WORLD ENERGY OUTLOOK 2006: FACT SHEET- OIL

IS INVESTMENT ON TRACK? IS THE ECONOMIC REACTION TO HIGH PRICES MERELY DELAYED?

We have revised upwards our assumptions for oil prices in this* Outlook, *reflecting current market conditions. Globally, fossil fuels will remain the dominant source of energy to 2030 in both scenarios. Rising oil and gas demand and imports, if unchecked, would accentuate the consuming countries' vulnerability to a severe supply disruption and resulting price shock. The growing insensitivity of oil demand to price accentuates the potential impact on international oil prices of such a disruption.

- The average **IEA crude oil import price is assumed to be slightly higher than $60 per barrel** (in real year-2005 dollars) in 2006 and 2007 – up from $51 in 2005 – and then decline to about $47 by 2012. It is assumed to rise again slowly thereafter, reaching $55 in 2030. These prices are significantly higher than in *WEO-2005*.
- **Oil supply is increasingly dominated by a small number of producers**. OPEC's share of global supply grows significantly, from 40% now to 48% by the end of the *Outlook* period. Saudi Arabia remains by far the largest producer. Non-OPEC conventional crude oil output peaks by the middle of the next decade, though natural gas liquids production continues to rise.
- **Oil and gas industry investment has surged** in recent years. In 2005, investment by the industry reached $340 billion dollars, 70% more than in the year 2000 in nominal terms. However, most of the increase was due to rising materials, equipment and labour costs, especially since 2004. Expressed in cost inflation-adjusted terms, investment in 2005 was only 5% above that in 2000.
- Beyond the current decade, higher investment in real terms will be needed to maintain growth in production capacity. The **oil industry needs to invest a total of $4.3 trillion** (in year-2005 dollars) over the period 2005-2030, or $164 billion per year. The upstream sector accounts for the bulk of this. Future projects are likely to be smaller, more complex and remote, involving higher unit costs. Slowing production declines at mature giant fields will require increased investment in enhanced recovery.
- It is **far from certain that all this investment will actually occur**. Resource nationalism and other factors could hold back capital spending. In a Deferred Investment Case, slower growth in OPEC oil production drives up the international oil price and with it the prices of gas and coal.

Higher energy prices, together with slower economic growth, choke off energy demand in all regions, curbing demand for OPEC oil compared with the Reference Scenario. OPEC oil exports still grow, but much more slowly. This makes the alternative scenarios even more necessary.

- Although most oil-importing countries around the world have continued to grow strongly, the **world economy would have grown even more rapidly had oil prices and other energy prices not increased** – by 0.3 percentage points per year more on average since 2002. The loss of real income and the adverse impact on the budget deficits and current account balances of importing countries were proportionately greatest for the most heavily indebted poor countries.
- **Reducing reliance on imported oil and gas is of major benefit to importing countries, in terms of price, security and economic welfare**. This requires policies to stimulate indigenous production of hydrocarbons and alternative sources of energy and improve energy efficiency. The removal of energy subsidies and economically efficient pricing and taxation policies can play a major role in achieving this goal. We estimate that consumption subsidies in non-OECD countries amount to well over $250 billion per year.