English notion of ‘spinning a tale’ and combines traditional folktales from around the world with original music and art, in a live setting. Stories are considered reflections of the hopes and values of every culture and reveal human characteristics shared by all.

The tale featured at this particular event — Ali Baba and the Forty Thieves — with an original score by Jason Gray and illustrations by Rima Al-Juburi, included a notion of the power and magic of language, epitomized by the universally known command, ‘open sesame!’

In addition to the live performance and presentation of the project, those attending had the opportunity to peruse educational outreach booths provided by OPEC, UNIS, the Leopold Museum and the City of Vienna.

Honorary Committee Members of the Project of Mother Tongue and Cultural Identity include: Margit Fischer, First Lady of the Republic of Austria; Dr Susanne Brandsteidl, President of the Vienna Board of Education; Kammersänger Ramón Vargas; and Maher Nasser, Director of UNIS.
Taking great strides together ...
OFID’s ongoing efforts at poverty-alleviation, public diplomacy
For the second year in a row, the OPEC Fund for International Development (OFID) co-sponsored the Vienna City Marathon — and again took the opportunity to highlight ongoing humanitarian efforts around the world.

At a press conference, held jointly with the organizers of the event in mid-April, OFID’s Director-General, Suleiman J Al-Herbish, noted that “sports have always been an instrument for implementing soft diplomacy.” In this spirit, and under a new slogan, Making strides together, Al-Herbish announced that OFID would provide €100,000 to help underwrite the 2009 marathon.

He explained that, while this year was only the second time OFID had collaborated with Vienna City Marathon organizers, the institution had developed a long relationship with the City of Vienna — spanning more than three decades.

Wolfgang Konrad, General Manager of the Vienna City Marathon, also speaking at the press conference, expressed deep gratitude for OFID’s role as a partner. OFID “has established a new dimension,” Konrad stressed, and the marathon had provided the Fund with an opportunity to “deliver its noble message” about the importance of supporting humanitarian and social assistance around the world.

OFID is “focused on opening up new channels and introducing new ideas and lending instruments,” said Al-Herbish. But providing development assistance and improving the living conditions of poor communities around the world needed the support and collaboration of many other global actors as well, he stressed.

The marathon, Al-Herbish noted, was a perfect vehicle for highlighting the “strong cooperation OFID aspires toward battling poverty and encouraging economic growth.”

In addition, in conjunction with its sponsorship of the marathon and as part of its ongoing local initiatives, OFID announced two grants of $50,000 each to two local Austrian non-governmental organizations — Austrian Doctors for the Disabled and the Society for Austro-Arab Relations.

Speaking on behalf of Austrian Doctors for the Disabled, Prof Martin Salzer expressed his appreciation — and running.
He added that the funds would “go far in helping further the work” of the organization, which helped seriously disabled individuals in Bosnia.

Fritz Edlinger, of the Society for Austro-Arab Relations, also expressed his gratitude for the grant, noting that cooperation between OFID and the Society dated back 25 years. He explained that earlier OFID support had been critical in bringing 50 young students from Palestine, Jordan and Syria to Austria for technical training.

The 42-kilometre marathon began this year by the United Nations compound, crossed the Danube River, and then wound its way along parts of the Danube Canal and through central parts of the city — taking runners around the Ring, along Linke Wienzeile, down Mariahilferstrasse, then back up Liechtensteinstrasse, before progressing down Donaustrasse and a few other streets. The finishing line was at Heldenplatz, in front of the Hofburg Palace.

A record number of OFID and OPEC staff members and their children participated this year in both the full marathon, as well as in the half-marathon and relay events.

At a special presentation ceremony for OFID/OPEC participants, held at the Fund’s headquarters, Al-Herbish commended the runners for their participation and commitment, the organizers for their hard work and dedication, and all those who supported the efforts on the day.

Many of the runners who took part in the 2009 event were also in last year’s marathon, the difference this year being that a considerable increase in new registrations was observed.
In all, 98 OPEC/OFID participants registered for the various disciplines. Three took part in the full marathon, 15 participants registered for the half marathon, there were 11 relay teams — comprising 44 runners — 16 junior participants, aged between 10–18 years, who each ran a distance of 4 km, while 20 participants, under the age of ten, registered for the kids challenge, each completing a distance of 1 km.

The Fund’s management decision to co-sponsor the marathon falls within its Public Information Strategy (PIN), which seeks to achieve more public awareness of the institution.

“We hope that this event has made some small contribution towards achieving that goal, especially in our local community here in Vienna,” commented Jutta de la Barra, OFID’s coordinator for the marathon.

“But besides this main objective, we observed that the event became in a way self-dynamic and developed positive side effects which were not thought of at its very beginning,” she said.

“First of all, we discovered that the event enhances team spirit, fosters communication and tightens friendship among staff members. Secondly, it also contributes to improving the health conditions of our colleagues.”

She said it was pleasing to see that more and more people had become interested in participating in such a sports activity or, at least, felt encouraged to do more sports in general.

“I think it can be said that we accomplished three objectives with a single effort: namely, more public awareness through the PIN strategy; an enhanced team spirit; and contributing to the well-being of staff,” she added.

All photographs Rana Wintersteiner.
Crude oil price movements

The OPEC Reference Basket (ORB)\(^1\) averaged the month of April at $50.20/barrel, $4.42/b, or almost ten per cent, higher than the previous month and the highest level since October 2008.

Prices began the month on a weak note amid pressurised financial markets, which inevitably fuelled recessionary fears and the prospect of a slower economic recovery. Although bearish petroleum data in the United States signalled slower demand, the G-20 meeting in London restored confidence in the marketplace. Both the equity markets and the US dollar exchange rate fluctuations weighed on market sentiment.

The ORB averaged the first week of the month at $48.55/b, down by $1.84/b, or 3.7 per cent, from the previous month. Market sentiment improved in the second week on the back of further OPEC supply adjustments, which counteracted a plunge in Wall Street stocks and firmness in the US dollar. Demand for distillates, amid lower refinery run rates, also lent support to the petroleum market. Hence, the ORB averaged the second week at $51.34/b, $2.79/b, or nearly six per cent, higher, after reaching an all-time low of $49.12/b in February 2006.

In the third week of April, weak economic indicators, combined with continuing bearish crude oil stocks data in the US, saw a return to the downtrend. The ORB averaged the week at $51.43/b, 9¢/b, or less than 0.2 per cent, higher.

In the fourth week, uncertain bank conditions and poor economic indicators triggered a move by investors into safe-haven government bonds, which lifted the US dollar exchange rate and led to an outflow of funds from the energy market. The ORB averaged this week at $49.03/b, down by $2.40/b, or 4.7 per cent.

In the final week of the month, the market moved on speculation over the economy, while the swine flu epidemic raised sentiment and impacted transportation fuels. However, a rebound in the equity markets and the US dollar's weakness dominated market volatility. The ORB closed the week at $49.73/b.

Moving into early May, the ORB continued to rally to a six-month high of more than $56/b on hopes of an economic recovery, a weaker US dollar and a rebound on Wall Street, which lifted energy futures higher.

Commodity markets

Looking at trends in selected commodity markets, the OPEC report stated that April saw another increase in the IMF commodity price index – by 3.7 per cent month-on-month, compared with 2.2 per cent in March, but remained 45 per cent lower than a year ago.

The rise in commodity prices was driven by the non-energy sector, which went up by five per cent, compared with –0.8 per cent in the last report. By contrast, the energy complex showed a strong deceleration in the pace of growth in April.

“Commodity prices rose despite the complex global economic recession fostered by the favourable impact of better economic indicators for China and the accumulation of inventories, as well as the existence of a positive investment sentiment,” said the report.

Additionally, the price gains in commodities for April took place regardless of the situation of the fundamentals, as pointed out in previous reports.

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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 A), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela).
“Most commodity markets continue to face massive surpluses with the lack of demand being the core factor obstructing a sustained recovery of the markets,” observed the report.

It said that although some industrial metals, such as copper, saw a mild decline in LME inventories, a sustainable recovery would only be possible once the deep economic recession began to recede and this did not seem to be the case with the OECD economies that were still facing severe problems.

The IMF energy commodity index (crude oil, natural gas and coal) grew at a slower pace in April m-o-m (2.8 per cent), compared with 4.4 per cent in March, driven by a lower increase in crude oil prices (the average petroleum spot price) of 7.1 per cent, down from 12.4 per cent recorded the previous month, while natural gas and coal prices kept declining.

Henry Hub gas plunged again — by around 12 per cent in April, 66 per cent lower than in the same period last year, and essentially due to the lack of demand. Declining US industrial production and rising domestic supply, in particular shale gas and working gas in storage volumes, continued to weigh on the natural gas market.

Non-energy commodities showed a strong recovery, increasing by five per cent in April m-o-m on the back of considerable gains in industrial metal prices and, to a lesser extent, food prices.

The industrial metal price index surged by eight per cent m-o-m in April with further price gains across the entire complex.

Copper prices increased by 17 per cent m-o-m in April with the LT forward curve having changed into backwardation. As in the previous month, the copper market found support from strong Chinese imports, which increased by 97 per cent in the first quarter of 2009, compared with the same period last year.

Aluminum prices jumped by seven per cent in April m-o-m, compared with zero growth in the previous month, mainly on output cuts and important Chinese demand.

Lead prices climbed by 5.7 per cent in the month under review on Chinese imports, which surged by 39 per cent m-o-m in March.

Zinc prices went up by 13.5 per cent m-o-m in April as a result of a revival in the Chinese automotive industry.

Nickel prices surged by nearly 17 per cent in the month, following a decline of 6.7 per cent in March.

The World Bank’s agricultural price index rose by 44.9 per cent m-o-m, backed by a remarkable surge in soybean and soybean oil prices. The Bank’s food price index went up by 5.1 per cent m-o-m in April.

Gold prices declined by 3.7 per cent in April, following higher confidence in financial stabilization and economic growth.

**World oil demand**

In its review of the market, the OPEC report noted that continuous downward revisions to world economic growth had been exhausting world oil demand. The new downward revision in world GDP implied a further downward revision in world oil demand growth of 200,000 b/d in 2009, mostly related to the Americas.

“A slow recovery may kick in during the last quarter of the year. Of course, the recent swine flu pandemic is already affecting aviation fuel demand worldwide,” said the report.

Gasoline demand, on the other hand, was starting to pick up as a result of the summer driving season. Weak industrial production, high unemployment rates and a slowdown in travel were the main factors behind the collapse in oil demand.

World oil demand growth reached a record low at −2.4m b/d in the first quarter year-on-year. Around 95 per cent of the total decline was attributed to the OECD.

“The drop in US oil demand is still draining total world oil consumption. Although some recent data implies that the US economic depression is bottoming out and the decline in industrial production has reached the bottom, the country’s April oil demand lost more than 1.5m b/d y-o-y, pushing total world oil demand growth to a record low of −2.7m b/d,” said the report.

It said the collapse in oil demand could be seen in the low refinery utilization rates and high stock levels. Middle distillates storage was reaching maximum capacity in many parts of the world.

As the OECD is expected to account for the entire decline in world oil demand this year, the non-OECD region is expected to be roughly flat as the economic turmoil takes its toll on developing countries as well,” the report pointed out.

**Demand for OPEC crude in the first quarter of 2009 is estimated to have experienced a strong decline of around 2.6m b/d, compared with the same period last year.**

Due to not only the troubled world economy, but also to the normal low seasonality cycle in the second quarter, world oil demand growth is expected to decline steeply, reaching 2.0m b/d y-o-y.

Given the deep decline in US oil consumption, world oil demand is forecast to decline by 1.6m b/d y-o-y to average 84m b/d in 2009.

Downward revisions in non-OPEC supply and OPEC NGLs slightly offset the downward revision in world oil demand, resulting in a minor change in demand for OPEC crude for 2009.

Required OPEC crude is currently projected at 28.8m b/d, a substantial decline of 2.2m b/d from last year. On a quarterly basis, demand for OPEC crude this year is projected at 29.2m b/d, 28.3m b/d, 28.6m b/d and 29.1m b/d, respectively.

Demand for OPEC crude in the first quarter of 2009 is estimated to have experienced a strong decline of around 2.6m b/d, compared with the same period last year, while the decline is expected to narrow in the fourth quarter, indicating a drop of 1.5m b/d for the year.

The OPEC report said that given the massive criticism of the current biofuels industry using food as a raw material, the industry was now working to achieve the same results using biomass instead.
The American biodiesel industry is facing a dim future, due to not only the current financial crisis, but also a policy shift in Europe. Europe’s new import duty has worsened the situation, putting the industry at a very low utilisation rate.

Considering the very dim picture of the European economy, OECD Europe oil demand is forecast to decline by 450,000 b/d y-o-y to average 14.8m b/d in 2009.

“Should this goal be achieved, then the negative impact on food prices will be reduced. However, the negative impact on the environment will continue. In the US, a new carbon standard will place a big burden on the use of ethanol and would to a certain degree switch the focus to other energy, such as gas or electricity.”

“This industry has been living on subsidies and, with the current economic downturn, its future does not appear to be bright,” maintained the report.

A recent US biofuels study agreed with previous studies conducted by the United Nations that exposed the real costs of biofuels. “The study proved that the use of biofuels has not only raised food prices within the US, but has also caused climate change through massive deforestation.”

US oil demand is still being impacted by the current economic crisis. April data indicated that the country’s oil demand lost 1.6m b/d y-o-y to average 18.6m b/d.

“Most of this dramatic decline was as a result of low industrial demand for middle distillates. Given the gloomy picture for US oil demand, future consumption is expected to be worse than previously thought.”

The report noted that the country’s driving season was expected to boost gasoline demand, mainly in the third quarter. It was also assumed that the decline in industrial production had reached the bottom, indicating that future oil demand might not dip further.

First quarter US oil demand growth contracted at the same rate as last year, showing a decline of 1.0m b/d y-o-y.

The report said that Canadian oil demand was in no better shape that the US. First quarter oil demand dropped by 5.1 per cent y-o-y averaging 1.67m b/d. Similarly, Mexican oil consumption has been on the decline, averaging –3.4 per cent y-o-y in the first quarter of 2009. Gasoline use is still growing, despite the economic slowdown. “As Mexico took a hit from the swine flu pandemic, oil demand for the past few weeks has shown a slight drop.”

Due to the disastrous economic effect, North America’s oil demand is forecast to decline by 800,000 b/d y-o-y in 2009 to average 23.5m b/d.

The OPEC report said that the European economy was plummeting worse than previously thought.

“The continent’s low industrial production, along with a reduction in travelling mileage, has pushed oil demand deeper into the red.” Led by Germany, oil demand in March lost more than 500,000 b/d y-o-y.

European oil demand was not expected to perform better for the whole of 2009. Due to the current recession, the cut in both consumer and industrial spending has had a strong impact on oil demand. Apart from winter product demand, oil consumption in the ‘Big Four’ has been in the negative since the beginning of the year. Italian oil demand dipped by 6.2 per cent y-o-y in the first quarter, reducing the country’s total oil consumption by 100,000 b/d. Gasoil experienced the largest decline, reaching 21,000 b/d y-o-y.

The UK economic decline of minus four per cent dragged the country’s oil demand down by almost ten per cent in the first quarter. As in all of Europe, the UK products that declined the most were transport and industrial fuel; however winter product consumption was not that strong.

France and Germany, on the other hand, were seen as different from the rest of Europe as far as oil demand is concerned. Winter petroleum products reacted to the colder-than-normal winter in the first quarter. To a certain degree it offset the strong decline in other petroleum products consumption.

Considering the very dim picture of the European economy, OECD Europe oil demand is forecast to decline by 450,000 b/d y-o-y to average 14.8m b/d in 2009.

Japan’s economic turmoil is strongly affecting the country’s oil demand. With an expected GDP of –6.4 per cent, the country’s oil demand is estimated to decline by around 5.5 per cent in 2009. Japan’s oil demand plunged by 11.3 per cent y-o-y in the first quarter of this year.

However, the situation in the second-largest oil-consuming OECD country in the Pacific was different from that of Japan. South Korea’s oil demand is expected to be flat in the first quarter of this year as a result of sturdy growth in oil demand in February. Although South Korea’s GDP is expected to dip into the red by four per cent this year, the country’s oil demand is expected to go down by only 2.2 per cent.

Taking into account the Pacific economic recession, OECD Pacific oil demand is forecast to decline by only 400,000 b/d in 2009, averaging 7.6m b/d.

The Other Asia region has been badly affected by the world economic downturn. Most of the countries in the region are experiencing a contraction in economic growth, which is reflected in the region’s oil demand.

Other Asia oil demand is forecast to be in the negative for the whole year. However, according to recent data, the region’s oil demand is not as bad as previously thought; hence, Other Asia oil demand was revised up by 70,000 b/d for the first quarter y-o-y.

Most of the better-than-expected oil demand came from India, where oil demand bounced back and recorded strong growth of 6.87 per cent in March y-o-y. Diesel and gasoline demand grew the most, adding 90,000 b/d and 35,000 b/d, respectively.

India’s first quarter oil demand growth averaged 3.9 per cent y-o-y. Should the economic
turbulence stabilize, then Indian oil demand is forecast to grow moderately, reaching 90,000 b/d, or 3.2 per cent, in 2009.

“Other countries within the region are showing a contraction in oil demand. Thailand’s oil demand continued its decline, reaching –9.6 per cent in February. Low industrial fuel usage was the cause behind the sluggish oil demand.”

Other Asia oil demand is forecast to contract this year for the first time since 1974. This decline is estimated to reach 80,000 b/d in 2009 to average 9.2m b/d.

Middle East 2009 GDP is estimated to decline by 80 per cent from last year but so far the region’s oil demand has not affected at the same rate. The only major oil demand growth worldwide is attributed to the Middle East. The region’s oil demand is estimated to grow by 2.8 per cent in 2009, versus 5.9 per cent last year.

Energy-intensive, long-term projects are the main driver behind this strong oil demand. Middle East oil demand growth is forecast at 200,000 b/d y-o-y, averaging 7.1m b/d in 2009.

Oil demand in Latin America is forecast to be flat this year. Brazilian oil demand, which was once the catalyst for the region’s oil demand growth, is contracting at a fast pace. The country’s February inland petroleum product deliveries fell by 5.8 per cent y-o-y to average 1.6mb/d.

The world economic crisis has not only shifted Brazilian GDP to –1.3 per cent, but has also swung the country’s oil demand from growth of five per cent in 2008 to flat in 2009. The only expected oil demand growth in Latin America this year should come from Venezuela. Hence, Latin American oil demand is estimated to be flat this year, averaging 5.7m b/d.

**World oil supply**

Preliminary figures indicate that global oil supply increased by 286,000 b/d in April to average 83.55m b/d, compared with the previous month.

“This has resulted from an increase of 65,000 b/d in non-OPEC supply, as well as 221,000 b/d in OPEC production,” commented the OPEC report.

The share of OPEC crude oil in global production was slightly higher at 33.7 per cent in April. The estimate is based on preliminary data from non-OPEC supply, estimates for OPEC NGLs and OPEC production derived from secondary sources.

Meanwhile, non-OPEC supply is expected to average 50.54m b/d in 2009, an increase of 220,000 b/d from the current 2008 estimate and a downward revision of 70,000 b/d from the previous month’s OPEC assessment.

On a quarterly basis, non-OPEC supply this year is forecast to stand at 50.71m b/d, 50.42m b/d, 50.29m b/d and 50.74m b/d, respectively.

Total OECD countries’ oil supply this year is forecast to decline by 220,000 b/d from the current 2008 estimate to average 19.38m b/d. This represents a downward revision of 89,000 b/d from last month’s OPEC report.

The downward revisions were spread across all quarters of 2009, with the third and fourth quarters having slightly larger revisions than the first and second quarters. North America experienced a downward revision of 24,000 b/d for total 2009 supply to stand at 13.97m b/d, an increase of 50,000 b/d over the current 2008 estimate.

Western Europe supply has encountered a downward revision of 26,000 b/d since last month’s update to stand at an average of 4.75m b/d, a decline of 290,000 b/d.

OECD Pacific experienced the largest downward revision among, not only the OECD regions, but also globally. Compared with last month’s estimate, OECD Pacific oil supply indicates a downward revision of 38,000 b/d, which currently stands at an annual average of 660,000 b/d, indicating minor growth of 20,000 b/d in 2009 from the previous year.

Oil supply from the US is expected to average 7.74m b/d in 2009, representing an increase of 240,000 b/d over the previous year and an upward revision of 30,000 b/d from last month. The first quarter forecast encountered a downward revision after incorporating actual production data, while the other quarters experienced upward revisions in excess of 40,000 b/d. Alaskan production is expected to drop in June as a result of field maintenance.

On a quarterly basis, US oil supply this year is estimated at 7.77m b/d, 7.73m b/d, 7.69m b/d, and 7.77m b/d, respectively. According to preliminary data, US oil supply is estimated to have averaged 7.75m b/d in April.

Canada’s oil supply is anticipated to increase by 40,000 b/d in 2009 over the previous year to average 3.29m b/d. The current supply figure for Canada represents a downward revision of 18,000 b/d from the previous month.

On a quarterly basis, Canada’s oil supply this year is expected to average 3.29m b/d, 3.24m b/d, 3.27m b/d and 3.37m b/d, respectively. As per preliminary data, Canadian oil supply is estimated to have averaged 3.19m b/d in April.

Oil supply from Mexico is projected to decline by 230,000 b/d over the previous year to average 2.94m b/d in 2009. Compared with the previous month’s assessment, the latest Mexican oil supply forecast displays a downward revision of 36,000 b/d.

On a quarterly basis, Mexico’s oil supply in 2009 is slated to average 3.04m b/d, 2.94m b/d, 2.93mb/d, and 2.84m b/d, respectively.

OECD Western Europe oil supply is expected to average 4.75m b/d in 2009, representing a decline of 290,000 b/d over the previous year. The current forecast for OECD Western Europe oil supply indicates a downward revision of 26,000 b/d from last month.

The UK and other Western Europe supply experienced downward revisions, which outweighed upward adjustments to Norway and Denmark. “Globally, OECD Western Europe
remains the region with the biggest supply decline in 2009.”

On a quarterly basis, OECD Western Europe supply in 2009 is seen at 5.01 m b/d, 4.79 m b/d, 4.52 m b/d and 4.69 m b/d, respectively.

Oil supply from Norway is estimated to decrease by around 100,000 b/d from the previous year to average 2.36 m b/d in 2009, indicating an upward revision of 20,000 b/d from the previous month’s assessment.

On a quarterly basis, Norway’s supply this year is expected to average 2.51 m b/d, 2.36 m b/d, 2.20 m b/d and 2.36 m b/d, respectively. Preliminary data indicates that the country’s supply stood at 2.50 m b/d in March, lower by 70,000 b/d than the February level.

UK oil supply is forecast to average 1.44 m b/d in 2009, a decline of 140,000 b/d over the 2008 figure and representing a downward revision of 11,000 b/d from the previous month’s level.

On a quarterly basis, UK oil supply in 2009 is now projected at 1.54 m b/d, 1.46 m b/d, 1.38 m b/d and 1.37 m b/d, respectively. The oil supply forecast for Denmark was revised up by 5,000 b/d in 2009 due to adjustments to actual production data in the first quarter.

Other Europe oil supply projections for 2009 were revised down by 41,000 b/d, due to the availability of actual data and low biodiesel production.

Oil supply from the OECD Asia Pacific is expected to increase by 20,000 b/d over the previous year to average 660,000 b/d in 2009, representing a downward revision of 38,000 b/d from the previous OPEC forecast.

On a quarterly basis, OECD Pacific oil supply in 2009 is expected to average 670,000 b/d, 660,000 b/d, 670,000 b/d and 630,000 b/d, respectively.

Australian oil supply is projected to grow by a minor 10,000 b/d in 2009 over the previous year to average 540,000 b/d, indicating a downward revision of 40,000 b/d from the previous month.

On a quarterly basis, Australian supply this year is seen averaging 580,000 b/d, 540,000 b/d, 560,000 b/d, and 510,000 b/d, respectively.

Oil supply from the group of Developing Countries is anticipated to increase by 390,000 b/d this year over 2008 to average 12.62 m b/d, representing a minor downward revision of 11,000 b/d from the previous month’s report.

On a quarterly basis, Developing Countries’ total oil supply in 2009 is projected to stand at 12.45 m b/d, 12.47 m b/d, 12.75 m b/d and 12.82 m b/d, respectively.

Other Asia’s oil supply is projected to increase by 80,000 b/d over 2008 to average 3.83 m b/d in 2009, representing a downward revision of 7,000 b/d from the previous month’s evaluation.

On a quarterly basis, Other Asia supply this year is foreseen to stand at 3.73 m b/d, 3.76 m b/d, 3.89 m b/d and 3.92 m b/d, respectively.

Latin American oil supply is estimated to increase by 250,000 b/d to average 4.33 m b/d in 2009, and still accounting for the highest growth among non-OPEC regions. The figure represents an upward revision of 30,000 b/d from last month’s OPEC estimate.

On a quarterly basis, Latin America supply in 2009 stands at 4.32 m b/d, 4.26 m b/d, 4.37 m b/d and 4.38 m b/d, respectively.

Middle East oil supply is estimated to remain relatively flat in 2009 with a minor increase of 10,000 b/d over 2008 to average 1.67 m b/d and indicating an upward revision of 13,000 b/d from last month’s assessment.

On a quarterly basis, Middle East supply this year is put at 1.64 m b/d, 1.68 m b/d, 1.68 m b/d and 1.68 m b/d, respectively.

Oil supply from the African region is slated to increase by 50,000 b/d to average 2.80 m b/d in 2009, indicating a downward revision of 11,000 b/d from the previous month.

On a quarterly basis, Africa supply in 2009 stands at 2.77 m b/d, 2.77 m b/d, 2.81 m b/d and 2.84 m b/d, respectively.

Former Soviet Union (FSU) oil supply is forecast to grow by 40,000 b/d over the previous year to average 12.59 m b/d in 2009, relatively unchanged from the previous month’s assessment.

On a quarterly basis, total oil supply in the FSU this year is estimated to stand at 12.57 m b/d, 12.68 m b/d, 12.47 m b/d and 12.66 m b/d, respectively.

Russian oil supply is projected to decline by 100,000 b/d to average 9.69 m b/d in 2009, indicating an upward revision of 26,000 b/d from last month’s OPEC assessment.

On a quarterly basis, Russian oil supply in 2009 is seen to average 9.77 m b/d, 9.71 m b/d, 9.65 m b/d and 9.62 m b/d, respectively. April preliminary data suggests that Russia’s production stood at 9.85 m b/d.

Oil supply from Kazakhstan is estimated to average 1.49 m b/d in 2009, an increase of 70,000 b/d over the previous year and flat from last month’s level. On a quarterly basis, Kazakhstan’s supply in 2009 is expected to stand at 1.48 m b/d, 1.51 m b/d, 1.39 m b/d and 1.57 m b/d, respectively.

Oil supply from Azerbaijan is expected to increase by 50,000 b/d over the previous year to average 960,000 b/d in 2009, representing a downward revision of 19,000 b/d from last month’s OPEC assessment.

On a quarterly basis, Azerbaijan’s oil supply this year is estimated to average 880,000 b/d, 990,000 b/d, 960,000 b/d and 1 m b/d, respectively.

Other Europe oil supply has remained relatively steady from the previous month with the supply forecast for 2009 remaining unchanged from the 2008 level at 120,000 b/d.

China’s oil supply is anticipated to increase 3.83 m b/d in 2009, a decline of 20,000 b/d over the previous year, and indicating a downward revision of 7,000 b/d from the previous month’s report.
On a quarterly basis, China’s oil supply in 2009 is seen to average 3.80m b/d, 3.80m b/d, 3.87m b/d and 3.85m b/d, respectively.

OPEC oil production

Based on secondary sources, total OPEC crude oil production in April averaged 28.1m b/d, representing an increase of 221,000 b/d from the previous month. OPEC production, excluding Iraq, stood at 25.8m b/d, up by 224,000 b/d from the previous month. This represents the first output increase by the Organization since July 2008.

OPEC output of NGLs and non-conventional oils in 2009 are projected to increase by 370,000 b/d from the current 2008 estimate to average 4.68m b/d. In 2008, they averaged 4.31m b/d, which was 280,000 b/d more than in the previous year.

Downstream activity

Looking downstream, the OPEC report said that gasoline stock-draws in the US in the latter part of April and reduced product output, due to seasonal refinery turnaround, provided support for product market sentiment and refining margins in the month under review.

“However, due to persisting slowing demand for middle distillates and little signs of a boost in gasoline demand, it is not expected that the recent positive developments in the product markets will remain over the coming months to provide enough support for crude prices,” it said.

Additionally, the bulk of middle distillate stocks, both onshore and offshore, may create operational restrictions for refiners to increase throughputs significantly during this year’s driving season. Higher output would lead to a further deterioration in the middle distillates market and could also undermine current refining margins.

Similarly, the recent uplift in crude prices may also have a negative impact on refining margins and encourage refiners to unseasonably trim throughputs over the coming months, said the report.

In the US, lower product imports and reduced domestic output lifted both physical and futures product prices, boosting refining margins. Refining margins for WTI crude on the US Gulf Coast rose to $5.25/b in April from $3.58/b in March.

In Europe, the market followed a similar pattern and refining margins for Brent crude oil in Rotterdam increased to $2.53/b in April from $1.53/b in March.

In Asia, seasonal refinery turnaround has started with less regional supplies along with limited arbitrage cargoes, especially for fuel oil, providing support for refining margins. Refining margins for Dubai crude oil in Singapore soared by nearly $1/b to $1.60/b in April from 61¢/b in March.

“Refinery utilization rates across the globe usually reach an annual low in April, the peak of the maintenance season. This year, refinery throughputs slowed further, due to discretionary cuts by refiners, combined with seasonal refinery maintenance,” said the report.

Refinery utilization rates in the US fell by 1.2 per cent in April, compared with the previous month, to stand at 82.7 per cent. In Europe, refinery utilization rates are estimated to have fallen by 2.4 per cent to reach 80.9 per cent.

In Asia, refinery throughputs followed a similar trend as seasonal maintenance kicked off in early April. Refinery utilization rates in Japan fell by 0.4 per cent to 81.9 per cent in April from 82.3 per cent in March.

“Looking ahead, with the approach of the driving season and completion of the maintenance schedule, particularly in the Atlantic Basin, refinery utilization rates are expected to increase in the coming months. However, due to the ongoing economic crisis and its adverse impact on product demand, refiners are not expected to raise operation levels significantly in the next months,” maintained the report.

A combination of lower imports and reduced regional supplies, resulting from slowing regional refinery runs, had led to gasoline stock-draws and provided support for the gasoline market. “However, the recent bullish developments in the gasoline market may not be sustainable as demand for gasoline has not yet shown a substantial increase.”

Oil trade

According to official data, US crude oil imports increased in April for the second month in a row to average 9.72m b/d, four per cent, or 390,000 b/d, higher than in the previous month. But they were two per cent lower than in the same month the previous year.

“April’s crude imports bring the US average for the first four months of 2009 to about 9.49m b/d, three per cent, or 300,000 b/d, lower compared with the same period in 2008,” said the OPEC report.

In contrast, US product imports declined in April by 12 per cent, or 366,000 b/d, compared with the previous month, to average 2.76m b/d, some 17 per cent lower than the same month last year.

Finished motor gasoline imports declined in April by 79,000 b/d, or 30 per cent, compared with the previous month to reach 219,000 b/d, and were lower by 43 per cent from April 2008. Average imports during the first four months of 2009 were 34 per cent lower, compared with the same period in 2008.

Distillate fuel oil imports declined in April by 103,000 b/d, or 40 per cent, compared with the previous month to average 156,000 b/d. This level of imports indicated a 39 per cent decline, compared with the same month last year, but during the first four months of 2009, imports were five per cent higher, compared with the same period in 2008.

Residual fuel oil imports increased in April by 36,000 b/d, or ten per cent, compared with the previous month, reaching about 397,000 b/d, 11 per cent higher than in April 2008. Average imports during the first four months of 2009 were three per cent higher than during the same period last year.

Jet fuel imports in April averaged 88,000 b/d, down from 94,000 b/d in the previous month and 51 per cent down compared with April 2008.
On the export side, US product exports increased in April by 112,000 b/d, or seven per cent, compared with the previous month, to average 1.78 m b/d. This represents an increase of 37,000 b/d, or two per cent, compared with the level seen a year earlier. US product exports during the first four months of 2009 averaged 1.62 m b/d, ten per cent lower, compared with the same period in 2008.

As a result, US net oil imports declined in April by 0.8 per cent, compared with the previous month, to reach 10.67 m b/d. The 85,000 b/d decline in net oil imports in April came as a result of a 393,000 b/d increase in net crude oil imports and a 478,000 b/d decline in net product imports, compared with the previous month.

April’s net oil imports were seven per cent lower, compared with a year earlier, and average net oil imports during the first four months of 2009 were two per cent lower, compared with the same period last year.

Japan’s net oil imports during the first quarter of 2009 were estimated at 4.3 m b/d, 15 per cent lower, compared with the average seen during the same period in 2008.

**Stock movements**

Concerning stock movements, the OPEC report noted that US commercial oil inventories surged by almost 34 m b in April, the biggest increase for this month since 2005.

With this huge build, total US commercial oil stocks moved above 1.087 m b for the first time since September 2006. At this level, US oil inventories showed a huge overhang with the five-year average of 105 m b.

“The weakness in demand remains the main reason behind the very high level of inventories. Products were the main contributors to the increase with 57 per cent,” said the report.

Crude oil inventories added a further 14.7 m b, or 500,000 b/d, in the month under review, the ninth build in a row, to reach a new record of 375.3 m b. This increase widened the overhang to almost 46 m b.

“However, the build in crude oil stocks was driven by a jump in crude oil imports and not by a decline in demand as refinery throughputs increased.”

Product inventories rose by 19.2 m b, offsetting the drop of the previous month to stand at around 712 m b. The build in product inventories took place despite a decline in imports to reflect the sluggish demand, particularly for middle distillates.

However, the components of product inventories followed different patterns. Gasoline stocks dropped by 4.2 m b to 212.6 m b, but remained within the upper end of the five-year range, while distillate stocks gained 4.7 m b to stand at 146 m b, well above 110 m b, which corresponds to the previous five-year average.

“Again, the huge overhang in distillate stocks is attributed to weak demand for both diesel and heating oil.”

Jet fuel oil stocks gained a further 1.5 m b to stand at nearly 41 m b, while residual fuel oil inventories remained almost unchanged at 36 m b.

The report pointed out that the US was sitting on a huge level of stocks, considering lower domestic demand.

Crude oil stocks rose to more than 26 days of forward demand cover, compared with an average of around 22 days in the previous five years.

“Gasoline stocks are one day better than the five-year average, while distillate stocks show a surplus of 14 days over the seasonal average after having reached 41.5 days of forward cover at the end of April.”

So far, US commercial oil inventories have increased by 54 m b during the first four months of 2009, compared with a decline of 5 m b for the same period in 2008 and a decline of 27 m b in 2007.

“Not only are commercial oil stocks increasing, but also the Strategic Petroleum Reserve (SPR). Taking advantage of current prices, the US Department of Energy added a further 6.3 m b to the SPR in April to hit a new record of 718.7 m b by the end of the month.”

This, said the report, corresponded to almost 99 per cent of the total SPR capacity, which should be reached as planned by the end of the year.

“It is worth mentioning that almost 17 m b of crude oil stocks have been delivered to the SPR since the beginning of the year, compared with just 1 m b in the same period a year ago.”

In Europe (EU-15 plus Norway), the upward trend observed since last December was reversed with a drop of 8.6 m b from the high level of stocks reached in March to stand at 1,145 m b in April.

“Despite this draw, stocks remained very high, compared with demand, due to the 44 m b build that took place between December and March. At this level, inventories in the region are 26 m b above the previous five-year average and 30 m b higher than a year ago.

“European stocks have added 19 m b since the beginning of the year, while, in the previous year, they remained almost stable over the same period, reflecting the persistent imbalance between supply and demand,” said the report.

Crude oil inventories dropped in April by 4.3 m b to stand at 487 m b, offsetting the build of the previous month. The draw resulted from a combination of improvement in refinery runs and higher exports. Following the draw, the overhang with the five-year average narrowed to just 5 m b.

On the products side, lower production from refineries and higher exports saw inventories dropping for the first time since last October. Gasoline inventories fell by 2.3 m b to 122 m b, whereas middle distillate inventories remained almost unchanged at nearly 392 m b, a record high for April. Distillate stocks were very high with an overhang of 28 m b, or eight per cent, due to very weak demand this year, which resulted in a contra-seasonal build of stocks in winter.

Residual fuel oil stocks dropped by 1.8 m b on the back of lower exports from Russia to stand at around 116 m b. Additionally, more shipments to the US contributed to the draw in stocks.

In contrast, weak demand added to a further increase of 400,000 b in naphtha inventories, which remained at around 29 m b.

In Japan, preliminary data shows that the country’s commercial oil stocks continued their downward trend in April, falling by around 3 m b in the first three weeks of the month. The decline was shared between crude oil and products.
Table 1: World crude oil demand/supply balance

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(a) Total world demand 82.5 83.9 84.9 85.9 86.8 85.3 85.1 85.2 85.6 84.5 83.3 83.6 84.7 84.0

Non-OPEC supply

| OECD         | 21.3 | 20.5 | 20.2 | 20.1 | 20.0 | 19.7 | 19.1 | 19.6 | 19.6 | 19.8 | 19.4 | 19.1 | 19.4 |
| Western Europe| 6.2  | 5.7  | 5.5  | 5.2  | 5.2  | 5.0  | 4.8  | 5.1  | 5.0  | 5.0  | 4.8  | 4.5  | 4.7  | 4.8  |
| Pacific      | 0.6  | 0.6  | 0.6  | 0.6  | 0.6  | 0.6  | 0.7  | 0.7  | 0.6  | 0.7  | 0.7  | 0.6  | 0.7  |
| Developing countries | 11.6 | 11.9 | 12.0 | 12.0 | 12.2 | 12.2 | 12.3 | 12.3 | 12.3 | 12.4 | 12.5 | 12.7 | 12.5 | 12.6 |
| FSU          | 11.1 | 11.5 | 12.0 | 12.5 | 12.6 | 12.7 | 12.5 | 12.6 | 12.6 | 12.6 | 12.7 | 12.5 | 12.7 | 12.6 |
| Other Europe | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 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  | 3.9  | 3.9  | 3.8  | 3.8  | 3.8  | 3.9  | 3.8  | 3.9  | 3.8  |
| Processing gains | 1.8  | 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 | 50.0 | 50.5 | 50.7 | 50.5 | 49.7 | 50.3 | 50.3 | 50.7 | 50.4 | 50.3 | 50.7 | 50.5 |
| OPEC NGLS and non-conventionals | 3.7  | 3.9  | 3.9  | 4.0  | 4.2  | 4.3  | 4.4  | 4.4  | 4.6  | 4.7  | 4.6  | 4.7  | 4.9  | 4.7  |
(b) Total non-OPEC supply and OPEC NGLS 53.3 53.5 53.9 54.5 55.0 54.9 54.6 54.6 55.2 55.0 55.0 55.6 55.2

OPEC crude supply and balance

| OPEC crude oil production¹ | 29.6 | 30.7 | 30.5 | 30.1 | 31.2 | 31.2 | 31.5 | 30.3 | 31.1 |
| Total supply           | 82.9 | 84.2 | 84.4 | 84.7 | 86.2 | 86.1 | 85.6 | 85.0 | 85.7 |
| Balance²              | 0.4  | 0.3  | -0.5 | -1.2 | -0.7 | 0.8  | 0.5  | -0.3 | 0.1  |

Stocks

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<td>SPR</td>
</tr>
<tr>
<td>Total</td>
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<tr>
<td>Oil-on-water</td>
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</tbody>
</table>

Days of forward consumption in OECD

| Commercial onland stocks | 51  | 52  | 54  | 54  | 54  | 55  | 55  | 57  | 59  |
| SPR                | 29  | 30  | 30  | 32  | 32  | 33  | 33  | 33  | 33  |
| Total              | 80  | 82  | 85  | 86  | 87  | 88  | 87  | 90  | 92  |

Memo items

| FSU net exports | 7.3 | 7.7 | 8.0 | 8.5 | 8.5 | 8.9 | 8.2 | 8.1 | 8.4 |
| [(a) – (b)]     | 29.2| 30.4| 31.0| 31.4| 31.9| 30.4| 31.0| 30.6| 31.0|
| [1. — 2.]      | 28.8| 28.6| 28.3| 28.6| 29.1| 28.8| 28.6| 28.3| 28.8|

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 2 and 3 on page 102 while Graphs 1 and 2 (on page 103 show the evolution on a weekly basis. Tables 3 to 8, and the corresponding graphs on pages 104–105 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.)
Sources: The netback values for TJL price calculations are taken from RVM; Platt’s; Reuters; Secretariat’s assessments.

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 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.

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 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 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 January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board).

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, Reuters, Secretariat’s assessments.
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

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<tr>
<th></th>
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<th>premium gasoline</th>
<th>SLP</th>
<th>jet kero</th>
<th>fuel oil 1%S</th>
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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

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### Table and Graph 5: US East Coast market — spot cargoes, New York

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Source: Platts. Prices are average of available days.
Table and Graph 6: Caribbean market — spot cargoes, fob

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<td></td>
<td>March</td>
<td>50.87</td>
<td>16.19</td>
<td>54.18</td>
<td>32.55</td>
<td>30.83</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>51.75</td>
<td>18.02</td>
<td>59.42</td>
<td>36.95</td>
<td>35.25</td>
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Table and Graph 7: Singapore market — spot cargoes, fob

<table>
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<th>Year</th>
<th>Month</th>
<th>naphtha</th>
<th>premium gasoline un 95</th>
<th>premium gasoline un 92</th>
<th>diesel ultra light</th>
<th>jet kero</th>
<th>fuel oil 180 Cst</th>
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<tr>
<td>2008</td>
<td>April</td>
<td>102.53</td>
<td>117.98</td>
<td>117.02</td>
<td>143.38</td>
<td>135.60</td>
<td>135.98</td>
<td>76.18</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>113.63</td>
<td>131.07</td>
<td>130.01</td>
<td>161.86</td>
<td>155.54</td>
<td>156.68</td>
<td>85.00</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>125.18</td>
<td>140.23</td>
<td>138.72</td>
<td>170.00</td>
<td>164.76</td>
<td>164.76</td>
<td>89.79</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>125.41</td>
<td>135.19</td>
<td>134.60</td>
<td>186.64</td>
<td>173.57</td>
<td>173.57</td>
<td>91.15</td>
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<tr>
<td></td>
<td>August</td>
<td>108.24</td>
<td>115.42</td>
<td>113.91</td>
<td>135.87</td>
<td>121.57</td>
<td>121.57</td>
<td>101.07</td>
</tr>
<tr>
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<td>September</td>
<td>91.89</td>
<td>107.02</td>
<td>104.75</td>
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<td>79.38</td>
<td>77.07</td>
<td>90.00</td>
<td>89.97</td>
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<td>63.61</td>
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<td>60.46</td>
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<td>59.10</td>
<td>59.10</td>
<td>44.90</td>
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Table and Graph 8: Middle East Gulf market — spot cargoes, fob

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<th>gasoline</th>
<th>jet kero</th>
<th>fuel oil 180 Cst</th>
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<td>160.38</td>
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<td>109.30</td>
<td>126.68</td>
<td>132.46</td>
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<td>56.56</td>
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<td>64.29</td>
<td>48.51</td>
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</tbody>
</table>

Source: Platts. Prices are average of available days.
Forthcoming events

**Power projects in the Middle East and North Africa**, May 31–June 3, 2009, Bahrain. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 0000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

**Latin American and Caribbean petroleum engineering conference**, May 31–June 3, 2009, Cartagena, Colombia. Details: Society of Petroleum Engineers, 1077 Westheimer, Suite # 335, Houston, TX 77042. Tel: +1 713 779 9595; fax: +1 713 779 4216; e-mail: spehou@spe.org; website: www.spe.org.

**World national oil companies congress**, May 31–June 4, 2009, Abu Dhabi, UAE. Details: Terrapinn (Dubai) Limited, Bando Tower, 1st Floor, PO Box 506660, Sheikh Zayed Road, Dubai, UAE. Tel: +971 4 709 45 00; fax: +971 4 347 38 89; e-mail: gina.geldenhuys@terrapinn.com; website: www.worldnationaloil-congress.com.

**Refining management forum**, June 1–3, 2009, Lisbon, Portugal. 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@gftforum.com; website: www.gftforum.com.

**LNG value chain strategy — the second step**, June 1–4, 2009, Rome, Italy. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 0000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

**Improved reservoir modelling and monitoring**, June 2–3, 2009, Vienna, Austria. Details: Jacob Fleming Group, Rossellon 174–176 Ent. 1a 080 36, Barcelona, Spain. Tel: +34 934 524 27; fax: +34 934 510 532; e-mail: karina.gusalova@jacobfleming.com; website: www.jacobfleming.com.

**16th Caspian international oil and gas exhibition and conference**, June 2–5, 2009, Baku, Azerbaijan. Details: ITE Group plc. Oil and Gas Division, 105 Salisbury Road, London NW6 6RG, UK. Tel: +44 20 7596 5233; fax: +44 20 7596 5106; e-mail: oilgas@ite-exhibitions.com; website: www.ite-exhibitions.com.

**Oil and gas fundamentals**, June 3–5, 2009, Cape Town, South Africa. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 0000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

**China petroleum and gas insiders**, June 4–5, 2009, Singapore. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07–02 The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

**Refining economics**, June 4–5, 2009, Kuala Lumpur, Malaysia. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07–02 The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

**Project economics and decision analysis in oil and gas**, June 8–12, 2009, London, UK. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 0000; fax: +44 207 779 8800; e-mail: customerservice@petroleum-economist.com; website: www.petroleum-economist.com.


**Energy risk management**, June 10–11, 2009, 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.

**Asia oil and gas conference**, June 11–12, 2009, Kuala Lumpur, Malaysia. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07–02 The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

**Oil and gas procurement 2009**, June 14–17, 2009, Abu Dhabi, UAE. Details: Anchor House, 15–19 Britten Street, London SW3 3QL, UK. Tel: +44 207 368 9300; fax: +44 207 368 9301; e-mail: enquire@iqpc.co.uk; website: www.iqpc.co.uk.


**7th Maghreb oil week**, June 15–17 2009, Tunis, Tunisia. Details: Global Pacific Partners, Suite 7, 4 Montpelier Street, Knightsbridge, London SW1 1EE, UK. Tel: +44 207 589 7804; fax: +44 207 589 7814; e-mail: babette@glopac.com; website: www.petro21.com.

**Arbitration, mediation and dispute resolution in oil and gas**, June 15–19, 2009, London, UK. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 0000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

**Carbon capture, storage and transport summit 2009**, June 17–18, 2009, London, UK. Details: IQPC, Anchor House, 15–19 Britten Street, London SW3 3QL, UK. Tel: +44 207 368 9300; fax: +44 207 368 9301; e-mail: enquire@iqpc.co.uk; website: www.iqpc.co.uk.

**Gasiﬁcation**, June 17–18, 2009, 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.


**The global LNG congress**, June 23–25, 2009, Istanbul, Turkey. Details: The Energy Exchange Ltd, 5th Floor, 86 Hatton Garden, London EC1N 8QG, UK. Tel: +44 207 067 1800; fax: +44 207 242 2673; e-mail: marketing@theenergyscchange.co.uk; website: www.theenergyschange.co.uk/3/13/articles/58.php.

**10th Moscow international oil and gas exhibition**, June 23–26, 2009, Moscow, Russia. Details: ITE Group plc. Oil & Gas Division, 105 Salisbury Road, London NW6 6RG, UK. Tel: +44 207 596 5233; fax: +44 207 596 5106; e-mail: oilgas@ite-exhibitions.com; website: www.ite-exhibitions.com.

**Next generation LNG: Asia Paciﬁc 2009**, June 29–July 1, 2009, Singapore. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 0000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.
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