

The Scottish Oil Club
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Where will OPEC go from here?

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The CGES

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What OPEC is

- **OPEC is an organisation of sovereign states for whom oil is the major marketable commodity and foreign exchange earner.**
- **OPEC is an organisation that was born out of protest against the high-handedness of the major international oil companies during the 1950s.**
- **OPEC membership is open to 'any country with a substantial net export of crude petroleum, which has fundamentally similar interests to those of Member Countries'**
- **OPEC will have been in existence for 50 years on the 14th September 2010.**



OPEC's role

‘The principal aim of the Organization shall be the unification of petroleum policies for the Member Countries and the determination of the best means of safeguarding the interests of Member Countries individually and collectively.’

Resolutions of the First OPEC conference

‘OPEC’s mission is to coordinate and unify the petroleum policies of Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital to those investing in the petroleum industry.’

OPEC website

‘No one can pressure OPEC and we decide [on output levels] based on our own interest.’

OPEC Secretary General, April 2008



OPEC's members

	Date joined	Date left	Reserves 01/01/2009 (bn bbls)	Production 2007 (mbpd)	Production 2008 (mbpd)
Saudi Arabia	Founder member		266.7	8.73	9.22
Iran	Founder member		136.2	3.86	3.91
Iraq	Founder member		115.0	2.12	2.35
Kuwait	Founder member		104.0	2.48	2.55
Venezuela	Founder member		99.4	2.42	2.39
Qatar	1961		15.2	0.80	0.84
Libya	1962		43.7	1.75	1.74
<i>Indonesia</i>	<i>1962</i>	<i>2008</i>	<i>4.0</i>	<i>0.84</i>	<i>0.86</i>
UAE	1967		97.8	2.51	2.56
Algeria	1969		12.2	1.36	1.39
Nigeria	1971		36.2	2.13	1.96
<i>Ecuador</i>	<i>1973</i>	<i>1993</i>			
Ecuador	2007		4.7	0.51	0.51
<i>Gabon</i>	<i>1975</i>	<i>1997</i>	<i>2.0</i>	<i>0.22</i>	<i>0.22</i>
Angola	2007		9.0	1.67	1.86
Total			944.0	31.20	32.14

Gabon was an Associate Member between 1973 and 1975.

Indonesia suspended its OPEC membership at the end of 2008.

Reserves and production figures for Saudi Arabia and Kuwait include 50% of the Neutral Zone.

Sources: Reserves - OGJ. Production - CGES.

What OPEC is not

OPEC does not ‘set’ production volumes or oil prices

OPEC’s output decisions are reached by consensus among its members, often after a protracted period of bilateral negotiations.

OPEC is not the policeman of its members actions.

The organisation has no power to compel member-countries to abide by the agreements they have reached, or to adhere to production targets.

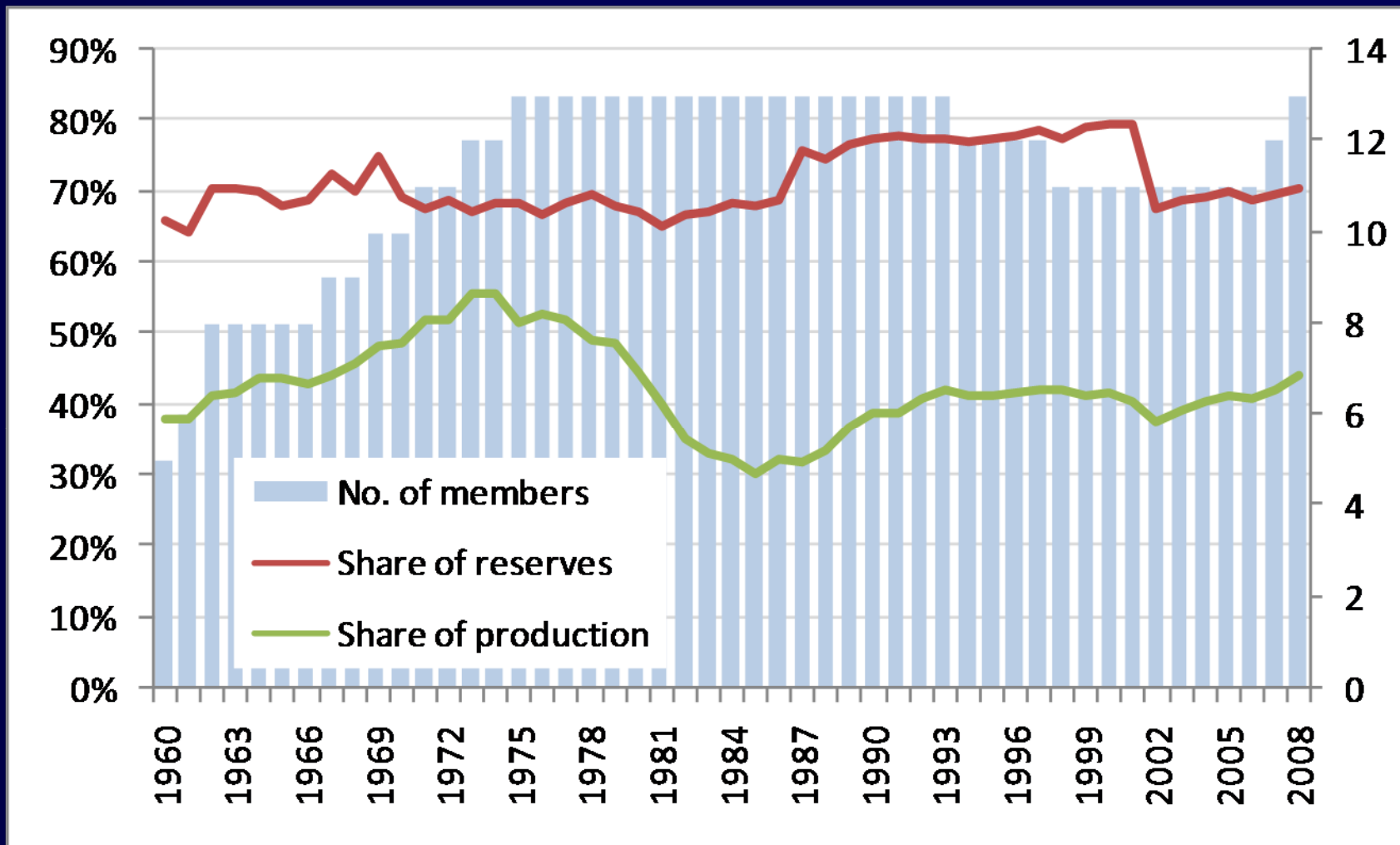
OPEC has no ‘moral obligation’ to act in a certain way.

The organisation exists to serve the interests of its member-countries as they see them. It has no moral obligation to keep prices within certain bounds, or to prevent them from rising ‘too high’.



OPEC in world oil

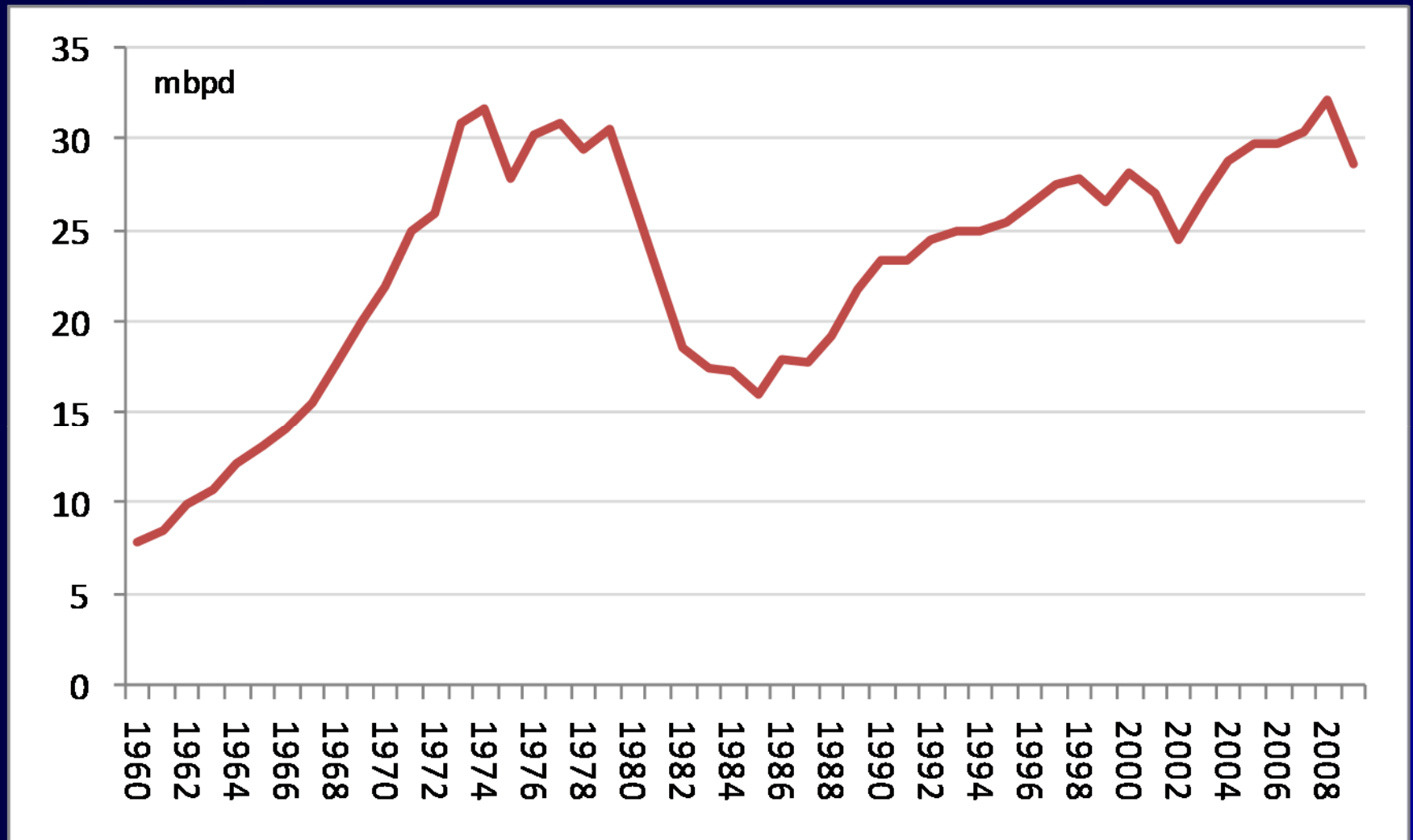
OPEC membership and shares of world reserves and production





OPEC production

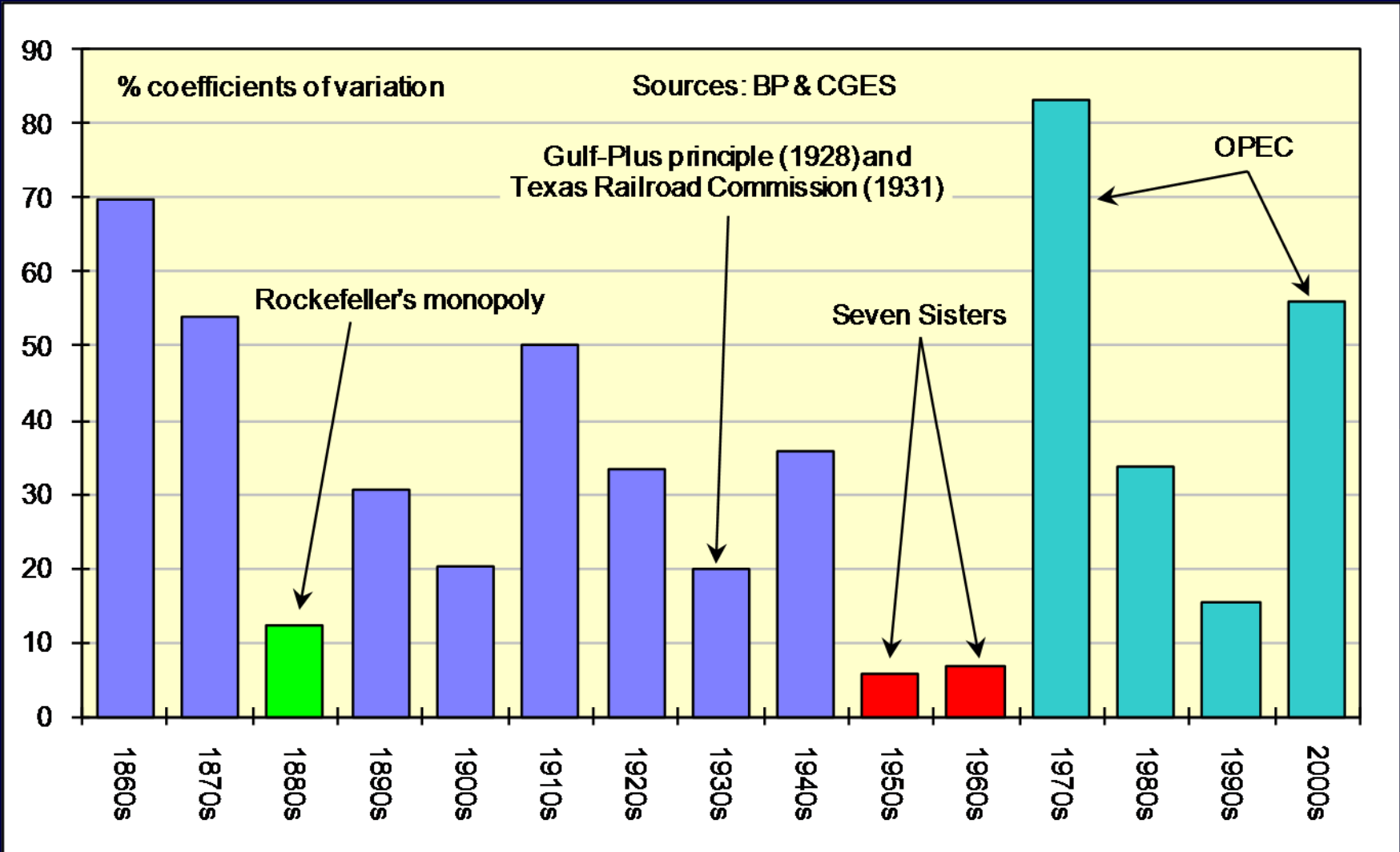
OPEC crude oil production





Market stabilisation?

Oil price volatility by decade

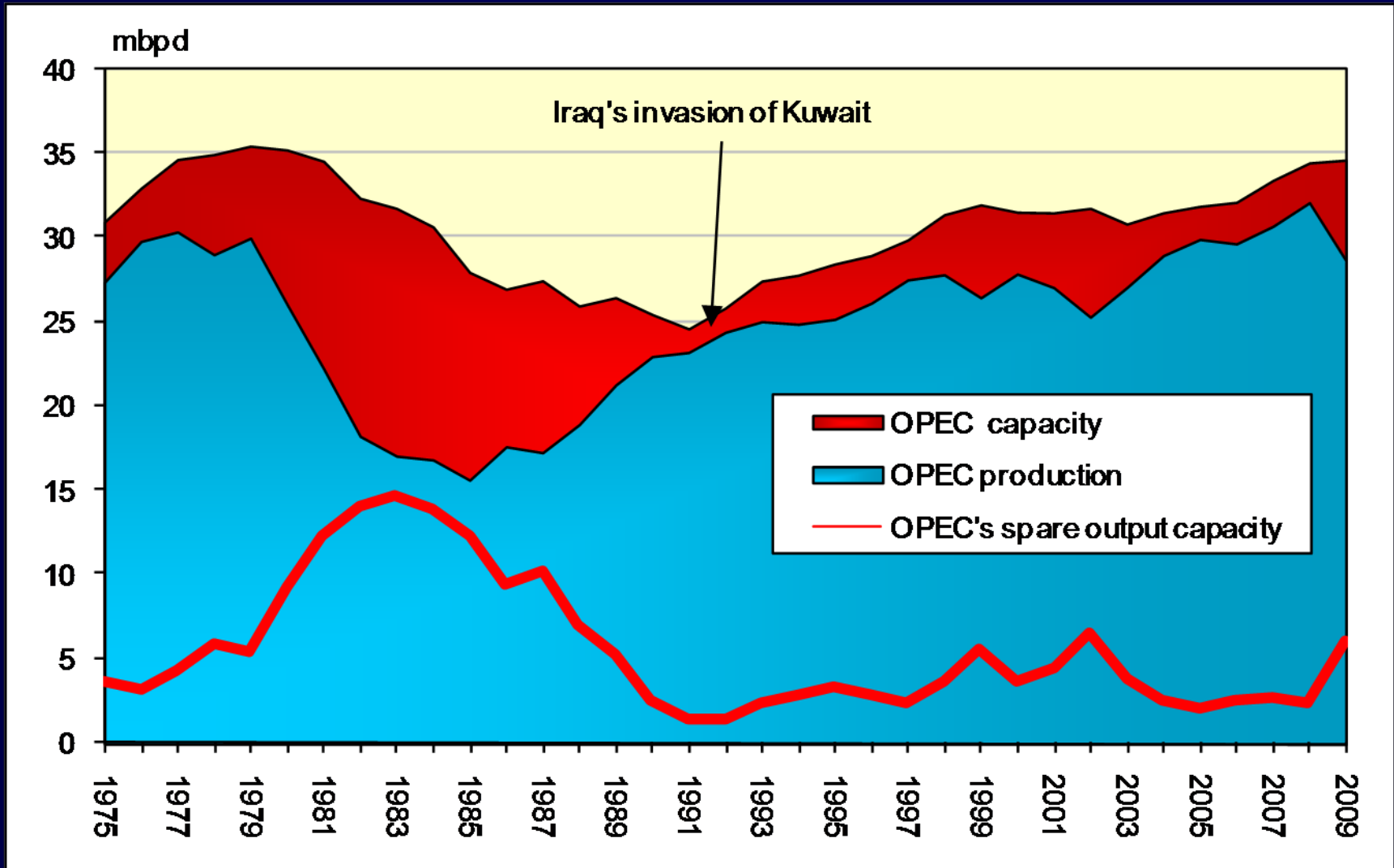


1. **OPEC's spare output capacity**
2. **OPEC's oil price ambitions and production policy**
3. **OPEC's view of the oil market**
4. **OPEC's investment plans**



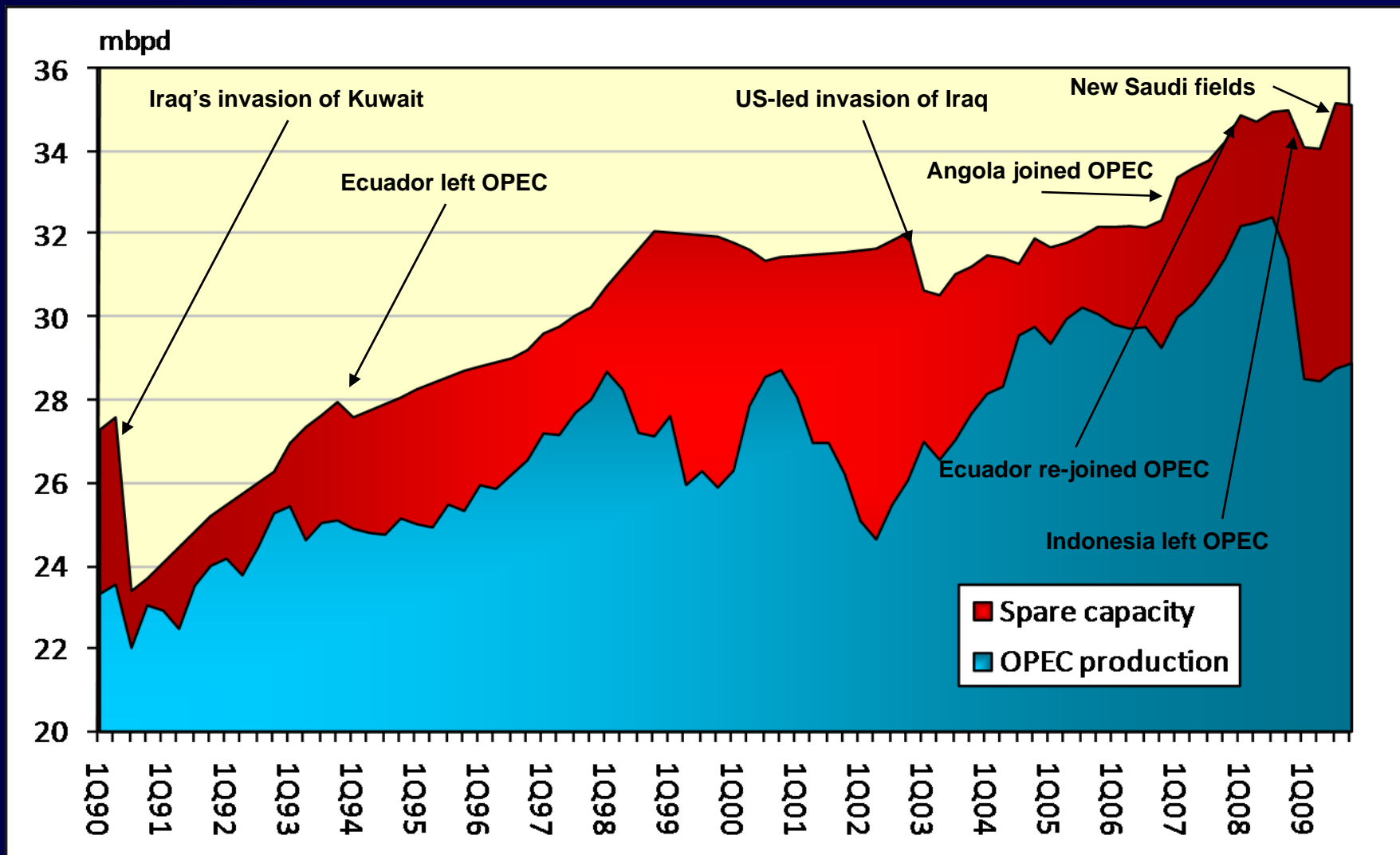
OPEC's spare capacity - 1

OPEC oil production and capacity (1975-2009)



OPEC's spare capacity - 2

OPEC oil production and capacity (1Q90-4Q09)





Oil price 'targets' – Apr-09

'We have to be realistic, current prices of between \$40 and \$50/bbl are appropriate for the world economy and for this period of 2009 in light of the crisis and the fall in demand for crude oil.' – Abdullah al-Attiyah, Qatar

'We are satisfied with the current oil price.' – Sheikh Ahmed al-Sabah, Kuwait

'Maybe we can live with this \$40-50/bbl price for 2009 because of the present circumstances, but we are not happy to live with 50 (dollars).' – Abdallah el-Badri, OPEC Secretary General

'I would say that the ideal price ... is in between \$60 and \$75/bbl' – Ali Naimi, Saudi Arabia

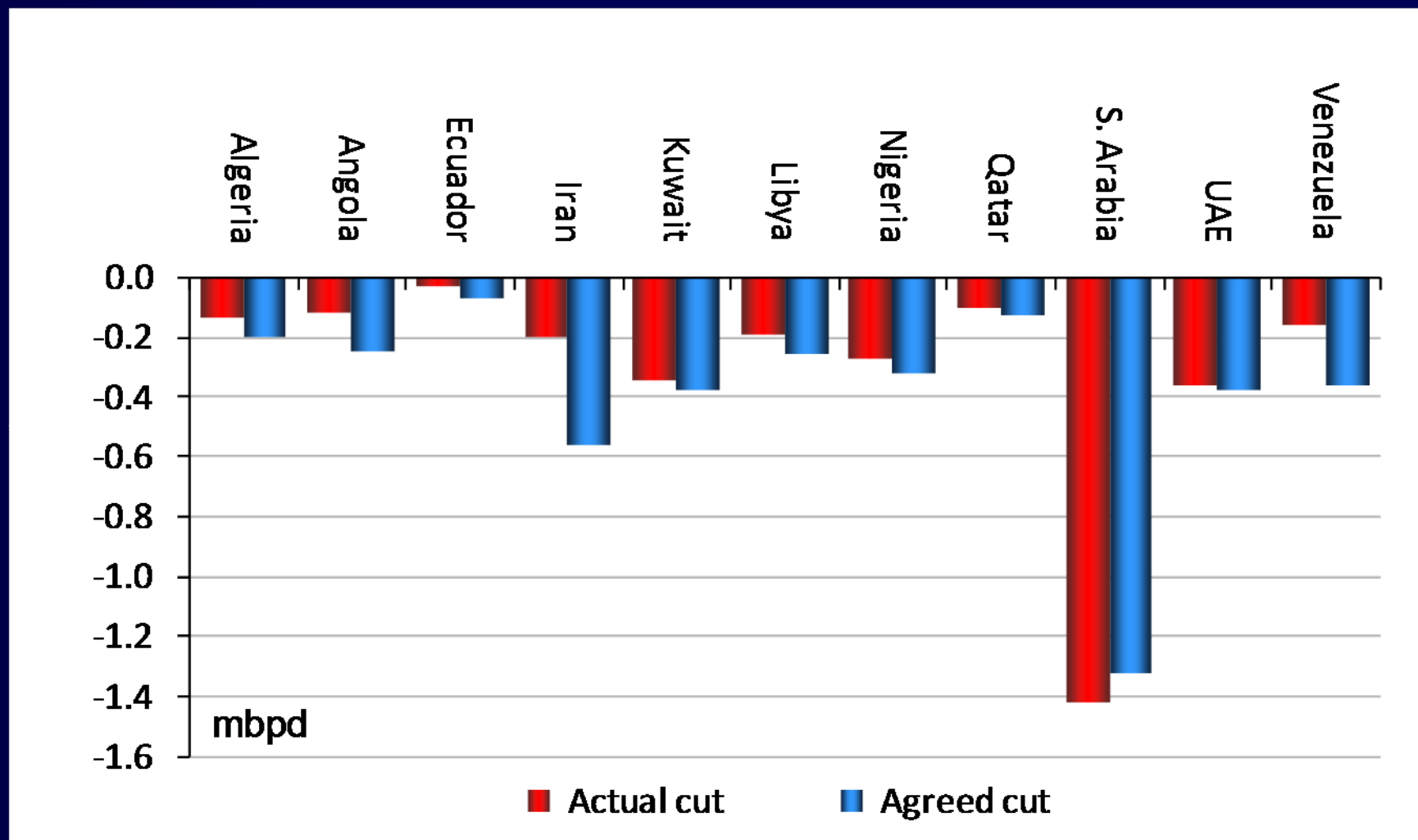
'From the point of view of the Islamic Republic, a favourable oil price is \$75-\$80/bbl' – Gholamossein Nozari, Iran

'At this moment I consider the fair price to be \$80 per barrel.' – Hugo Chavez, Venezuela



OPEC's compliance

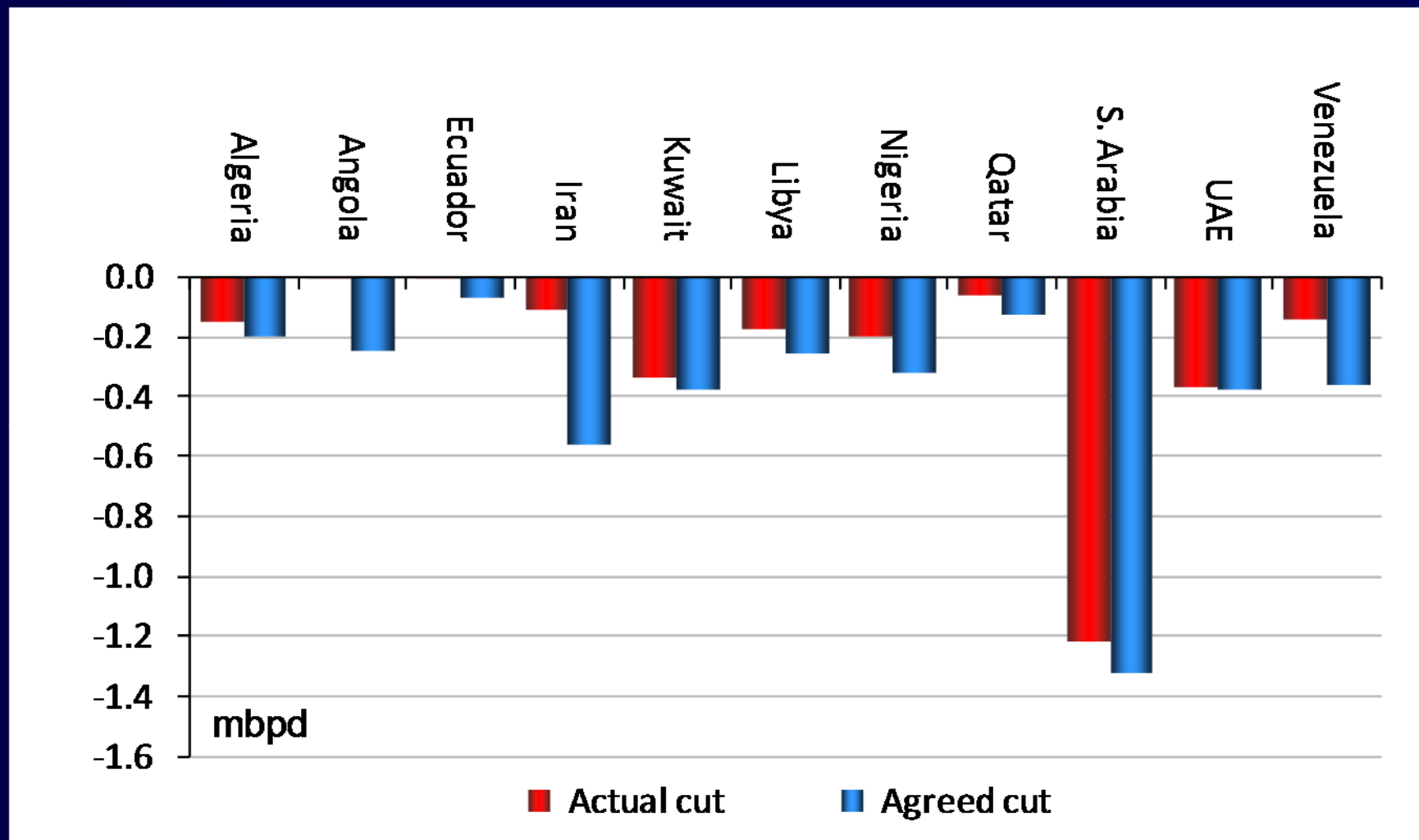
Agreed and actual output cuts (March 2009)





OPEC's compliance

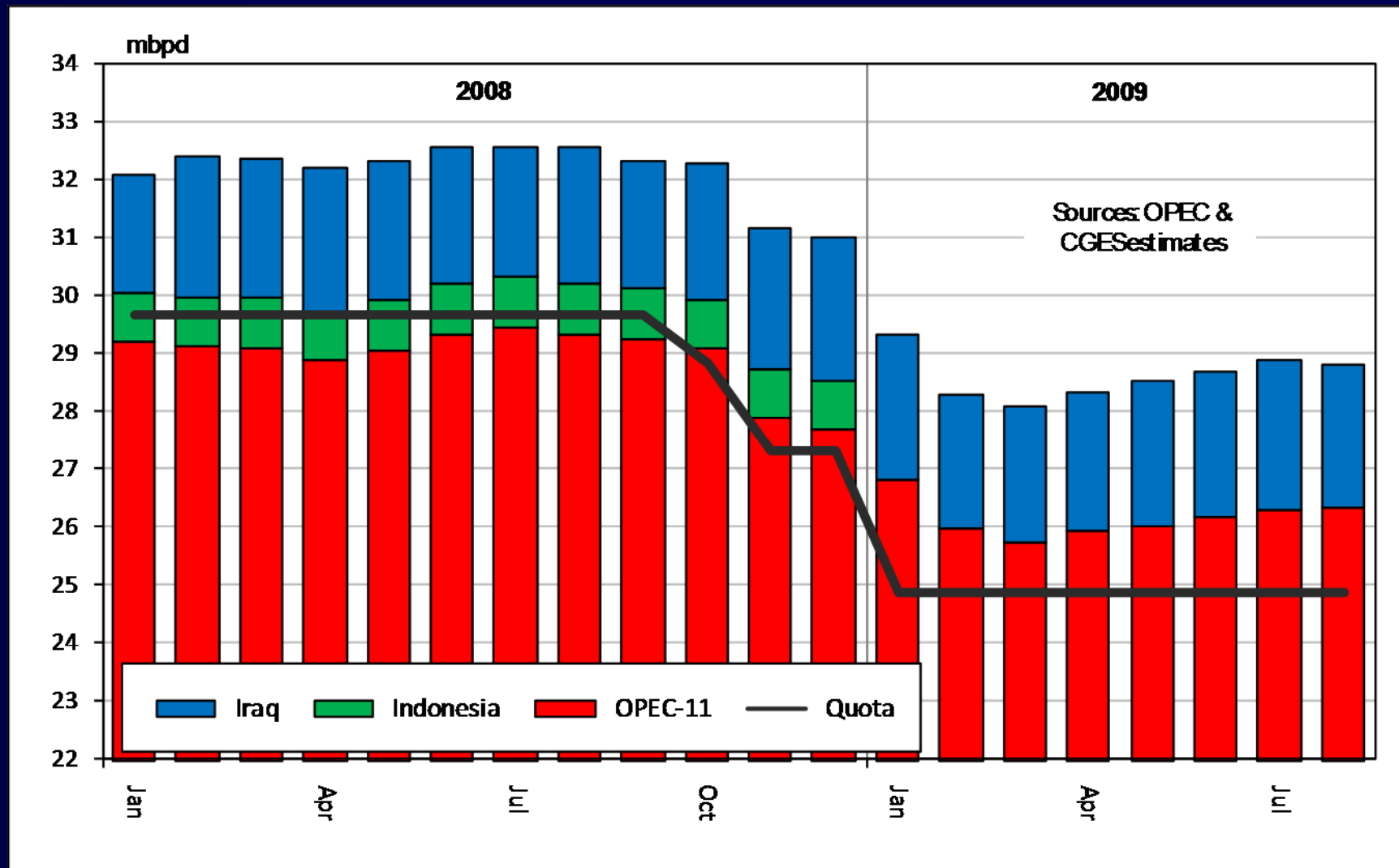
Agreed and actual output cuts (August 2009)





OPEC's output cuts

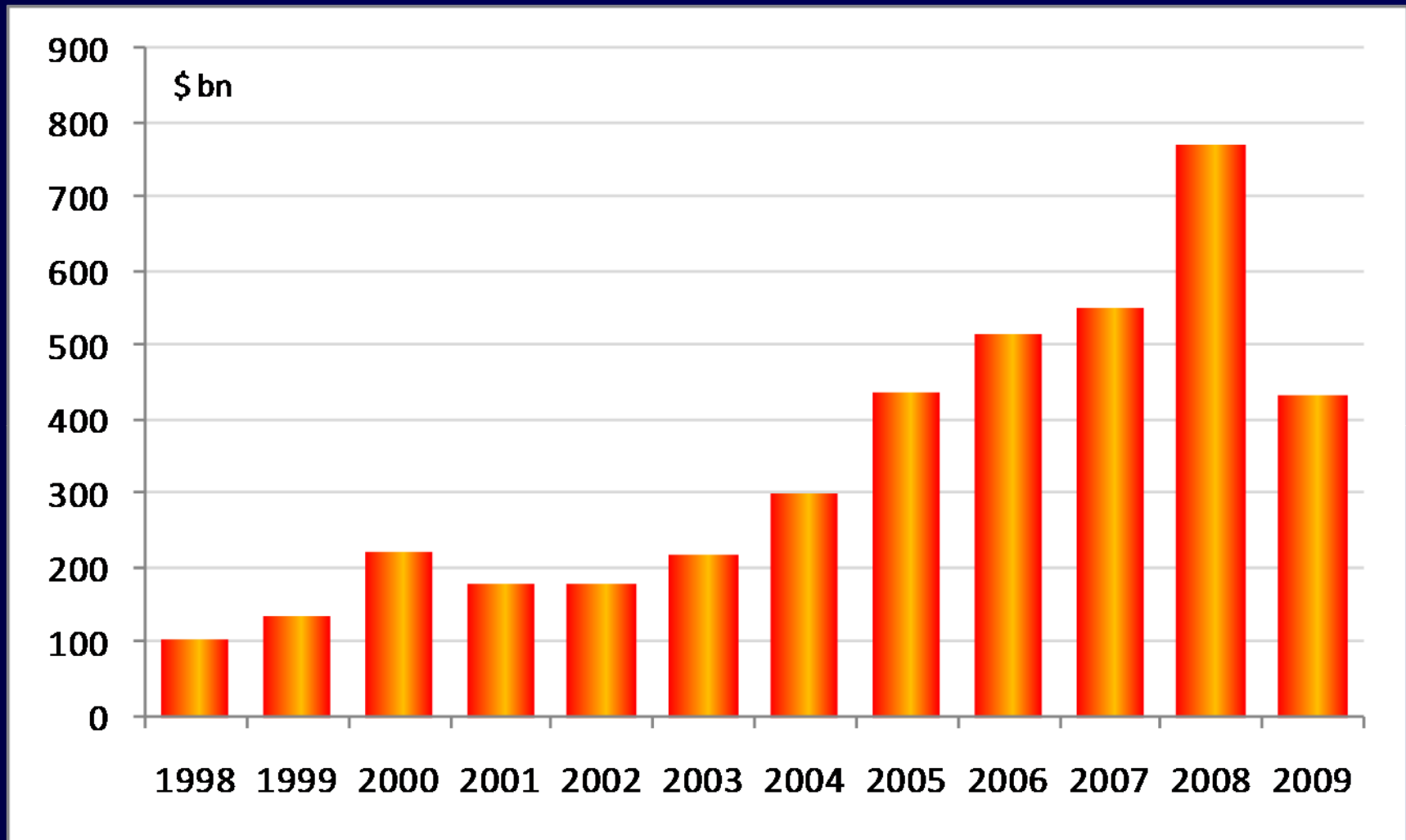
OPEC crude oil production (Jan-08 – Aug-09)





OPEC's oil export revenues

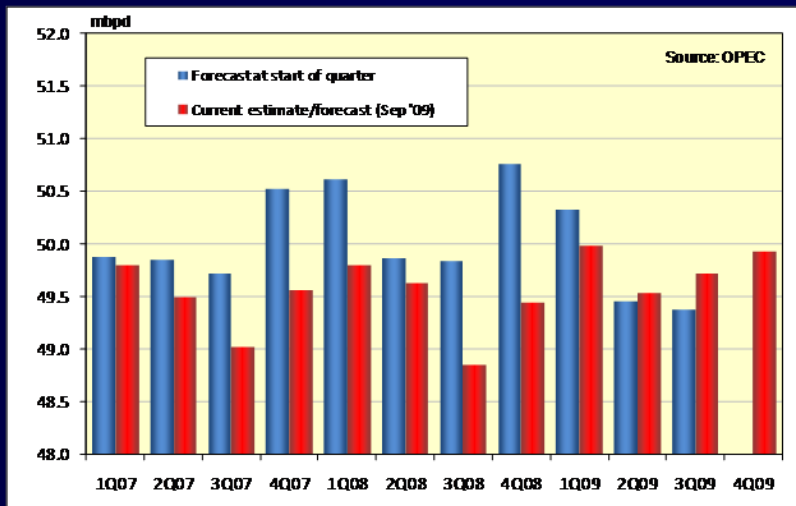
CGES estimates of OPEC oil revenues (excluding Angola and Ecuador)





OPEC over-estimates

OPEC's forecasts and estimates of Non-OPEC oil production



Quarter	Forecast at start of quarter	Current estimate	Over-estimate
1Q07	49.88	49.77	0.08
2Q07	49.85	49.45	0.36
3Q07	49.72	48.97	0.70
4Q07	50.52	49.52	0.96
1Q08	50.61	49.69	0.81
2Q08	49.86	49.75	0.23
3Q08	49.84	48.72	0.99
4Q08	50.76	50.42	1.32



A change of view?

OPEC's January 2005 meeting

OPEC Secretariat is instructed to monitor OECD oil inventories and forward demand cover.

Ministers indicated that they would view with concern an increase in OECD commercial stock cover above 52 days' of forward demand.

OPEC's September 2009 meeting

OPEC is not particularly concerned about the level of oil inventories
– **Chakib Khelil**

The relationship between stocks and prices has changed, it is no longer uncommon to see both stocks and prices rising at the same time – **Chakib Khelil**

Stocks have no bearing on prices, which are now driven by economic growth – **Ali Naimi**

OPEC's capacity expansion

	Current estimated (mbpd)	Planned (mbpd)	Planned addition (mbpd)	Target date	Expected 2010-2012 (mbpd)	Expected addition (mbpd)
Algeria	1.4	1.5	0.1	2010	1.5	0.1
Angola	1.9	2.0	0.1	2011	2.2	0.3
Ecuador	0.5	0.7	0.2	2010	0.6	0.0
Indonesia	0.9	0.9	0.0	2010	0.8	-0.1
Iran	4.1	4.5	0.5	2010	4.0	0.0
Iraq	2.5	6.0	3.6	2012	3.3	0.9
Kuwait	2.6	3.0	0.4	2010	2.8	0.2
Libya	1.8	2.4	0.6	2012	2.0	0.2
Nigeria	2.2	4.0	1.8	2010	2.5	0.3
Qatar	0.9	1.0	0.1	2009	1.0	0.1
Saudi Arabia	11.3	12.5	1.2	2009	12.5	1.2
UAE	2.7	3.7	1.0	2012	3.0	0.3
Venezuela	2.5	5.8	3.3	2012	2.6	0.1
Total crude	35.2	48.0	12.8		38.7	3.5
NGLs	4.5	5.7	1.2		5.7	1.2
OPEC total	39.7	53.7	14.0		44.4	4.7

Key issues revisited

- 1. OPEC's spare output capacity**
Acquired by default and unlikely to be replaced.
OPEC seems less willing to use it than in the past.
- 2. OPEC's oil price ambitions and production policy**
Believes oil prices around \$75/bbl are sustainable.
Member-countries have come to rely on high prices.
- 3. OPEC's view of the oil market**
Determines OPEC's production policy.
Vital for OPEC to get it right if stocks are replaced with OPEC capacity.
- 4. OPEC's investment plans**
OPEC concerned about the future demand for its oil.
Not investing enough, nor allowing others to invest.
Is destruction of the demand for OPEC oil a self-fulfilling prophecy?

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