Oil market stability and its importance to OPEC and the oil industry

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Acting for the Secretary General

Panel session
“Energy Leadership and Outlook”

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Outline

Recent market behaviour

Factors behind price increases:
   - Demand, supply, downstream tightness, speculation

OPEC responses

Long-term oil outlook

Uncertainties over future oil demand

Downstream investment needs

Concluding remarks
OPEC Reference Basket price (nominal and real) and non-energy commodity prices

The real price is still well below historical highs

Non-energy commodity prices have also risen
Recent oil market developments: high demand growth

<table>
<thead>
<tr>
<th>Region</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<td>China</td>
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<td>0.0</td>
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<tr>
<td>North America</td>
<td>0.8</td>
<td>0.1</td>
<td>0.2</td>
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<td>Others</td>
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<td>0.2</td>
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<td>Other Asia</td>
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<td>0.3</td>
<td>0.2</td>
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<tr>
<td>Total</td>
<td>2.9</td>
<td>1.0</td>
<td>1.4</td>
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</table>

mb/d
Supply chain tightness: non-OPEC supply

- China
- OECD Pacific
- OECD N. America
- Total DCs
- Russia
- Fsu- ex Russia
- Total non-OPEC supply
Supply chain tightness: downstream bottlenecks
Refinery capacity utilization rates

United States
EU-16
Japan
Singapore
Increasing activity in futures market

- A new inflow of capital movement by hedge and pension funds into the futures market
- Open interest passed one million contracts now!

21 April, 2006
NYMEX WTI open interest & price

<table>
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<tr>
<th>Year</th>
<th>Open Interest (’000 contracts)</th>
<th>Change</th>
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<tr>
<td>2003</td>
<td>587</td>
<td>7</td>
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<tr>
<td>2004</td>
<td>656</td>
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<td>819</td>
<td>136</td>
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<tr>
<td>2006 (Ytd)</td>
<td>1003</td>
<td>169</td>
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</table>
OPEC crude oil supply has risen by 4.5 mb/d since 2002

Call on OPEC crude
OPEC crude production
OPEC’s objectives

- Ensuring the stabilisation of prices in international oil markets, with a view to eliminating harmful and unnecessary fluctuations.
- Securing an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

*OPEC Statute, 1961*
High crude oil stocks in the USA but concerns over gasoline, $mb$

Crude oil stocks

Gasoline stocks

Min-Max range: '01-'05

Avg. 01-05

2005

2006
Long-term oil demand outlook in the reference case

\[ \text{mb/d} \]

- World economic growth averages 3.5% pa over next two decades
- "Dynamics-as-usual": no new strong policy drives
- Oil demand increases by 30 mb/d by 2025, or 1.5 mb/d annually
- Four-fifths of increase in demand comes from developing countries
- Transportation continues to be dominant source of growth (~60 %)

<table>
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<th>2005</th>
<th>2010</th>
<th>2015</th>
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<td>90.7</td>
<td>98.0</td>
<td>105.6</td>
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### Long-term oil supply outlook, \( \text{mb/d} \)

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<td>OECD</td>
<td>20.5</td>
<td>20.6</td>
<td>20.7</td>
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<tr>
<td>DCs, excl. OPEC</td>
<td>16.1</td>
<td>18.6</td>
<td>19.7</td>
<td>20.0</td>
<td>19.9</td>
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<tr>
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<td>14.4</td>
<td>15.5</td>
<td>16.1</td>
<td>16.5</td>
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<tr>
<td>Total non-OPEC</td>
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<td>55.8</td>
<td>58.3</td>
<td>59.4</td>
<td>58.9</td>
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<tr>
<td>OPEC (incl. NGLs)</td>
<td>33.1</td>
<td>34.9</td>
<td>39.7</td>
<td>46.2</td>
<td>54.3</td>
</tr>
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Non-OPEC increase: Latin America, Africa, Russia, Caspian
OPEC crude capacity continues to expand
Oil demand growth uncertainties

- Higher or lower economic growth
- Technological developments, especially transportation sector
- Consuming country energy and environmental policies

![Graph showing OPEC Production over time with scenarios: Reference Scenario, High Growth, Low Growth. The graph shows an increase in demand from 2005 to 2025, with OPEC Production reaching 10.5 million barrels per day in 2025.]
Cumulative investment in OPEC: three scenarios

Uncertain future demand translates into a broad range of possible OPEC investment needs.
Distillation capacity additions vs incremental crude runs

Cumulative increases from 2005
Refining investment in the reference case 2005-15

Concluding remarks

- Energy security is fundamental
- Security of supply and security of demand
- Security applies across entire supply chain
- Poverty eradication: first UN Millennium Development Goal
- Comprehensive and balanced approach to the three pillars of sustainable development: economic growth, social progress and protection of the environment
- The way forward: dialogue and cooperation among all players