Launch of the Medium-Term Oil Market Report 2012

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Ladies and gentlemen, it is a pleasure for me to present the IEA’s Medium-Term Oil Market Report 2012.

Before turning over the podium to Keisuke Sadamori (whose team produced this report), let me just underscore three of the main points this analysis reveals.

Since our last report, we’ve seen continued volatility and tightness in the oil market. And that has been reflected in prices. At their March high, Brent crude prices soared to $130 per barrel, only to fall to lows around $90 in June. In just the past 24 hours, thanks partly to tensions in Syria, they have risen above $115.

Contradictory forces are at play. The economic recovery is stagnating – only this week the IMF revised global economic growth estimates for 2013 downward to 3.6% -- a level that we had anticipated in preparing this report. OECD countries suffer from persistent debt concerns, notably in the euro zone, and there are signs that even China is slowing. Demand has softened, and remains uncertain looking forward.

On the supply side, continued political upheaval in the Middle East and North Africa disrupted crude exports from several countries. Tighter sanctions on Iran since July have cut Iranian exports by about 1.5 million barrels per day, compared to end-2011 levels. Below-ground risks are also present. Unplanned maintenance and technical disruptions at mature fields reached record highs last year, rekindling concerns about decline rates in aging plays.

We do not expect these uncertainties to disappear in the near term – they will continue to induce what we are calling “a new reality of risk” in the oil market over the next few years. That is the first point.

But the second point, is that there is also good news on the production side. Despite events in the Middle East, the region has also seen success stories. In post-civil war Libya we’ve seen a surprisingly steep production revival. Saudi production has surged to 30-year highs. Iraq is also touching new production highs, and a special IEA report released on 9 October highlighted the country’s potential as a game changer going forward.

Production is also surpassing expectations in North America, where high prices and new technologies have unlocked light, tight resources that were long thought to be impossible to tap economically.

As a result of all this, we are optimistic that tight oil markets may finally start to loosen. Extrapolating in part from recent trends, we expect further growth in both North America and Iraq. And demand is subdued thanks to weaker economic activity but also greater efficiency, with oil intensity expected to fall by 2.5% over the next five years. Together, it means that by 2017 we
should start to see an oil supply/demand balance that is more comfortable than previously expected, and also more so than we saw through most of the last decade. The ‘call on OPEC and stock changes’ is expected to average below current OPEC production levels, and OPEC spare capacity is forecast to remain comfortably above the sometimes razor-thin cushion that had worried markets in recent years. **So that’s my second point.**

Against this very dynamic backdrop, we see the global oil market entering a period of major transformation on many levels, from the early stages of upstream through the downstream. In short, the global oil map will be redrawn over the next five years. **And that’s my third point.**

What are the consequences of this transformation? Forecast growth in both demand and supply is more uneven than ever, with most of the new supply expected from the Americas and most of the new demand from Asia, the Middle East, and the former Soviet Union – or “East of Suez”. These twin changes have clear consequences for the midstream and downstream sectors, those often overlooked but critical links in the supply chain. International crude trade volumes are forecast to dip, while product trade is expected to grow in both volume and scope amidst resurgent refining capacity expansion in Asia and the Middle East – and shuttering capacity in the OECD.

Those are the three elements we need to look out for in the oil market over the medium term – more comfortable crude oil balances, but also major changes in global trading and all along the supply chain thanks to uneven supply and demand growth. And all this within the context of a new risk paradigm.

So with that, let me now turn to Keisuke, the IEA Director for Energy Markets and Security, who will elaborate further on the report.