

# OPEC bulletin

1-2/10

**155<sup>th</sup>  
OPEC Meeting  
in Angola**

**Dubai tower  
scales new  
heights**





# The second decade — learning from the first

The dawn of the new millennium. Was that really ten years ago?

It is difficult to grasp that we have already entered the second decade of the 21<sup>st</sup> century.

And it is even harder to believe that our Organization will celebrate its 50<sup>th</sup> birthday in 2010.

Whatever happened to the years in between?

Well, half a century of oil industry and OPEC affairs are far too extensive to analyze here, but the first decade of the new millennium was certainly eventful.

Except for the final difficult years, the period was an exciting time for the industry. Massive advances were made in technology and communications, advancing the boundaries of exploration and development across the whole supply chain.

Solid progress in dialogue and cooperation embraced broader issues facing the development of mankind. These were captured as three guiding themes in OPEC's third Solemn Declaration in 2007: stability of global energy markets; energy for sustainable development; and energy and environment.

OPEC, as always, saw to it that consumers remained well supplied with crude. Overall, average annual world crude oil production rose by nearly 14 per cent between 1999 and the last full data year of 2008. And the world's proven crude oil reserves grew at an even greater rate — nearly 22 per cent.

But serious downsides remain a cause for concern today.

Of note, the decade witnessed shifting, unpredictable patterns with non-OPEC supply, and these had an unsettling influence on the market at times. First there was strong growth, then there was a slump, and more recently, OPEC's efforts to stabilize the market after the 2008 price collapse, by reducing production, were compromised by some non-OPEC producers increasing theirs. This was despite their many gestures of solidarity in winter 2008–09, when the economic crisis was at its deepest and oil prices at their most fragile.

Also, the price volatility that dominated market affairs for much of the decade, particularly near the end, was disturbing, disruptive and damaging for everything from day-to-day business to the investment that is so vital

to the future of the industry. As we have said repeatedly, the main culprit was speculation, with crude oil futures being treated as financial assets in a poorly regulated international money sector. Indeed, the subsequent global financial meltdown, spurring on world recession, came as no surprise.

As a result of all this, the market experienced, in 2008, its first annual decline in total world demand for a quarter of a century. And there was a further fall in 2009.

So, where are we heading now?

The world's emergence from recession, even though slow and fragmented, is welcomed by the industry. Oil demand is widely expected to start rising again this year. The financial/real economic crisis has served as a wake-up call for international decision-makers, and we hope to see an early end to the continued prevarication, in some quarters, over the large-scale implementation of effective financial reforms, to prevent a repetition of the damaging events of 2008.

This would support the investment in the future production capacity required to meet growing demand in the years ahead.

OPEC remains committed to ensuring that consumers receive secure, timely supplies of oil at reasonable prices in the future, and our Member Countries have the reserves to do this.

This, in turn, requires an effective enabling environment across the world at large, with greater predictability and consistency of demand and robust, well-regulated financial institutions.

However the future pans out, OPEC, for one, will be doing all it can to maintain order and stability in the oil market. But its message is clear — all parties have a role to play in ensuring a sound future for oil supply.

Throughout 2010, the Organization will be taking time to celebrate its anniversary, which actually falls in September. And rightly so — it is a significant achievement and many activities are planned. But the festivities apart, it will still be a case of 'business as usual' as OPEC continues to wrestle with its age-old adversary — oil instability. It is a commitment the Organization signed up to in Baghdad in 1960 and one that will continue in the future. OPEC knows its role — it has done for almost half a century!



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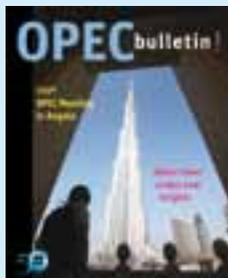
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Photo: Reuters.

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**OPEC Membership and aims**

OPEC is a permanent, intergovernmental Organization, established in Baghdad, on September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective — to coordinate and unify petroleum policies among its Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization comprises 12 Members: Qatar joined in 1961; SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); Nigeria (1971); Angola (2007). Ecuador joined OPEC in 1973, suspended its Membership in 1992, and rejoined in 2007. Gabon joined in 1975 and left in 1995. Indonesia joined in 1962 and suspended its Membership on December 31, 2008.

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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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OPEC maintains oil production ceiling into 2010

## Member Countries urged to exercise stricter output compliance

By Jerry Haylins



*Eng José Maria Botelho de Vasconcelos, Angola's Minister of Petroleum and OPEC Conference President for 2009.*

Luanda, 21 e 22 de Dezembro de 2009



Organização dos Países  
Exportadores de Petróleo



REPÚBLICA DE ANGOLA

MINISTÉRIO DO PETRÓLEO  
ANGOLA

OPEC's Oil and Energy Ministers, at their Meeting in Angola, in December 2009, again agreed to leave the Organization's production ceiling unchanged. After carefully reviewing the oil market situation, they considered that the existing ceiling of 24.845 million barrels/day was still in tune with the fundamentals of the market and supportive of the global economic recovery.

"This was the right decision to take," commented OPEC Conference President for 2009, Eng José Maria Botelho de Vasconcelos, after the one-day 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference, held in the Angolan capital, Luanda, on December 22.

It was the first time that the country, situated in southern Africa, and which joined the Organization in 2007, had hosted an OPEC Conference. Angola's pride over staging the event was made clear by its Prime Minister, António Paulo Kassoma, who formally

addressed the Meeting, stating that the talks were taking place during a particularly important time (*see story on page 12*).

The decision to leave the existing production ceiling intact came as no surprise since before the deliberations began OPEC's respective delegations were talking about maintaining the status quo with the Organization's output levels in early 2010.

"All OPEC Member Countries pledged support to the Organization's policy decisions," de Vasconcelos told a press briefing after the four-hour Meeting, which was held in his country in recognition of the rotating annual Conference Presidency, which Angola held in 2009.

## Many uncertainties

De Vasconcelos, Angola's Minister of Petroleum, hinted during his opening address to the Meeting that the

This sweeping cut effectively mopped up excess barrels in the marketplace and was instrumental in boosting oil prices to levels deemed acceptable by both producers and consumers.

De Vasconcelos pointed out to journalists that, throughout 2009, it had been very important to maintain a certain level of price.

As Conference President, this had been one of his main goals. He also thanked fellow OPEC Member Countries for their support and for making his job easier in what was potentially a very difficult year.

During their Meeting, the Ministers reviewed the oil market outlook, including supply and demand projections for 2010, in particular the first and second quarters. They studied recommendations from the Ministerial Monitoring Sub-Committee, which, as is customary, met the day before, and heard a report on the oil market situation delivered by Mohammad Alipour-Jeddi, Head of the



*The Talatona Convention Centre, in Luanda, Angola, venue of the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference.*

Ministers would likely leave things unchanged, due to the fact that there were still too many uncertainties surrounding the extent of the global economic recovery and how oil demand would be affected.

He said the decision to roll-over the current production ceiling for 11 of its 12 Members (Iraq is excluded), actually reflected the decision taken by the Ministers at their 151<sup>st</sup> (Extraordinary) Conference in Oran, Algeria, in December 2008, when they decided to slash output by 4.2m b/d in response to the demand slump sparked by the financial crisis.

Petroleum Studies Department at the OPEC Secretariat (*see article on page 20*).

The Conference observed "with great concern" that whilst the worst of the recession appeared to be over, the world economy remained confronted with the deepest, most widespread contraction since the 1940s.

A communiqué, issued at the end of the Meeting, stated: "For the first time since the early 1980s, world oil demand has declined for the second successive year."

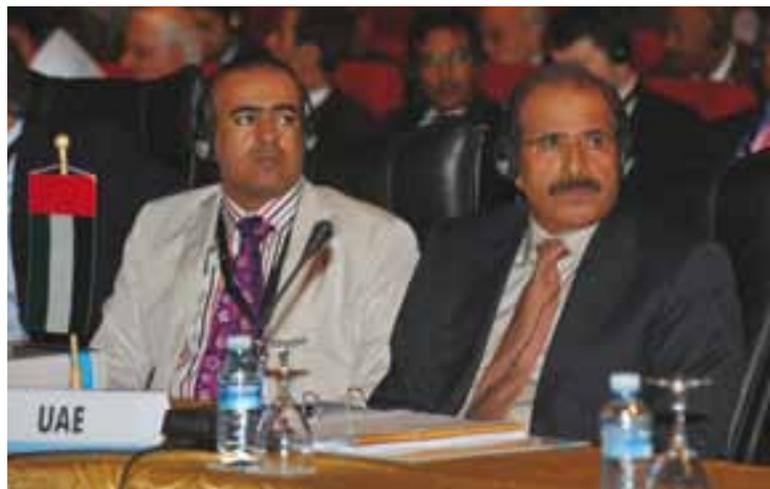
The Conference noted that, although asset market prices had rebounded and economic growth had resumed



Above: Abdalla Salem El-Badri, OPEC Secretary General.



Above: Seyed Mohammad Ali Khatibi Tabatabai (l), Iran's Governor and National Representative for OPEC and head of Iran's delegation to the Meeting, with Alireza Hamidi Younessi, Head of OPEC & Energy Affairs at the Iranian Ministry of Petroleum.



Above: Mohamed Bin Dhaen Al Hamli (r), United Arab Emirates Minister of Energy, with Ali Obaid Al Yabhouni, UAE Governor for OPEC. Top right: The Angolan delegation to the meeting, Félix Manuel Ferreira (r), Angola's Governor for OPEC; Eng Manuel Vicente, President of Sonangol.

in some parts of the world, it was not yet clear how strong or durable the recovery might be.

### Commitment to supply

"With the world still faced by shrinking industrial production, low private consumption and high unemployment, the Conference once again decided to maintain current oil production levels unchanged for the time being," read the communiqué.

It said that, in taking the decision, Member Countries

repeated their commitment to the individually agreed production allocations, as well as their readiness to rapidly respond to any developments that might place oil market stability and their interests in jeopardy.

The OPEC Secretariat, it continued, would continue to closely monitor the market, keeping Member Countries abreast of developments as they occurred.

"In taking the above decision, the Heads of Delegation reiterated OPEC's statutory commitment to providing an economic and regular supply of petroleum to consuming nations, whilst stabiliz-

ing the market and realizing the Organization’s objective of maintaining crude oil prices at fair and equitable levels, for the future well-being of the market and the benefit of both producers and consumers.”

It added that, in the interests of oil market stability, the Conference renewed its call on non-OPEC producers and exporters to cooperate with the Organization to support oil market stabilization. The restoration of market equilibrium was a burden that OPEC Member Countries were unable to bear alone.

De Vasconcelos told the press conference that OPEC had consistently talked to non-OPEC countries, in an attempt to create solidarity among all producers with the Organization’s aims and aspirations.

### Non-OPEC support needed

“We have invited various observer countries to our Meetings — such as the one you are attending today — to effectively enable them to get to know about our experiences and also to convince them to work with us in terms of implementing any production cuts necessary,” he said.

“Throughout the history of our Organization, some countries have, in fact, been in solidarity with us, while others have not. But we intend to continue our work in terms of convincing those countries not yet on board to support the decisions OPEC has taken or takes in the future,” he added.

OPEC Secretary General, Abdalla Salem El-Badri, had high praise for the Angolan Petroleum Minister, saying he had given the Organization a lot of his experience and knowledge during the Presidency year.



*Left: Ali I Naimi (r), Saudi Arabian Minister of Petroleum and Mineral Resources, with Dr Majid A Al-Moneef, Saudi Arabia's Governor for OPEC.*



“We cooperated very well together during the Conference President’s term in 2009. He was an excellent leader for the Organization,” he said.

Turning to the outcome of the Meeting, El-Badri said the decision to maintain the current production ceiling was backed by the Organization’s determination to see in place an oil market that was only based on the fundamentals of supply and demand.

*Above: Dr Chakib Khelil (l), Algerian Minister of Energy and Mines, with Hamid Dahmani (r), Algeria's Governor for OPEC.*

*Left: Dr Hussain Al-Shahristani (r), Iraq's Oil Minister; Dr Falah J Alamri (l), Iraq's OPEC Governor.*

### Securing a stable market

He said speculation, one of the biggest challenges facing OPEC, was still evident in the market today, although to a lesser extent than in 2008.

OPEC was working towards securing a stable market with crude prices in the range of \$75–85/b, which its



Above: Siham Abdulrazzak Razzouqi (c), Kuwait's Governor for OPEC and head of the Kuwaiti delegation to the Meeting, with Nawal Al-Fuzaia (l), Kuwait's OPEC National Representative and Mohammed Al-Shatti, Member of the delegation.



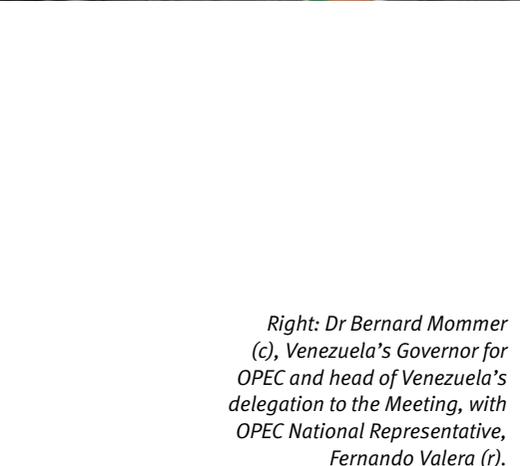
Dr Shokri M Ghanem (c), Chairman of the Management Committee of the National Oil Corporation of the SP Libyan AJ; Ahmed Mohamed El-Ghaber (l), Libyan Governor for OPEC and Chairman of the OPEC Board of Governors; Ahmed Belgasim El-Geroushi, Member of the delegation.



Abdullah bin Hamad Al Attiyah (c), Qatar's Deputy Premier and Minister of Energy and Industry, with Abdulla H Salatt (l) Senior Advisor to the Minister and Dr Bashir Issa Al-Shirawi, Qatar's Ambassador to Angola.



Left: Germánico Pinto (c), Ecuador's Minister of Mines and Petroleum and OPEC Conference President for 2010, with Dr Diego Stacey (l), Ecuador's Governor for OPEC and Miguel Naranjo, Member of the delegation.



Right: Dr Bernard Mommer (c), Venezuela's Governor for OPEC and head of Venezuela's delegation to the Meeting, with OPEC National Representative, Fernando Valera (r).



Members considered as being an acceptable and comfortable level for all market players.

Asked if OPEC would consider holding an Extraordinary Meeting if the oil price fell below \$60/b, El-Badri said the Organization did not just look at the price. Its Members also took into consideration the costs of the industry.

"The problem we have is when the price of oil goes down, but the costs go up. In that type of scenario, OPEC has to protect the interests of its Members. But there is no price target whereby OPEC would automatically call for an emergency meeting. A lot of factors have to be taken into consideration before such a meeting is triggered," he stated.

Concerning the current production ceiling, El-Badri stressed that Member Countries' compliance to their respective output allocations was an important issue and Ministers had been asked to ensure full adherence.

"When the OPEC Secretariat sees that some Member Countries are not adhering to their production allocations, the Countries concerned are asked to try and implement the decisions taken by the Conference," he explained.

"We cannot force Member Countries to adhere to their production allocations 100 per cent," he added.

Questioned as to whether OPEC was concerned about the decline in oil demand in the OECD region, El-Badri said the world did not just comprise the OECD any more.

## Returning investment

"We now have the developing countries, we have China and India, a lot of nations are coming into the demand picture. It is not so much the G8 anymore — it is the G20. There are still around 1.6 billion people without electricity and 2.5 billion without access to adequate energy sources and these people are coming into the picture. They need energy," he affirmed.

Asked about the level of oil investments being made by OPEC Member Countries, the OPEC Secretary General noted that there were 160 projects worth \$160 billion, some of which had been delayed because of the low oil prices seen in previous months.

"These delayed projects numbered 35. But since prices have recovered to a more comfortable level, nine or ten of these schemes have been revived," he informed.

In the downstream sector, the current refining



Above: Dr Rilwanu Lukman (c), Nigeria's Minister of Petroleum Resources, talks to journalists as he arrives for the Conference.

capacity in OPEC Member Countries stood at 10m b/d and this would increase by 1.5m b/d in the coming years, he stated.

Following the high level of oil prices seen in the summer of 2008, El-Badri was asked if OPEC was concerned about the energy efficiency measures being implemented in the consuming countries. He replied that the Organization encouraged energy efficiency — what it was concerned with was whether oil demand was in tune with production and supply.

### Iraq quota issue

Fielding a question as to when OPEC would consider giving Iraq an official output allocation, he replied that Iraq, a Founder Member of the Organization, had great potential as a producer, but for the moment no great production increase was expected in the country for five or six years.

“But at one point in time, OPEC will sit down and discuss the issue and Iraq will be accommodated into the production allocations,” he said.

Before arriving in Luanda, the OPEC Secretary General attended the latest round of climate change negotiations in Copenhagen. Asked about the lack of progress seemingly made at the talks, he said he did not consider the outcome as being a step backwards.

He maintained that the situation was really a very difficult one when you had rich countries that were not willing to commit and wanted the developing countries to pay.

“But, historically, the developing countries did not contribute to the problem, which in reality was created

Below: Abdalla Salem El-Badri, OPEC Secretary General, explaining the Organization's latest decisions at the press conference held after the Meeting.





Above: Heads of OPEC Delegation gather in the concourse of the Talatona Hotel in Luanda, which hosted the 15<sup>th</sup> (Extraordinary) Meeting of the Conference.



by the developed countries. These are the nations that should pay,” he said.

“Let us be serious here — we have a noble cause, it is not a commercial business and we should solve it together by being just and fair. We should not put the burden on the developing countries. There is mistrust between the two sides. But it is a very important issue and we should sit together and try to solve it. We hope that in 2010 the problem will be solved,” he added.

The Conference, after the opening session, heard a progress report on the 15<sup>th</sup> Session of the Conference of the Parties of the UNFCCC in Copenhagen by Mohamed Hamel, former Head of the OPEC Secretariat’s Energy Studies Department, and now a Senior Adviser to the Secretary General, who attended the Copenhagen talks. The Ministers then exchanged views on recent multilateral developments on environmental matters.

The communiqué confirmed that the next Ordinary Meeting of the OPEC Conference would be held on March 17, 2010, in Vienna, Austria. 

*Left: Eng José Maria Botelho de Vasconcelos (c), Angola’s Minister of Petroleum and OPEC Conference President for 2009, and Abdalla Salem El-Badri (r), OPEC Secretary General, field questions from reporters at the press conference. Also present is Dr Omar Farouk Ibrahim (l), Head of the Public Relations and Information Department at the OPEC Secretariat.*

# *OPEC a “decisive instrument” for its Members, world economy*

## *— Angolan Premier*

Angola’s Prime Minister, António Paulo Kassoma, has stressed the importance of OPEC to the welfare of its Member Countries and its relevance to the smooth running of the global economy.

Addressing the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference at the Talatona Convention Centre in Luanda, Angola, on December 22, he referred to the Organization as a “decisive instrument” for the coordination of the petroleum policies of its 12 Member Countries.

The Organization, he said, set about ensuring crude oil price stability, which it attempted to do through balancing oil supply and demand levels.

As a result of its policy decisions and actions, OPEC was able to contribute to the stabilization of the international oil market, as well as the world economy.

### *Particularly difficult*

Kassoma’s address to OPEC’s Oil and Energy Ministers ahead of the plenary session of the Conference marked Angola’s first hosting of an OPEC Ministerial Meeting. The country joined the Organization in 2007, becoming the African continent’s fourth OPEC Member after Algeria, Libya and Nigeria.

In 2009, Angola, which has seen its oil production capacity increase significantly in recent years, held the rotating Presidency of the OPEC Conference. It was in recognition of this that the Conference was convened in Luanda.

Speaking on his country’s Presidency, Kassoma said it had happened in a year that was particularly difficult, due to the world financial and economic crisis, which had had a profound effect on all trade dealings, particularly in the last quarter of 2008 and in early 2009.

Commenting on the OPEC Meeting, he said it had come at an especially important time for all the Organization’s Member Countries and the international community, in general, particularly as signs of an upturn in the world economy were more visible, after a crisis that hit most nations.

Speaking more generally, Kassoma considered as fundamental the integration of economic, social and environmental policies for the implementation of sustainable development.

This action, he stressed, was necessary for the welfare of current and future generations.

Kassoma also pointed to the production of alterna-



*Left: António Paulo Kassoma, Angola's Prime Minister, addresses the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda.*

tive energy to crude oil as being important for boosting the use of non-renewable resources.

### **Energy consumption balance**

He insisted that the use of alternative energies was required to prevent a rapid disappearance of non-renewable sources and to keep a balance in energy consumption.

The Angolan Premier also considered as important for securing an orderly future the adoption of efficient structures and strategies, such as technology production and increased efficiency.

This, he added, could be attained through the transfer of technologies and implementing structural changes covering production and consumption patterns.

Kassoma maintained that global economic stability was indispensable for countries like Angola and all other countries that produced petroleum.

He stated that everyone knew that economic security was interconnected with energy security. It then followed that the integration of economic, social and environmental policies was essential.



*Above: António Paulo Kassoma (r), Angola's Prime Minister, welcomes Abdalla Salem El-Badri, OPEC Secretary General, to Angola for the Ministerial Meeting.*

*Angola's de Vasconcelos reiterates need for closer cooperation*

## *Non-OPEC producers must do more to help oil market*

*“It is very hard on our Member Countries when they make sacrifices to cut back on output for the common good, only to find that other producers are stepping in to fill the gap ...”*

*Eng José Maria Botelho de Vasconcelos, Angola's Minister of Petroleum and OPEC Conference President for 2009, who delivered the opening address at the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda.*



All oil-producing nations, and not just those in OPEC, should be working towards securing a balance in global oil markets, according to OPEC Conference President for 2009, Eng José Maria Botelho de Vasconcelos.

Addressing the plenary session of the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda, Angola, on December 22, he reiterated that non-OPEC producers should become more involved in the process of bringing about market stability.

“They all benefit; therefore, they should all contribute. It is very hard on our Member Countries when they make

sacrifices to cut back on output for the common good, only to find that other producers are stepping in to fill the gap,” commented the Angolan Minister of Petroleum.

He told delegates assembled at the Talatona Convention Centre that history “has taught us that such independent actions can eventually damage the market. All parties then suffer, and the effects can quickly spread across the world economy.”

De Vasconcelos, who was giving his last address to OPEC as Conference President before handing over the annual rotating Presidency to Germanico Pinto, Ecuador's

Minister of Mines and Petroleum, stated that, instead, it was far better to take a cooperative approach towards meeting the many challenges facing the oil market.

“This is especially the case as the world economy recovers and oil demand starts to grow again,” he affirmed.

In welcoming OPEC delegates to Luanda, de Vasconcelos said it was the first time that Angola had had the privilege of hosting the OPEC Conference.

“We are honoured to have you here in our country and we hope that your visit will be an enjoyable one,” he said.

Angola, he continued, was close to marking its third anniversary as a Member of OPEC.

“This has come at an important time for our country, as we seek to develop our economy and improve the living standards of our people. The petroleum sector, which accounts for about 95 per cent of our total export revenue, is central to this process.

“Clearly, with its large petroleum resources, Angola has an important part to play in the OPEC family, and Membership has opened new doors for us in the international oil market,” he pointed out.

### *Past OPEC observer*

In the past, explained de Vasconcelos, Angola had attended OPEC Meetings as an observer.

“Today, as a Member, we are hosting an OPEC Meeting. And so I am especially pleased to welcome the observers from other oil-producing countries. Many of you have travelled a long way to join us in Luanda,” he stated.

The observers comprised Dr Abdul Hussain Ali Mirza, Minister of Oil and Gas Affairs of Bahrain; Eng Shamel Hamdy, First Under Secretary, Ministry of Petroleum of Egypt; Dr Darwin Zahedy Saleh, Minister of Energy and Mineral Resources of Indonesia; and Dr Mohammed bin Hamad Al-Rumhi, Minister of Petroleum and Gas of Oman.

De Vasconcelos said that in their Meeting, OPEC Ministers would review the latest situation in the oil market. When they last met in Vienna in September 2009, signs of an economic recovery were noted.

“However, there were valid concerns regarding the size and pace of this recovery and its effect on the oil market. We also saw how crude oil prices had continued to improve from the lows experienced late last year, even though the market was still very volatile,” he affirmed.

Since then, said the Minister, the economic recovery had gathered pace. More OECD countries were com-

ing out of recession and growth was accelerating in the emerging markets, especially in Asia.

### *Continued uncertainty*

“However, doubts remain about the dynamics of the recovery. This is not helped by continued uncertainty in the financial sector and worries regarding growth momentum on the back of still-rising unemployment and fears that stimulus measures may come to an end too soon. The weak, fluctuating dollar is adding to the uncertainty,” he observed.

Turning to oil demand, de Vasconcelos said there was a mixed picture in the market. Demand growth in the emerging economies was improving, but the OECD region remained in negative territory.

“The market continues to be well supplied with crude and inventories are at high levels. Prices have moved up to more comfortable levels. This is good news for investment in production capacity and future supply,” he professed.

Due to the higher prices, some postponed projects had already been started up again in OPEC Member Countries.

“However, the fragility remains in the market and we should not forget the detrimental volatility we experienced last year. This is one of the issues we must again address at today’s meeting. For our part, we will continue our efforts to restore stability and balance to the market, in the interests of producers and consumers alike,” he stated.

De Vasconcelos, in referring to the importance of caring for the environment, noted that some participants at the OPEC Conference had travelled to Luanda directly from the latest climate change talks in Copenhagen.

They had seen how important it was for the interests of the oil industry to be properly represented in the ongoing negotiations.

“We can only do that through dialogue and cooperation. This will help oil keep its rightful place in the energy mix in a cleaner, safer and more equitable world,” he added.

*“... doubts remain about the dynamics of the recovery. This is not helped by continued uncertainty in the financial sector and worries regarding growth momentum on the back of still-rising unemployment and fears that stimulus measures may come to an end too soon.”*



## OPEC observers offer continued support for OPEC's policies

*At the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda, Angola, in December 2009, delegations from former OPEC Member Country Indonesia, as well as Egypt, Oman and Bahrain, spoke of the challenges facing the international oil industry, as well as their support for the Organization's decisions in striving to maintain oil market stability. Here are their comments.*



***“We feel that such a long period of friendship between Indonesia and OPEC is commendable and needs to be maintained.”***

*— Dr Darwin Zahedy Saleh, Minister of Energy and Mineral Resources of Indonesia*

Indonesia, in its capacity as an oil-producing and consuming country, is looking forward to playing a role in bridging the concerns of OPEC with those of the oil consumers, especially the developing nations, to achieve the Organization's objective of stabilizing the oil market.

That was the view of **Dr Darwin Zahedy Saleh, Minister of Energy and Mineral Resources of Indonesia**, when he addressed the OPEC Conference in Luanda.

He stressed that his country, a former Member of OPEC, appreciated every effort the Organization made to maintain stability in the international oil markets.

He told delegates that it was a great honour for his country to attend the Meeting. Indonesia became a full Member of OPEC in 1962, “as we fundamentally had the same interests and aims of the Founding Members of OPEC in ensuring the stabilization of the oil market.”

Saleh said that during its Membership, Indonesia had enjoyed support from OPEC, first as an Organization and also from individual Member Countries, in the form of cooperation between governments and between the national oil companies.

“We feel that such a long period of friendship between Indonesia and OPEC is commendable and needs to be maintained, despite the fact that Indonesia suspended its Membership in 2009, due to the current domestic

situation, which we unfortunately could not avoid,” he affirmed.

The Minister noted that Indonesia was currently confronted by declining production and limited refining capacity, coupled with a strong increase in domestic fuel demand as a result of its robust economy.

“Currently, the bigger portion of our fuel imports comes from our neighbours in the region. We wish to develop this area into more cooperation with OPEC Member Countries, both in terms of fuel imports, as well as in partnership to bring the crude oil and build refineries in Indonesia,” he said.

Saleh stressed that Indonesia recognized the importance of oil market stability with prices at a level that was acceptable to the producers, the investors, and the consumers.

“We believe that a fair oil price level should also allow for the continuity of exploration, including activities in more difficult and more remote areas. However, we have also observed that oil prices, at times, have been influenced by non-fundamental factors, including the speculative positions taken by participants in the futures markets,” he concluded.

### **Exceptional challenges**

Meanwhile, oil market instability and fluctuations in oil prices were two subjects highlighted by **Eng Shamel Hamdy, First Undersecretary of the Ministry of Petroleum of Egypt**.

He told participants that they were meeting at a time when the oil industry was facing a set of exceptional challenges.

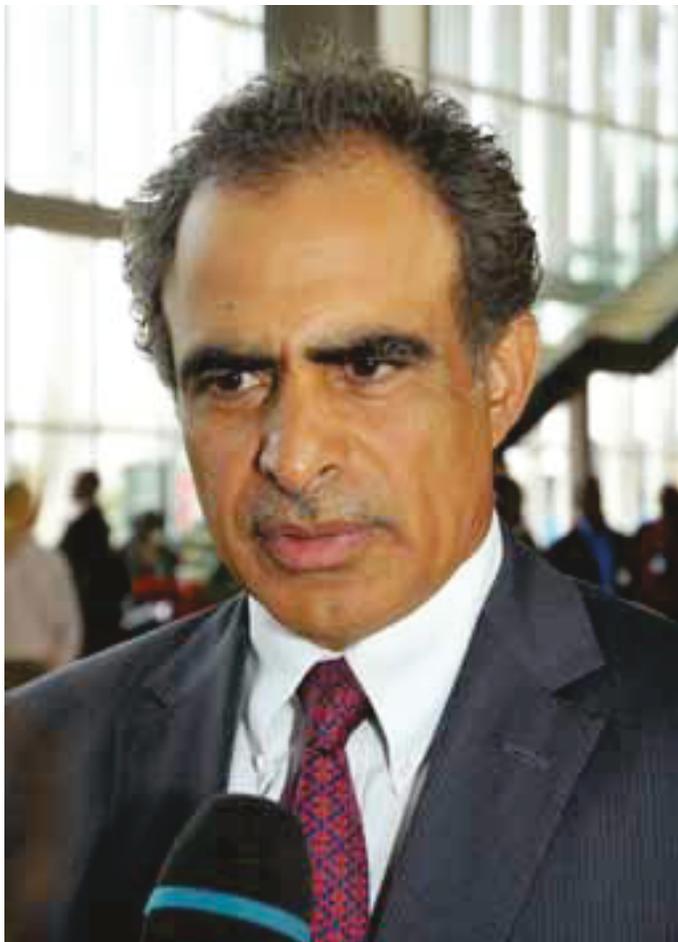
“Global geopolitical forces are creating a highly volatile and rapidly fluctuating oil market,” he pointed out.

Hamdy said global competition for energy resources continued to drive the need to lower operating costs and



***“We urgently need a road map to secure world energy demand and protect the interests of suppliers.”***

*— Eng Shamel Hamdy, First Undersecretary of the Ministry of Petroleum of Egypt*



***“The Organization has continued to play a responsible role in meeting the needs and aspirations of the market, satisfying both producers and consumers alike.”***

*— Dr Mohammed bin Hamad Al-Rumhi,  
Minister of Petroleum and Gas of Oman*

increase finding and recovery rates. The number of skilled resources continued to decline and shareholders were pressuring companies for returns on their investment that matched other long-term investment strategies.

“There is too much complex information to assimilate and understand in the time needed to make quick and accurate decisions. All these issues leave us with several challenges to face, coupled with rising symptoms, indicating that most major economies are now coming out of the economic crisis.

“I know it is too early to say that we are out of the woods, but certainly in recent months attention has turned towards the prospects of economic recovery,” he stated.

Hamdy said the question now was how the recovery would affect oil fundamentals and prices.

“Signs of economic recovery always bring with them the potential for increased oil demand and tight oil supplies, thus pushing prices up. Ironically, oil price increases in anticipation of the economic recovery could end up dampening the recovery, even before it actually occurs,” he warned.

Hamdy pointed out that with increasing speculation in the oil futures markets, the price of oil did not always reflect the market fundamentals.

“There is no doubt that oil market stability plays a significant role in global economic developments. Sustaining price stability will ensure the acceleration of the economic recovery,” he maintained.

Hamdy stressed that OPEC’s production levels, its policies and actions were and would continue to be the future cornerstone for stabilizing the market.

“To achieve progress towards providing energy for a sustainable and secure future, we all have to cooperate more closely to understand and underline the reasons behind such developments.

“Reducing uncertainties and taking the necessary actions to ensure the stability of the energy markets, mitigating production risks and securing mechanisms to sustain fair market prices, are vital issues for implementing strategic energy projects that are needed to cope with the expected rise in world demand.

“We urgently need a road map to secure world energy demand and protect the interests of suppliers. This road

map should be based on a clear and realistic understanding of the existing infrastructure, changing technologies, economic incentives and the inevitable policy trade-offs that we will face along the way.

“To realize this, we will need governments to commit themselves to a more active and pragmatic role. I am confident that we all share the commitment for mutual collaboration, in order to maintain a stable and sustainable oil industry with reasonable growth throughout the 21<sup>st</sup> century,” he added.

### *Proud association*

A tribute to OPEC’s policy actions was also paid by **Dr Mohammed bin Hamad Al-Rumhi, Minister of Petroleum and Gas of Oman**, who stressed that his country had been and would continue to be proud of its association with OPEC.

“The Organization has continued to play a responsible role in meeting the needs and aspirations of the market, satisfying both producers and consumers alike. We are today in a well-balanced position, where the consumers are well served and the producers can conduct their business on a satisfying commercial basis,” he affirmed.

The Minister pointed out that there were many issues that needed to be addressed.

“The environment, exchange rates, and the cost of goods and services within the oil industry, are just some of the many challenges facing all of us. I am sure OPEC understands all these issues and is dealing with them in a rational manner,” he concluded.

### *Learning from OPEC*

Meanwhile, **Dr Abdul Hussain Ali Mirza, Minister of Oil and Gas Affairs of Bahrain**, told delegates that his country was very honoured to be invited to attend the Conference.

“I am among a distinguished gathering and we are grateful to be admitted as an observer to this important Meeting. We hope that by being here we will learn from the other Ministers and I hope we can contribute towards strengthening OPEC in whatever way we can,” he said. 



*“We hope that by being here we will learn from the other Ministers and I hope we can contribute towards strengthening OPEC in whatever way we can.”*

*— Dr Abdul Hussain Ali Mirza, Minister of Oil and Gas Affairs of Bahrain*

# The global economy and oil market in post-recession

During the OPEC Conference, the Organization's Secretariat provides a detailed assessment highlighting the situation in the global economy and international oil market, including projections for the immediate short term. The following report is based on the presentation delivered to the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda, Angola, in December 2009, by **Mohammad Alipour-Jeddi** (pictured), Head of the Petroleum Studies Department (PSD).



Following the deepest economic downturn since the Great Depression, the world economy was expected to see a relatively moderate recovery in 2010, largely due to the strength foreseen in the emerging markets, Alipour-Jeddi told the Ministerial Conference. He said OECD growth was returning to positive territory, but would remain below potential in the coming years. For the oil market, the global financial crisis appeared to have induced a permanent loss in oil demand in the OECD region and a slower rate of growth in non-OECD countries, due to policy measures and changes in consumer behaviour.

“The erosion in product demand, along with a persistent inventory overhang, has led to exceptionally low refining utilization rates across the globe,” he said. “This will continue to exert pressure on the crude oil market in

2010. The widening contango has also increased the risk of a further build in crude inventories.”

Given the weak fundamentals and the recent shift in market sentiment, any sizable increase in the existing supply overhang would lead to a further deterioration in crude fundamentals, said Alipour-Jeddi.

In highlighting a key question that the market was facing, he said higher inventories had not led to lower prices. Historically, rising inventories typically pushed prices lower. However, since 2004, inventories and price had been increasing at the same time. He said one of the main reasons for this was that the financial oil markets were increasingly influencing crude oil prices. This was due to the fact that paper-oil had been integrated into the broader financial and asset markets. For example, given the emergence of oil as an asset class, the price of WTI had been strongly correlated with equities, reflecting overall market confidence, and as a hedge against the declining value of the US dollar (Graphs 1 and 2).

The Head of the Petroleum Studies Department said the steady improvement seen in demand since the second quarter of 2009 was reflected in improved economic activity in the third quarter. This had led to positive growth being registered in the last three months of the year.

However, the gradual recovery in demand, together with weak non-OPEC supply, had been used once again to raise misinformed fundamental concerns over so-called

perceived future supply constraints, fuelling expectations of higher prices in the future, he noted.

Alipour-Jeddi said speculative activity was continuing to impact crude oil prices. The flow of investment funds, which did diminish during the crisis, had started to pick up again, albeit gradually, with energy and oil remaining the main bulk of rising investment funds’ flow.

In addition, the net long positions for managed money, as a proxy for speculative activity, which showed a collapse in 2008, had seen a steady rebound this year, in line with the rise in the price of WTI.

### Oran decision stabilizes oil market

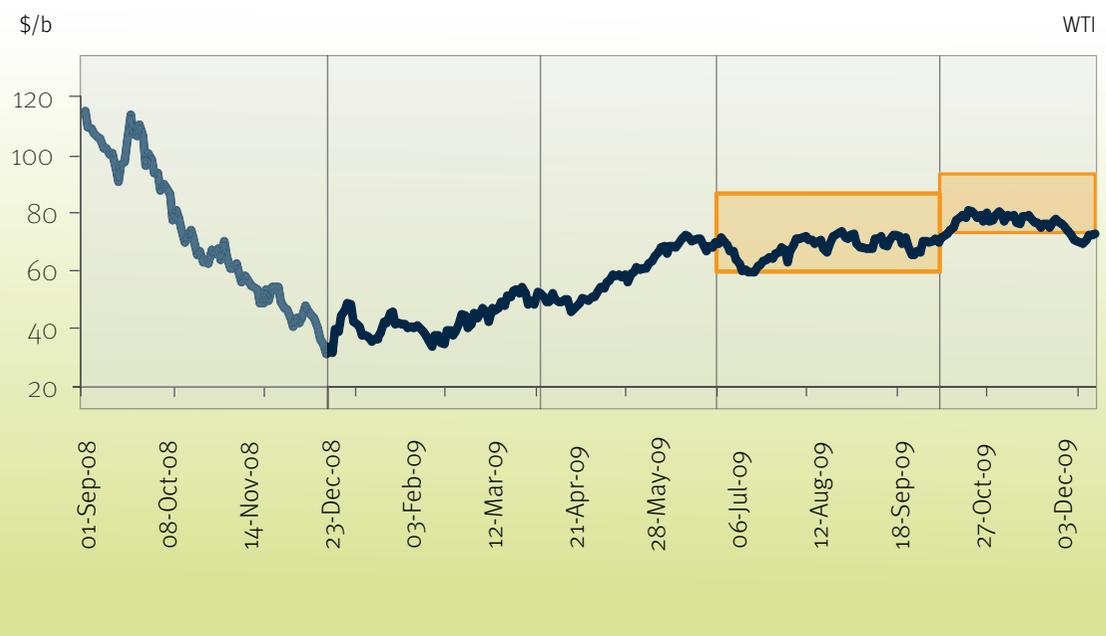
Alipour-Jeddi divided his presentation into main three areas — price developments and key drivers of the market; a review of the oil market situation in 2009 and the outlook for 2010; and concluding remarks.

Looking at price developments, he noted that the oil market had experienced various distinct phases since the financial crisis erupted in 2008.

“We saw prices experience strong volatility in the market after the collapse of Lehman Brothers in September of that year,” he affirmed.

In the first phase, prices plunged from around \$120/barrel at the beginning of August to below \$40/b by the end of the year (Graph 1). This was mainly due to the sharp decline in oil demand, which was the result of the

**Graph 1: Crude oil price developments since global financial crisis**



Graph 2: Crude prices supported by rally in equities and dollar weakness



collapse in private consumption, coupled with the massive sell-offs witnessed in the financial oil markets.

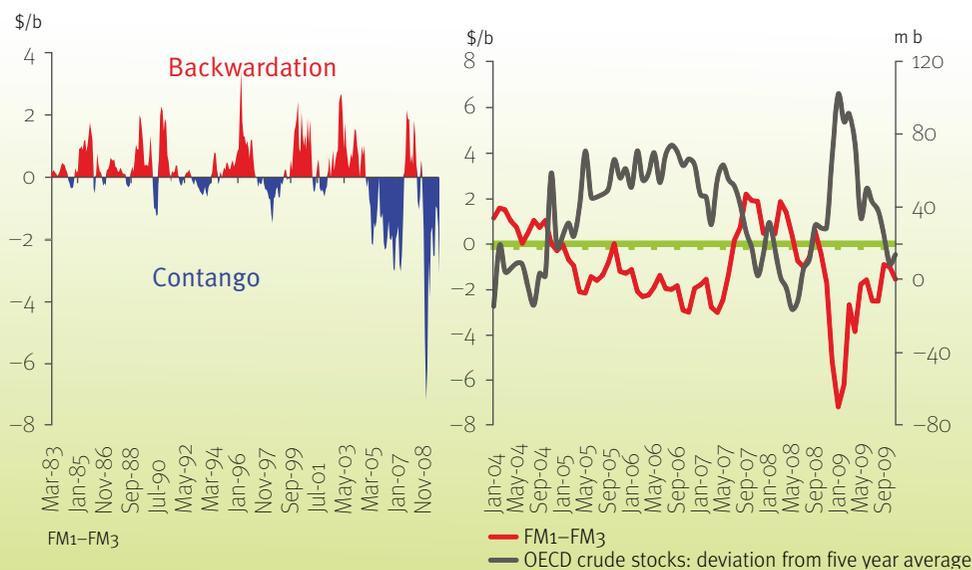
“With the rapidly growing market imbalance, OPEC had to intervene and send a strong signal to the market. It decided to cut output by 4.2m b/d at its Meeting in Oran, Algeria, in December 2008,” observed Alipour-Jeddi.

This, he stressed, was instrumental in halting the disorderly fall in crude oil prices and prevented a further destabilization in the market.

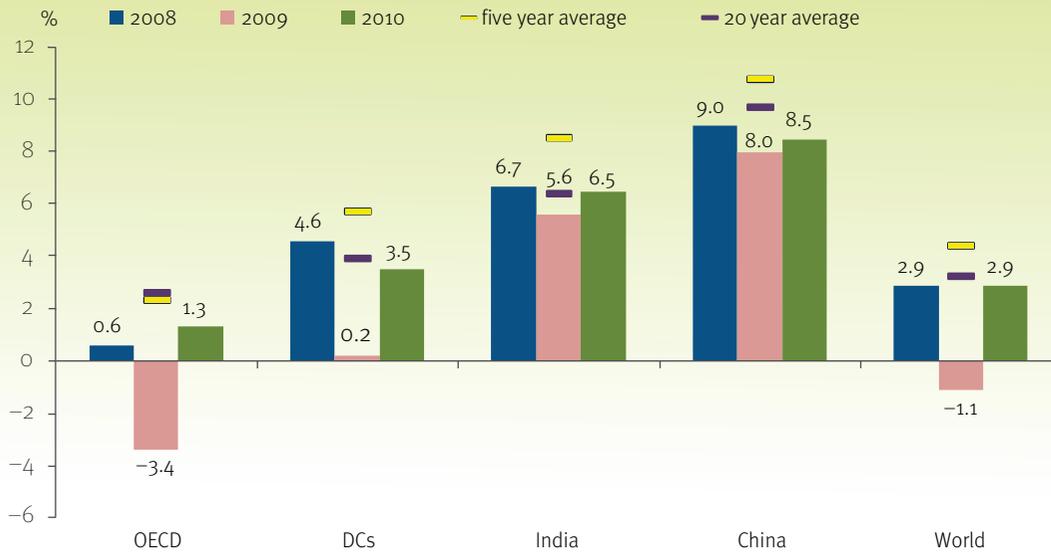
Alipour-Jeddi noted that firm commitments were made by G20 leaders in early 2009 to bring the world out of recession. The improving International Monetary Fund outlook for the world economy, together with the flow of more positive macroeconomic data, further lifted crude oil prices to around \$75/b to \$80/b by late October and early November.

However, he continued, since early December, this bullish sentiment had been undermined by concerns

Graph 3: Financial incentive to hold inventories at high levels

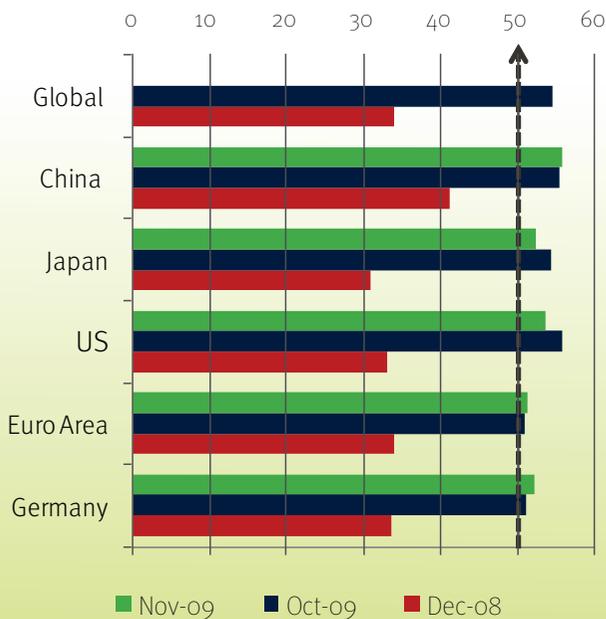


**Graph 4: Global economic growth on recovery path**



**Graph 5: Manufacturing sector improving stimulus and restocking behind the turnaround**

Purchasing managers' index



about the strength of world economic growth, the sluggish recovery in demand, coupled with higher perceived non-OPEC supply and a contra-seasonal build in oil inventories. This took prices down to the low \$70/b.

Turning to rising petroleum inventories and the key factor pushing them higher, Alipour-Jeddi explained that the persistent contango structure in the futures market was providing a relatively risk-free financial incentive to continue building stocks (Graph 3).

There was a strong inverse relationship showing that when the contango widened, inventories increased, while when it started to narrow, the build-up slowed.

“If the price and inventory relation in the physical market has been broken since 2004, we have witnessed the establishment of a new relationship between the contango and inventories in the futures market. This is borne out of financial interest, rather than a desire to meet consumer demand,” contended Alipour-Jeddi.

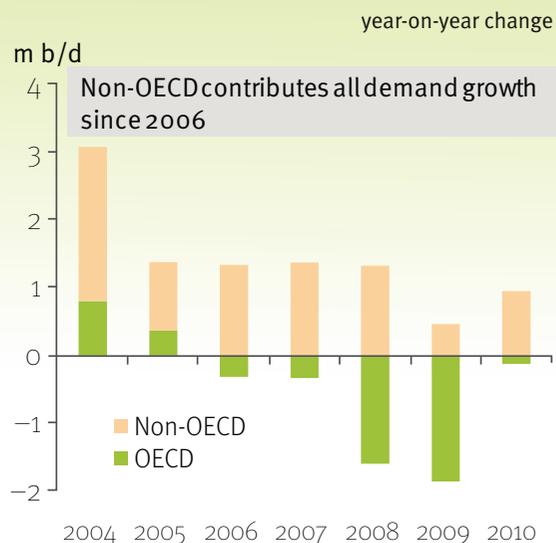
In addition, he said, the contango structure, along with prevailing low interest rates, had supported builds in crude oil floating storage.

“As long as the cost of floating storage is lower than the contango, there is a financial incentive to continue storing crude on tankers and to sell it in the forward market. A fluctuation in the

**Graph 6: Worsening labour markets dampen consumption**



**Graph 7: Oil demand returning from contraction to growth, increase coming entirely from non-OECD**



contango is reflected in the level of crude oil in floating storage,” he affirmed.

### Outlook for 2010

Looking at the outlook for 2010, Alipour-Jeddi told delegates that the positive world economic growth of 2.9 per cent expected in the year was still below the five-year, and even the 20-year, average for all regions (Graph 4).

Of note in 2010, China was forecast to achieve 8.5 per cent growth, while India was expected to see an expansion of 6.5 per cent. Both of these figures were higher than in 2009, but below pre-crisis levels.

The OECD was slated to achieve growth of only 1.3 per cent in 2010, following a contraction of 3.4 per cent in 2009.

Alipour-Jeddi observed that the economic recovery seen in 2009 had been led mainly by the manufacturing sector. Most countries moved towards positive growth in October and November after the dramatic drop suffered in the fourth quarter of 2008 and the first quarter of 2009 (Graph 5).

“Although there has been some improvement in capacity utilization in industry over the last few months,

this development has primarily been due to inventory restocking. Much of that job is already done and there is not much room for it to continue. This implies lower growth in investment for the time being,” he said.

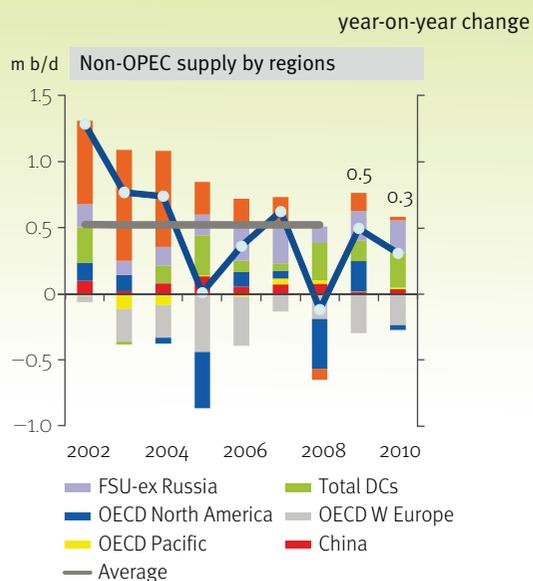
In all OECD regions, consumption had been impacted by rising unemployment and the level of growth forecast was not expected to be strong enough to significantly reduce jobless figures in the near future (Graph 6).

In addition, private consumption in the US and other OECD countries was not considered sufficient to take over once the impact of the physical stimulus packages implemented by governments began to fade. The extension of existing programmes was an indicator of this structural problem.

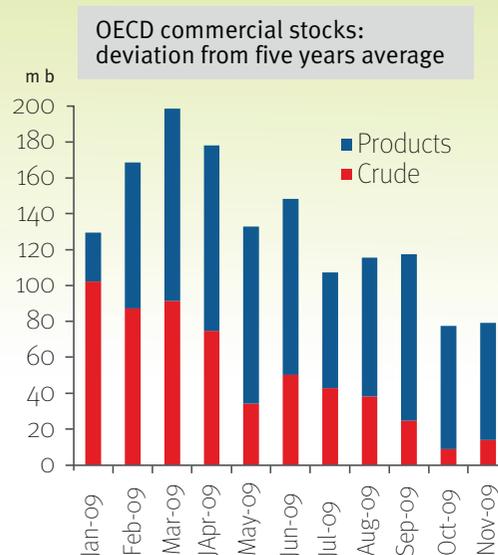
Alipour-Jeddi said it had been noted that two rebalancing acts were required. First was a rebalance between the public and private sectors, while the second involved rebalancing demand across countries. This would imply the need for a shift from external demand to domestic demand in Asia, particularly in China. Already, initial signs indicated that this shift was beginning to take place.

Turning to oil market fundamentals, he said world oil demand in 2010 was expected to grow by 800,000 barrels/day, which was in stark contrast to the contrac-

**Graph 8: Non-OPEC supply continues positive growth**



**Graph 9: OECD inventories: excessive overhang shifting from crude to products**



tion of 1.4m b/d recorded in 2009. This was backed by data showing that the global economy was on course to expand by 2.9 per cent this year after a decline of 1.1 per cent in 2009 (Graph 7).

### All growth from non-OECD

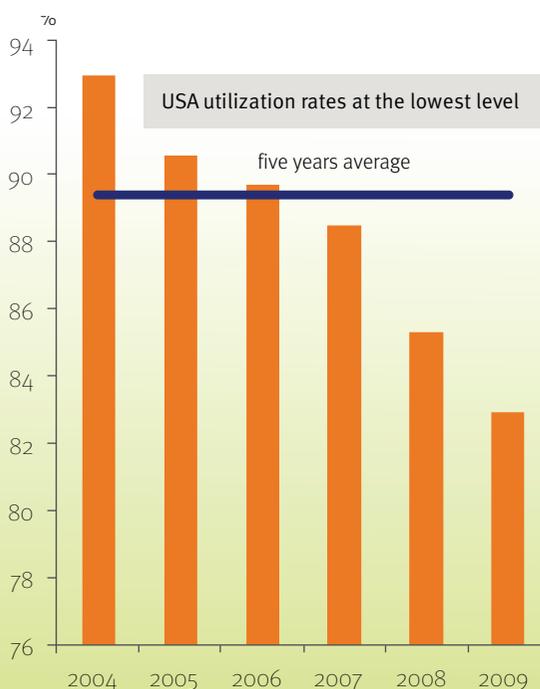
“The increase in oil demand forecast is mainly benefiting from the improved economic situation. All oil demand growth in 2010 will come from non-OECD countries, as has been the case in the last four years,” Alipour-Jeddi informed the Meeting.

In the forecast, China and the Middle East were the main contributors to the demand growth, with North America also projected to return to positive territory. OECD countries would again see growth, although the region would remain below its true potential in the coming years.

At the same time, non-OPEC supply was expected to increase by 300,000 b/d in 2010, following a rise of 500,000 b/d in 2009. The US, Brazil, Azerbaijan, Kazakhstan, Oman and Russia were listed as the main contributors to growth in 2010, while the UK, Norway and Mexico were expected to continue to see a decline

*Continued on page 107.*

**Graph 10: Downstream not supportive of crude fundamentals**



# OPEC decisions give stimulus to global economic recovery

*The following interviews with OPEC and non-OPEC Oil and Energy Ministers and the Organization's Secretary General were conducted on the sidelines of the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference, in Luanda, in December 2009, by the OPEC Secretariat's webcast team.*

*Eng José Maria Botelho de Vasconcelos  
Minister of Petroleum, Angola  
OPEC Conference President for 2009*

Asked by Webcast moderator, Eithne Treanor, about the significance of Angola hosting the end-of-year OPEC Conference, Eng José Maria Botelho de Vasconcelos said it was a very important occasion. It showed the Angolan people the reality of how the nation was recovering from years of civil war and how the government was trying to rebuild the economy.

"The OPEC Conference is an important window of opportunity for displaying this," he said.

*"We watched the market very carefully and we considered that a price of \$70–75/b, which had been achieved, was a fair price."*



Looking at developments in the oil market in 2009, and questioned over how the Organization had managed to achieve relative price stability in what was a difficult year, de Vasconcelos said that the decision taken by the Ministers in Oran, Algeria, in December 2008, to cut OPEC output by 4.2 million barrels/day had resulted in prices increasing and stabilizing.

He noted that OPEC's actions had rescued prices from their lows in the first quarter of 2009. Prices had then gone on to increase in the second quarter.

The Minister said that in all OPEC Meetings there had been a call for full compliance to be made to the individual production allocations given to Member Countries. This had resulted in relative stability in the oil market.

He said that with prices moving within a range of \$70–75/barrel, there had been no need to change OPEC's overall production ceiling.

"We watched the market very carefully and we considered that a price of \$70–75/b, which had been achieved, was a fair price and that the market was stable. There was also a serenity established within the Organization, which helped the situation," he affirmed.

Asked about the importance of Angola joining OPEC, he said OPEC was one of the most important organizations in the world. It controlled some 40 per cent of the global oil market and it gave the opportunity for Member Countries to coordinate their policies and work together to balance the market.

"To be a part of this Organization offers good advantages to all Member Countries," he pointed out.

Turning to domestic matters and questioned about some of the main projects Angola was involved in, de Vasconcelos said that apart from its oil operations, Angola was starting to develop its liquefied natural gas (LNG) industry by taking associated gas from the oil fields.

This, he said, offered another source of income for the country. Oil accounted for 95 per cent of the country's export revenues and 56 per cent of the nation's gross domestic product (GDP).

"We are trying to diversify the economy somewhat to avoid such a heavy dependence on one resource. Our intention is to diversify our sources of income and to develop other economic activities, including agriculture, industry and construction. Our goal is to change the current situation," he said.

De Vasconcelos said it was important also to invest outside the country. This brought experience to Angolan companies, which was very important for their development.

"We are a developing country and we need to reduce our levels of poverty. We are working very hard to achieve a set of objectives and we are seeking to promote activities that will lead to a change in the current situation in Angola."

This, he said, involved the building of schools, hospitals, roads and bridges.

"The way we are proceeding at the moment is, I think, the best way we can go in improving the situation in Angola. We hope that in the next few years, our people will be able to live a better life," he added (*see also opening address page 14*).

### **Dr Chakib Khelil** **Minister of Energy and Mines, Algeria**

Looking at developments in the international oil market over the past year, Dr Chakib Khelil also pointed to OPEC's historic decision in Oran, Algeria, to cut output by 4.2m b/d. This had made a good impact on the market and resulted in prices stabilizing at around current levels.



***"I feel pretty happy about the performance of OPEC over this year. The current level of price is acceptable to the producers and the consumers and it is also helping the global economy."***

"Despite all the uncertainties we have seen in the economy, the big volatility in the value of the US dollar, and the difficult geopolitical situation, I think we (in OPEC) did alright," he said.

"I feel pretty happy about the performance of OPEC over this year. The current level of price is acceptable to the producers and the consumers and it is also helping the global economy."

Khelil said it would most probably take another 18 months before things really started to get better, but such a level of price, which was not too high, was helping the economy as it recovered.

He said OPEC was especially looking at what was happening in the United States. "If things turn around there, this should lead to better oil prices in the future," he maintained.

Regarding investment in the oil sector, which had been on hold during the economic downturn, Khelil said the current level of prices would help the situation and support investment being made into increasing oil reserves, especially the deep offshore, where most of the big deposits were located.

The better prices would also help the development of oil sands, biofuels and renewables. Many producers,

said Khelil, were using their oil revenue to develop alternative sources of energy, such as solar and wind energy, which he considered to be a good development since that was really the “energy of tomorrow”.

“We have to start in this direction now to develop the technology, manpower and the human resources to be able to sustain that effort in the future,” he professed.

Looking at domestic oil developments, Khelil said he was very satisfied with the latest bidding round in Algeria where three areas had been awarded. This was the second year his Ministry had conducted such efforts. In 2008, four groups of blocks were awarded.

“Sonatrach alone this year has invested \$9 billion in field development, pipelines, transport and new refineries,” he affirmed.

Khelil said they had stopped gas flaring in Algeria and were recovering all the gas at the In Salah fields, extracting the carbon dioxide (CO<sub>2</sub>) and re-injecting it.

“It is a proven technology and one that can also be used in other production processes, such as industrial plants, coal plants. It is of course costly, but we are not going to achieve anything with climate change without considerable investments,” he added.

### *Dr Hussain Al-Shahristani* *Minister of Oil, Iraq*

Questioned about future investment in the oil sector, Dr Hussain Al-Shahristani said the world should be concerned about the amount of oil available, not only from OPEC Member Countries, but other nations — particularly from the marginal fields.

“Unless investment is available to develop the marginal fields, the world could face another oil shortage and more price volatility, which is not going to be to the benefit of anybody.

“We are encouraging investors to develop their oil fields, but these investors will not invest unless they see reasonable prices. When prices are below \$70/b, most investors shy away. A price of \$70/b plus will start attracting the attention of investors and we should all work towards the aim of having a reasonable price,” he maintained.

Asked for his opinion on the difficult economic situation encountered during 2009, the Minister said he commended all oil suppliers and the consumers for their joint commitment to help the world economy recover as quickly as possible.

The producers, he said, had tried to make as much oil available as possible for the market to absorb at prices that were reasonable.

“Looking back over the last 12 months, we can see that oil has really contributed to the global recovery. The price has not been overburdening the economy. It has taken longer than one would have hoped, but the recovery is on the way and 2010 should see a return to more normal growth. In tandem with this, we expect the demand for oil to pick up,” he said.

Regarding domestic developments, Al-Shahristani said he was pleased with the two bidding rounds held in Iraq this year. There had been a very enthusiastic response and bids from over 15 companies had already been accepted.

“We now have ten fields that we have accepted bids for and we expect their development to start shortly. The combined production expected from these fields is over 11m b/d,” he affirmed.

However, said the Minister, there would not be any significant amounts of new oil available in the first three years of these contracts.

“What we are really talking about here is building capacity to assure the world that there will be enough crude available in the next 20 to 30 years. We do not feel the need to hold any further bidding rounds for the time being,” he said.

Al-Shahristani said that in the years ahead Iraq was going to be one of the leading countries as far as the production and export of oil was concerned. The country would occupy its rightful position in global energy markets.

“I think this message is important to the world since there are no real alternative energies to oil available in the quantities that will be required to support economic growth in the future,” he said.

The Minister said that in the coming years, when its oil output capacity was firmly established, Iraq would have to discuss with OPEC criteria for an allocated production quota that would be acceptable to all Members. This, he said, would have to take into account such issues as Iraq’s capacity to produce, the extent of the country’s reserves, the needs of the country and its historical pattern of production.

“Much will depend on future energy demand levels in the world and how much OPEC and non-OPEC countries can produce,” he said.

Domestically, said Al-Shahristani, Iraq was currently consuming 500,000–600,000 b/d of oil. With the rising

standards of living, this was expected to increase in the next few years to over 1m b/d. With this growth in mind, Iraq was building new refineries which would take the country's total capacity to almost 1.5m b/d.

Turning to the security situation in the country, the Minister said that, in general, it had improved. When one considered that the total number of attacks, or the number of victims, in 2009 was just ten per cent of the figure recorded just one year previously, it meant that there had been a 90 per cent improvement in the overall security situation.

However, he noted that because the country was heading towards elections in March 2010, there had been some vicious attacks on the population and on Iraq's oil export pipelines of late. However, the country had become accustomed to such incidents and was repairing the damage very quickly, which meant that exports were not affected significantly.

Asked about the country's new hydrocarbons law, Al-Shahristani conceded that it had taken parliament three years to formulate the legislation and he did not expect the current administration to take up the issue.

"We will have to wait until post March. Based on the election results, we shall see how quickly we can legislate this new law," he stated.

Regarding the main challenges for OPEC in the years ahead, the Minister said it was clear that the Organization would continue to be a major supplier of crude oil to the world and would continue to work with the consuming countries for securing stability of the markets and to avoid price volatility.

"OPEC will also continue to support the developing countries, especially those in Africa, to ensure they have sufficient quantities of crude oil to speed up their development process," he said.

The challenges facing Iraq, he said, comprised managing its new oil contracts — increasing production by four to five times was not a simple task.

"It is not just a case of field development, but the provision of the necessary infrastructure that goes with it, both to handle the oil available for export and to receive the necessary equipment at the country's sea ports. We also need new roads and bridges, as well as to train people in the industry, which will require many thousands of Iraqi personnel as it expands."

Al-Shahristani said that with the additional revenue the higher oil exports would hopefully bring in, there would be huge reconstruction efforts made throughout the country.

"Within ten years we are going to see a very different Iraq than we have been used to. People will have a better life, with a higher standard of living and with more services available. The oil industry will lead this economic development and reconstruction programme."

With OPEC celebrating its 50<sup>th</sup> anniversary in 2010, the Minister was asked for his impressions concerning the Organization over the past five decades.

He said that since its inception, Iraq, a Founding Member, had played a significant role in the Organization. "We are pleased at what the Organization has been able to achieve over these years for market stability and for bringing sufficient quantities of oil to the consumers.

"Our Members have been able to work together and also with the rest of the world towards attaining market stability. OPEC has made sure there was always enough crude available for the consumers and also guaranteed that its Members received a fair return on their investments."

The Minister said that if one recalled over 50 years ago the way oil companies were dealing with the national wealth of a number of oil-producing countries, it was really very unfair.

"It was OPEC's coming into being that served to protect the interests of these producers, making sure that oil played a major role in their development. OPEC Member Countries have come a long way on the route to development because of their oil industries," he stated.

Asked about the future challenges facing OPEC, Al-Shahristani said the main challenge — and one that faced all humanity — was undoubtedly climate change. For the Organization, it involved the effects fossil fuels had on the environment.

"Climate change is a subject that is going to affect the lives of billions of people, so it is the responsibility of all countries — but more the consuming countries, who are burning the fuel that has caused the damage. They have to accept this responsibility," he said.



***"Looking back over the last 12 months, we can see that oil has really contributed to the global recovery. The price has not been overburdening the economy."***

“These countries need to deal with the oil they need in a way that does not release unreasonable, or unnecessary, quantities of CO<sub>2</sub> into the atmosphere. OPEC will be very cooperative in this regard, although its Members cannot do much.

“If the world needs crude oil to fuel its economy then it is OPEC’s responsibility to make sure that crude is available. But how one burns that oil is really the responsibility of the consumer. OPEC has always been calling on the consuming countries to ensure they have all the necessary techniques in place to deal with the CO<sub>2</sub> that will be produced when the fuels are burned,” he added (*see also interview page 42*).

**Dr Shokri M Ghanem**  
*Chairman of the Management Committee of the National Oil Corporation, SP Libyan AJ*



***“There is still a lot of pressure on the market – inventories and floating storage are still high – and this is why we in OPEC are calling for production restraint from non-OPEC producers and compliance to their quotas by OPEC Members.”***

On developments in 2009, Dr Shokri M Ghanem said it had been a very difficult year, although luckily for OPEC, the Organization had managed to restore balance to the oil market.

“Prices are not something to complain about and there is good supply to the market. This is thanks to OPEC Member Countries, who agreed in December 2008 to shore up over 4m b/d of crude oil production,” he stated.

He said that if OPEC had not taken the decision in Oran, Algeria to cut output “we would certainly be in trouble now because the demand is not there.”

Ghanem said the problem right now in the market was again volatility, brought about by speculation.

“We are not able to have much effect on this aspect (of the market), but at least we were able to restore balance to the fundamentals of supply and demand,” he affirmed.

Ghanem said current speculation was not as acute as in 2008, but it was an aspect of the market that was very dangerous and difficult to control.

“There is still a lot of pressure on the market – inventories and floating storage are still high – and this is why we in OPEC are calling for production restraint from non-

OPEC producers and compliance to their quotas by OPEC Members,” he added.

**Abdalla Salem El-Badri**  
*Secretary General, OPEC*

Speaking about 2009, Abdalla Salem El-Badri said that, economy-wise, it was a very tough year, with respective governments having to initiate stimulus packages.

At the beginning of the year, the price of crude oil had fallen to around \$33/b – a very low price – but over the ensuing months this had steadily increased to around \$75/b, which was very comfortable.

Through its actions, he said, OPEC had helped the economy recover. “The Organization has made sure it did not do anything that could hurt the global economic recovery, but at the same time it looked to the welfare of its Member Countries.”

El-Badri maintained that the decision taken in Oran, Algeria in December 2008 to cut production was taken at the right time and with the right amount of cut. Compliance to the cut by Member Countries was, at first, excellent, although it had slipped since. But it was still at a reasonable level of around 60 per cent.

Concerning OPEC oil industry investments, he said that at the start of 2009, some 160 projects, worth \$160bn, were underway up to 2013. However, because of the slump in the world economy around 35 schemes had been either postponed or cancelled. But as the price rebounded during the year, ten projects had been reinstated, which, although still delayed, were back on board.

Regarding oil demand, El-Badri said this was not coming from the OECD region, but non-OECD countries, such as India and China, who were actually making up for the shortage coming from the OECD.

However, he noted that demand in the OECD was starting to come back and it could be that in 2010 the economies of the region would have recovered completely.

Demand, he noted, would increase by around 800,000 b/d next year, which although not that much, was at least out of the negative territory of 2009, when it fell 1.2m b/d.

Asked about the level of prices and market stability, El-Badri said a price range of \$75–80/b was a reasonable level for supporting investment, as evidenced by the projects coming back onstream.

“I think the oil price in 2010 will be comfortable for both the producers and consumers,” he said.



***“The Organization has made sure it did not do anything that could hurt the global economic recovery, but at the same time it looked to the welfare of its Member Countries.”***

Taking about the future of the producer-consumer dialogue, the OPEC Secretary General said that no problem could be solved without dialogue. “Dialogue is very important. I think we have to talk to people and people must talk to us. We can exchange ideas and points of view, we can share our concerns. I feel the producer-consumer dialogue is really working right now. We have been able to solve many of our problems through dialogue and not from confrontation,” he said.

Looking to the challenges in 2010, El-Badri said OPEC was fortunate to have a team of professional people at its Secretariat in Vienna that had been tested on many occasions and had given excellent work.

“I am sure they will watch the market and the world economy very carefully and they will give Member Countries excellent advice on which way to proceed in the future,” he stated.

### ***Dr Abdul Hussain Ali Mirza Minister of Oil and Gas Affairs, Bahrain***

Asked how important it was for non-OPEC producers to work closely with OPEC on oil matters, Dr Abdul Hussain Ali Mirza said the Organization was a very important institution and Bahrain wanted to support it in any way it could.

Bahrain, he stressed, was delighted to be an observer at the OPEC Conference and to be working together with the Organization.

The Minister noted that Bahrain was actually the first country in the Gulf Cooperation Council (GCC) grouping where oil was discovered.

“So it has a long history in the oil industry and it operates the largest refinery in the region, again the first such installation in the GCC,” he said.

“We think OPEC can bring about stability in the oil markets and a price that is acceptable to both the producers and consumers,” he said.

Mirza said that this, in turn, “will benefit us in the Gulf since we import most of our goods from overseas. So if the price is acceptable to both parties then we will be the beneficiaries. We feel OPEC plays an important role in this respect.”

He said Bahrain possessed limited oil and gas resources, “but we are working to improve them through enhanced oil recovery. We have offered all our offshore blocks for exploration and we have international oil companies already working there. We are hoping to make some new discoveries.”

The Minister said that, at the moment, Bahrain had more gas than oil. “Again, we were one of the first countries in the GCC where gas was discovered. We have a good reserve of gas, but because Bahrain is developing very fast and attracting lots of investment, we need more gas.”

Mirza said that, in this regard, the country had asked international oil companies to bid in its deep gas initiative. “They tell us we have good reserves at around 20,000 feet.”

Two companies were in the process of competing to see which one would get the rights to develop the project, he said.

Concerning the producer-consumer dialogue, the Minister said dialogue was extremely important because it gave an opportunity for each party to understand the viewpoint of the other.

“And when they meet face to face, it is really different than when they make reports through the media. Each one understands the challenges the other is facing and they can try and reach a compromise where both sides can have a win-win situation. It is better than a situation whereby producers want a higher price, while the consumers want a lower price.

“Dialogue is extremely important in helping to stabilize the price of crude at an acceptable level. The International Energy Forum (IEF) is extremely important in this regard because it advocates transparency, while the Joint Oil Data Initiative (JODI), which is now becoming well known among the producers and consumers, is gaining credibility.



***“Dialogue is extremely important in helping to stabilize the price of crude at an acceptable level. The International Energy Forum (IEF) is extremely important in this regard because it advocates transparency.”***

“If there is credibility in the information that is supplied by both sides — the producers and the consumers — then there will be trust too. And that means any decisions taken can be based on facts and not speculation,” he added.

**Dr Darwin Zahedy Saleh**  
*Minister of Energy and Mineral Resources,  
 Indonesia*

Questioned about the importance attached to Indonesia of maintaining a close working relationship with OPEC,

Dr Darwin Zahedy Saleh said that as both an oil producer and a consumer, Indonesia was concerned about the level of oil prices and market stability.

OPEC’s work towards ensuring fair prices and a stable oil market would help Indonesia with its national development planning forecasts.

“We are greatly appreciative of the fact that OPEC still invites us to take part in its Meetings. We hope that in a few years’ time we will be able to lift the suspension of our OPEC Membership and enjoy making our contribution to the Organization once again,” he stated.

He said Indonesia was experiencing a natural decline in many of its oil wells and it needed more cooperation with OPEC Members to make new investments in the country, which suspended its Membership in 2009, especially in helping the development of domestic refineries.

“Our demand for oil has been growing faster than our capacity to supply the domestic crude required,” he pointed out.

“With crude oil, we are still basically a net exporter, but when we combine the crude with our finished products, we then become a net importer. This is the wisdom behind suspending our OPEC Membership for the time being,” he said.

Asked about the main oil market challenges in 2010, Saleh said: “The stabilization of oil prices is the main concern for everyone and this necessitates closer cooperation between OPEC and non-OPEC producers.”

He said Indonesia was working hard to increase its energy mix. The country was trying to reduce the contribution of oil in the mix from 50–20 per cent. Renewables were forecast to make up seven per cent of the mix.

On the environment, the Minister said Indonesia was voluntarily committed to reducing its carbon dioxide emissions by 26 per cent, but it hoped, with the help of the developed nations, to boost this figure to 41 per cent.

**Dr Mohammed bin Hamad Al-Rumhi**  
*Minister of Petroleum and Gas, Oman*

Regarding the need for OPEC and non-OPEC producers to cooperate on the oil market more, Dr Mohammed bin Hamad Al-Rumhi said that, over the years, the market had shown to oil sector participants that it needed stability.

“The whole philosophy of OPEC — non-OPEC cooperation and dialogue is to maintain that stability. Really, there is nothing more to it than that. The basis for this relationship is simple, it is clear and it serves both sides,” he maintained.

Asked about the tough economic year posed by 2009, Al-Rumhi said Oman was relatively lucky and had not really suffered a negative impact from the downturn. The country’s banks were sound, the financial situation was good and most of the nation’s projects were continuing, as planned.

“We were impacted of course by the markets in New York, London and Dubai — we were not immune to that — but, all in all, we were very lucky. The oil and gas industry did not suffer and the programmes put in place before the crisis were not altered.”

The Minister observed that the economic crisis had actually lasted quite a short period of time, but they had witnessed a slowdown in the costs of the oil services industry and drilling.

“We have not seen much difference in the price of goods. And now we are really getting back to normal. The whole Gulf region is very robust with plans for the future intact,” he stated.

Looking at domestic developments, Al-Rumhi said they had introduced enhanced oil recovery techniques to some of the country’s older fields which had become difficult to work.

“We have needed to change our mode of operation and even though the methods we are using now are not new to the industry, they are new in the region. These techniques are very expensive, but it is a very challenging and exciting time for Oman. We will see new projects launched in 2010 and all will be in the form of enhanced oil recovery,” he said.



***“The stabilization of oil prices is the main concern for everyone and this necessitates closer cooperation between OPEC and non-OPEC producers.”***



***“One seldom hears negative comments about OPEC now because over the past few years the Organization has been very responsible. We want to see this good relationship between producers and consumers maintained.”***

*Al-Rumhi with Eithne Treanor, Webast Moderator.*

Turning to the challenges of 2010, the Minister said he felt the producers needed to keep on doing what they had been doing over the last five years. Market stability had, by and large, been really good. The cyclic change that had been bad for both producers and consumers was not very healthy, but despite that, there had still been good stability, which was even evident during the crisis.

“If OPEC and non-OPEC exporters continue to watch the market and see how best to maintain market stability over the next five years and beyond, then I will be very satisfied. It is extremely important to maintain the trust that we have gained from the consumers and we cannot afford to lose that trust.

“One seldom hears negative comments about OPEC now because over the past few years the Organization has been very responsible. We want to see this good relationship between producers and consumers maintained.

“This is the main reason I am here at this OPEC Meeting — to consolidate the confidence we have built in the market. I hope we can continue to do so in the years ahead,” he added.

***Eng Manuel Vicente***  
*President, Sonangol, Angola*

Regarding the future potential of Angola’s oil sector operations, Eng Manuel Vicente said the years ahead for the domestic oil industry were extremely bright.

The country was currently producing an average of 1.8m b/d of crude oil, although it had the capacity to produce over 2m b/d.

“In taking into account the tremendous potential

with exploration, the future in Angola is really bright,” he stated.

Vicente noted that the traditional market for Angola’s oil was the United States, but the country had recently been supplying Asia as well.

“I think the US and China will be the biggest consumers of our oil in the years ahead,” he stated.

“We have a very strong partnership with Chinese firms. We have the resources and they have the potential to develop them,” he added.

The plan for the national oil company, Sonangol, was to further improve its reserves potential, not only in Angola, but also abroad.

“Iraq has proved to be one possibility, but if there are any other regions where there is oil and opportunities for us, we will be there too,” he said.

Concerning the country’s oil bidding rounds, Vicente said these had been delayed because they were currently engaged in a huge seismic programme, aimed at assessing the deep-water oil potential of the country.

“But we also have onshore potential and the idea is to open up the onshore basins as well. Within the next 12 months, I think we will do that,” he stated.

“We have several ongoing developments for 2010 and the aim is to keep on improving since we have to guarantee the return on investment made by the companies operating in the country,” he added.



***“In taking into account the tremendous potential with exploration, the future in Angola is really bright.”***

## Angolan culture on display at glittering gala dinner

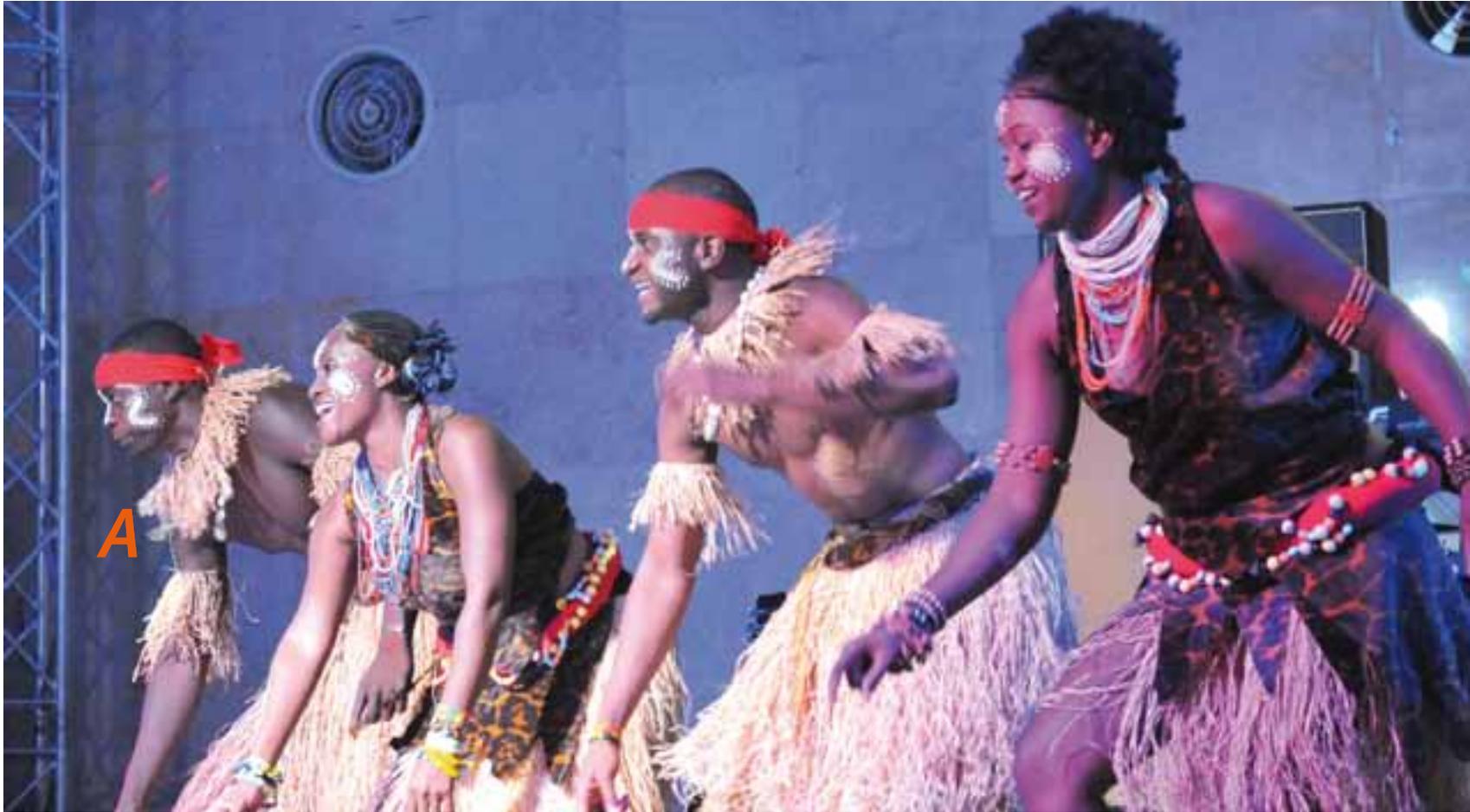
by Jerry Haylins

Over 200 guests and dignitaries attended a colourful gala dinner ahead of the 155<sup>th</sup> (Extraordinary) OPEC Conference in Luanda, Angola on December 21 as the Organization's newest Member extended a hearty welcome to fellow OPEC Countries.

The event was also in recognition of Angola's first hosting of an OPEC Ministerial Conference. In 2009, the southern African nation, which only joined OPEC in late 2007, took over the annual rotating Presidency of the Organization.

A splendid buffet dinner, offering a wide range of local and traditional African cuisine, as well as a fully-equipped stage for the evening's Angolan-flavoured entertainment, greeted the 250 guests — led by OPEC's Oil and Energy Ministers and their delegations.

Together with Angolan representatives and other invited officials, the group gathered at the imposing Talatona Convention Centre,



which also served as the venue for the Conference the following day.

### All about culture

Beautifully-decorated tables were strategically placed around the stage in the spacious entrance area of the centre, which is capable of holding up to 400 guests and is regularly used for official banquets and weddings.

The delicious food was accompanied by a full and thoroughly enjoyable entertainment programme which was centred around the country's cultural links, ranging from music and song to fashion.

Two presenters — Amilcar Xavier and Horvanda Andrade — were comperes for the evening, which kicked off with the lively and energetic 'Kilandukilu' Ballet Nacional de Angola — an excellent troupe of performers that displayed the various modes of traditional dance.

Kilandukilu means 'fun' in Kimbundu, one of the most widely spoken Bantu languages in Angola, and these

dancers were certainly having that. They finished their set to a resounding round of applause.

Other artists taking to the stage throughout the evening were drawn from some of the country's finest diverse talent, with one of the highlights being the appearance of Angola's world-famous saxophonist, Sanguito, who although now approaching 50, showed he is still more than capable of pulling off a stunning performance.

'Bantu Voice' were a three-man group that sang in perfect unison, while the 'Muntwenu' dancers showed the energy and flexibility required to perform traditional African dance.

Of the singers, 44-year-old contemporary folk singer, musician and guitarist, Gabriel Tchiema, who recently won Angola's Critics Prize for his 2008 song 'Azulula', taken from the album of the same name, performed the winning piece for the Ministers and guests. A firm believer of the use of traditional instruments to capture an authentic African sound in his works, he showed great strength and passion. 'Azulula' is the

*Many great acts entertained the Ministers during the spectacular gala dinner.*



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very successful follow-up to his first album, 'Nhena Nhi Nhami'.

### *Rhythm and blues*

Tchiema was followed by the beautiful rhythm and blues singer, Perola. Born Jandira Sassingui in 1970, she also sings Kizomba, which is one of the most modern and popular genres of dance and music created in Angola. Her debut album was 'Meus Sentimentos' with hits like 'Angola' and 'Já não'. In 2005, she was awarded Best Southern African Musician at the Kora Awards. Her second album 'Cara e Coroa' was released in 2009.

Next on the programme with her particular brand of sensual rap music was the stunning Ary. Also born in 1970,



*The evening that had everything — song and dance and exceptional musicianship, including saxophonist Sanguito, singer Bangao, along with a splendid fashion show depicting traditional dresses worn in all regions of Angola.*

her real name is Aryovalda Eulália Gabriel. Encouraged by her mother to pursue a musical career from the age of 14, she has been heavily influenced in the rap tradition. Her debut album, ‘Sem substituições’ has proved a success. In 2008, she toured parts of Europe to help internationalize contemporary Angolan music.

The evening’s entertainment was brought to a close by the renowned singer, Bangao, who throughout his extensive career has been pushing the boundaries of traditional Angolan music and aiming to preserve national rhythms. Born Bernardo Jorge Correia, he gave a stirring rendition of his most famous song ‘Kakixaka’.

Throughout the evening, the singers were supported by the very capable backing group, ‘Banda Movimento’, whose precise playing added to the fullness of the sound.

Interspersed between all the acts were several fashion shows, with local models being put through their paces to display the numerous traditional national costumes one

can encounter while travelling through the different regions of Angola.

There were at least 20 different styles on view, all similarly resplendent in colour, but all somehow individual and different.

The evening proved to be a fitting welcome by a country that is striving to make a name for itself on the international stage after years of internal turmoil. With this gala dinner, the Angolan authorities showed they are certainly on the right track!



## *A year of celebration and stable oil markets*

*Ecuador, OPEC's smallest oil producer, only rejoined the Organization in late 2007, but just over two years later has the distinction of holding the Conference Presidency in a year that also marks OPEC's 50<sup>th</sup> year of existence.*

*The country's Mines and Petroleum Minister, **Germánico Pinto**, told a press conference on the sidelines of the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda, Angola, in December, that 2010 will be a "year of celebration". He also expressed optimism for continued oil market stability and for the future of Ecuador's energy and mining operations. The OPEC Bulletin's Jerry Haylins was in attendance.*



*Germánico Pinto, Ecuador's Minister of Mines and Petroleum and OPEC Conference President for 2010.*

Ecuador expects international crude oil prices to remain relatively stable in 2010 in what will be a landmark year both for the Organization and its smallest producing Member Country.

For OPEC, which was founded in September 1960, 2010 marks its 50<sup>th</sup> anniversary, while for Ecuador, which returned to the OPEC fold in December 2007 after a break in its Membership of 19 years, it takes over the rotating Conference Presidency of the Organization.

“It will be a year of celebration,” commented an ebullient Germánico Pinto, Ecuador’s Minister of Mines and Petroleum.

“OPEC is a unique and very specific Organization, with only developing countries as its Members. The fact it is celebrating 50 years is extremely important,” he told the press briefing.

Ecuador, which has seen its oil production fall slightly from a level of around 500,000 b/d in 2008, first joined OPEC in 1973, becoming the Organization’s 12<sup>th</sup> Member, and the second from South America after founder Member Venezuela. It subsequently suspended its Membership in 1992 and rejoined in 2007.

## Watching the market

Pinto, who only took over his country’s energy portfolio in June 2009, is obviously very excited about the prospect of leading OPEC through its Golden Jubilee celebrations.

He is relishing the challenges that will undoubtedly face the Organization in his Presidency year, chief of which will be the tricky task of balancing oil supply with demand as the world continues to recover from two years of recession.

“Since the global economic crisis is not yet fully over, the Organization will have to watch very carefully how the oil market reacts as the economy continues to come out of recession,” he said.

The Minister stressed that it was fortunate that OPEC had a very strong capacity to do just that.

He pointed out that, as in all its past Meetings, the Organization would continue to make decisions that would mesh with the current trend of economic recovery.

The Minister, who in 2007 was Assemblyman in Ecuador’s Constituent Assembly and then Technical Secretary in the Ministry of Coordination of Strategic Sectors, before moving to his current post, is very happy with the current level of oil prices.

He said he believed that the level of “reasonable” stability currently being witnessed in the oil market would be maintained in 2010.

“We expect 2010 to be a stable year as far as the price of oil is concerned. We have seen relative stability

over the past few months, which is good for the producing nations,” continued Pinto.

“It gives us the possibility of having enough income to develop our internal investments. In Ecuador, we mainly use our oil income for the provision of infrastructure, as well as for investments in the oil industry. If the oil price is low, then investment becomes difficult.”

Asked what level of oil price he thought was fair and reasonable, he replied that a range between \$70 and \$80/barrel was acceptable since it gave the producers the level of income they needed to develop and prosper.

Such a price range also offered the potential for giving a welcome boost to the investment needed in the industry for securing future oil supplies.

Pinto also sees his OPEC role in 2010 as including establishing stronger ties with non-OPEC oil producers, to try and bring more countries in line with OPEC’s market equilibrium measures.

He explained to reporters that in building a multipolar world, something which OPEC aspired to, one aspect that had to be developed further was South-South cooperation.



*Eng José Maria Botelho de Vasconcelos (r), Angola’s Minister of Petroleum and OPEC Conference President for 2009, with Germánico Pinto (l), Ecuador’s Minister of Mines and Petroleum and OPEC Conference President for 2010.*



*Germánico Pinto (r), Ecuador's Minister of Mines and Petroleum and OPEC Conference President for 2010, pictured with Oswaldo Tapia of Ecuador, who recently joined the OPEC Secretariat in Vienna as Head of the Energy Studies Department.*

“In this regard, OPEC appreciates countries that want to communicate with the Organization — to take part in its Meetings. This offers a good opportunity for talking with these countries and discussing with them common policies related to oil and other issues. OPEC is keen to create and nurture these links,” he said.

### Common policies

Pinto maintained that all countries were open to discussing oil issues. And it was these very issues that could bring countries together. “We should be open to hold dialogue with all these countries,” he affirmed.

However, despite his new and important role in OPEC in 2010, there is much work to be done back home as Pinto’s Ministry attempts to stem the decline in Ecuador’s oil production capability.

This will involve signing improved deals with the oil firms operating in the Andean country, such as Spain’s Repsol, Brazil’s Petrobras and Italy’s Eni. During his swearing in ceremony by Ecuadorean President Rafael Correa in the summer, he was asked to take a firmer stand with these companies in drawing up new and binding contracts.

However, for the time being, Pinto said he was happy to maintain Ecuador’s current production level,

which, according to secondary sources, stood at around 480,000 b/d.

Some older oil fields, he said, had begun to go into decline, but their loss of production would be compensated by the new projects, which were being developed under contracts due to be signed with the partners of the national oil company, Petroecuador, in March 2010.

More than \$1.6 billion was invested in the state oil industry in 2009 and a similar amount was expected to be made available in 2010. Ecuador’s proven crude oil reserves in 2008 stood at around 6.6 billion barrels.

Pinto disclosed that as part of the development efforts, his country expected to establish a strong working relationship with OPEC newcomer, Angola, in the future.

“Apart from coming to Luanda for the OPEC Conference, this trip was very useful for nurturing this bilateral relationship. We plan to enter into an exploration and exploitation programme in Ecuador, with a joint venture set up between Petroecuador and Angola’s Sonangol,” he explained.

“We are now looking at which blocks this venture can invest in. There are still several issues to be discussed, but we have already signed a memorandum of understanding regarding the move,” he added.

The Minister said Ecuador had also signed deals with Venezuela, Chile and China.

Of note, Ecuador and China are intending setting



*Germánico Pinto (c), Ecuador's Minister of Mines and Petroleum and OPEC Conference President for 2010, seen at the press conference with Dr Diego Stacey (l), Ecuador's Governor for OPEC and Miguel Naranjo, Member of the Ecuadorean delegation.*

up a joint venture to develop oil fields in Ecuador's Amazon region under a scheme that will need some \$1.1bn in Chinese capital. The company will be 60 per cent owned by Ecuador and 40 per cent by China, which has already established close ties with Ecuador. The two countries have signed a separate \$1bn oil-for-cash deal and are in a joint project to develop a hydro-electric dam in Ecuador.

"We have several countries we want to work with. Under our constitution, we have a three-way process to follow in developing our natural resources, especially non-renewables," commented Pinto.

"Firstly, we go through Petroecuador. Then, whatever the national oil company cannot manage, we turn to joint ventures for, mainly with other state oil concerns. Thirdly, there is also the possibility to set up joint ventures with private companies," he explained.

## Constitutional process

Apart from the oil sector, Ecuador's mining industry also looks set to take off. Numerous agencies and institutions forecast that this sector will be a major engine of growth for the country in the coming years.

Geological studies performed through the late 1990s have suggested that Ecuador has tremendous potential for the discovery of new, economic ore deposits.

"Like Chile to the south, which has enjoyed tremendous mining successes, we believe Ecuador has the key elements required to see its mining sector explode," said Barry Lucas, Executive Chairman of Elray Resources Incorporated, which reviewed study results on the country.

"These elements include excellent geological potential, a stable, dollarized economy and a business oriented government," he observed

In the light of these findings, the Ecuadorean government plans to start individual negotiations with mining firms with the view to signing extraction deals.

It feels that its new mining law will open the door to a potentially lucrative and underdeveloped industry, which could be worth around \$110bn.

And with all this activity going on in his country, as well as his new job as OPEC spokesman, Pinto will undoubtedly draw on his near two decades of experience as a college lecturer in Ecuador, as well as his command of four languages.

As Professor at the Institute of Technologists, the National Polytechnic School from 1990 to 1998 and Professor of Mathematics at the College of La Condamine, Quito from 1998 to 2008, his strong character and proven ability for getting his message across will surely hold him in good stead during the busy time ahead — to the benefit of both OPEC and his country. 

# Back from the brink

## *Iraqi Minister applauds OPEC response during financial crisis*

*Iraq's Oil Minister, **Dr Hussain Al-Shahristani**, is in a privileged position. Not only has he been an influential part of OPEC's decision-making process through what has been the worst economic recession in 70 years, he is also spearheading the most ambitious and exciting oil expansion programme his country has ever undertaken. The OPEC Bulletin's **Jerry Haylins** spoke to the Minister, both exclusively and during a press conference, about the role of OPEC and developments at home, on the sidelines of the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda, Angola, in December.*

There is no doubting that Iraq's charismatic Oil Minister, Dr Hussain Al-Shahristani, holds OPEC in high regard. The manner in which he commends the Organization for its active and coordinated response to the worst recession in seven decades is both heartfelt and genuine. He also feels that the Organization's actions over the past two years especially have drawn widespread recognition and appreciation from within the international community.

In what has proved to be one of the most challenging periods of its near 50-year existence, he firmly believes that OPEC has acted responsibly and effectively with other oil producers and the consuming countries.

The Organization's Members, he told the OPEC Bulletin from his apartment at the Talatona Hotel complex in new Luanda, had spent many hours assessing the state of the oil market and had carefully adopted measures that had proven to be instrumental in supporting the global economic recovery.

Al-Shahristani explained that in the midst of the "gambling-led" speculation of the world financial crisis, the Organization, in its close scrutiny of the oil market and economic situation, had made sure there was always sufficient — perhaps more than sufficient — crude oil available in the market.

"We have had a number of conferences and discussed issues with a very open mind as to what everyone can do to help with the recovery of the world economy. Nobody felt, or acted in a manner, to use the crisis to raise the price of oil in a way that could damage the recovery," he stressed.

"I think the world has recognized that and appreciated what OPEC has done," he added.

The Minister was referring to OPEC's decision at its

Meeting in Oran, Algeria, in December 2008, to remove 4.2 million barrels/day of crude from a glutted international market caught up in an acute demand slump that was caused by the recession.

That move, which received high praise from many quarters, helped crude oil prices recover from a low of \$40/b — six months earlier they had been over \$100/b higher — and led to relative stability being restored in the marketplace in 2009.

But Al-Shahristani was quick to point out that OPEC, through its policy decisions, had not been bent on bringing the price to any specific level.

“All what we tried to do was allow the market to adjust with regards to supply and demand and to see where a reasonable price was,” he explained. “OPEC does not set price levels — it just examines world demand and it acts on this information responsibly, to make sure there is sufficient crude available. We leave the market to set the price.”

Of course, that did not mean OPEC did not have a desired price level. Crude is the lifeblood of its Member Countries and a certain level of price is necessary to support socio-economic development, as well as investment in capacity expansion and infrastructure for the future.

### *Fair oil price*

Al-Shahristani said he and his fellow Ministers had noticed over the past few months that a price in the range of \$70–80/b seemed to satisfy market players.

“It encourages investors to develop in new fields and it apparently does not hinder the world economic recovery. If this is the case, then perhaps this is where the price is meant to remain — not where it should be,” he said.

Staying on the subject of oil prices, the Minister said that, in his opinion, they needed to be at a level whereby marginal producers had sufficient incentive to develop their fields.



*Dr Hussain Al-Shahristani, Iraq's Minister of Oil, pictured during his interview with the OPEC Bulletin.*



He contended that total dependence on OPEC oil was not a wise policy. Other countries, particularly those that possessed marginal fields, needed to be encouraged — to allow them to be able to develop those resources.

“Otherwise, we will find ourselves facing a situation where the world will depend more and more on OPEC production, simply because it is cheap to produce in these countries.

“I personally do not think it is very wise for the producers, or the consumers, and certainly not the world economy in general, to see prices at a level where the marginal producers will not have sufficient incentive to develop their fields,” he professed.

Investors needed to be assured of an oil price that would provide them with a reasonable return on their

investment. “I would say a price between \$70/b and \$80/b would be reasonable for these producers,” said Al-Shahristani.

Continuing on the subject, he said that it was not really a case of what was a fair price and for whom — it was about a price that would encourage others to invest and to ensure the world had sufficient production available for when the economy needed it.

“I also feel that at this level of price, we have seen the world economy coming back from recession. OPEC Member Countries are more than willing to work with others to speed up the process of recovery. After all, fuel prices have to be taken into account when viewing this situation,” he affirmed.

Evidence that the market had found its way at the current level of prices between \$70/b and \$80/b could



*Planning the future for Iraq's oil industry – Dr Hussain Al-Shahristani, seen here at the press conference he gave on the sidelines of the 155<sup>th</sup> (Extraordinary) Meeting of the OPEC Conference in Luanda.*

be found in the fact that some of the investment projects that had been stalled as a result of the financial meltdown were returning. Fields were slowly being developed again, said Al-Shahristani.

However, he made it clear that no one wanted to see oil prices soaring to the record levels of over \$140/b they occupied in the summer of 2008.

“I believe that as we see continuing improvement in the world economy, we will see oil prices rise slightly, as oil demand picks up, but nobody expects crude prices to go crazy again,” said Al-Shahristani.

Memories of July 2008, when the price of crude hit a record \$147/b, were still strong. But as Al-Shahristani pointed out, that development had no bearing on OPEC, or its policies.

“That was to do with gambling in the market – in the

paper market, not the real market. That is what led to the record prices. I think we all learned our lesson then.

“The major world economies have realized that if they leave their markets unregulated and they allow speculators to gamble in commodities, it will not benefit their economies, or the global economy as a whole.”

Al-Shahristani was quick to add that OPEC had warned consuming governments at the time over the impending situation.

“We told them that unregulated markets and irresponsible speculators were going to lead to a situation where many countries would not be happy. This indeed proved to be the case.

“I think we have all learned a lesson that we need better regulation and we should not allow speculators to dictate the price of crude oil. We should allow the

fundamentals of supply and demand, as in any other commodity, to play their role and not be controlled by speculators' gambling practices."

The Minister said he was happy to report that supply and demand and the fundamentals of the market were definitely having more of an impact on current oil price levels.

"Still, we have not yet reached the level of stability in the world economy that we need — there are still hiccups and the recovery is incomplete. I would not say that it is only the fundamentals that are setting prices at the moment because we still need some time, maybe until mid-2010, before we can be assured of a more stable economy where the fundamentals will be playing the dominant role," he said.

### *General consensus*

With the Conference in Angola again deciding to maintain the status quo with regards to the OPEC production ceiling, Al-Shahristani pointed out that, even before the Meeting, the general consensus was that there was no need to revise the Organization's output level.

There was a surplus of crude in the market, demand had not yet picked up, stocks were still above their five-year average and there was really no room for an increase in production. A roll-over of the existing accord, with better compliance to individual output allocations, was the best course of action, he maintained.

Unfortunately, said the Minister, compliance to production allocations of late had not been as good as one would have expected.

"Initially, we managed to comply at more than 80 per cent, but as demand picked up with the gradual improvement in the economy, we have seen the compliance going down. Member Countries need to observe their allocations and not flood the market with crude that there is no demand for," he stated.

Asked how important it was for the Organization's Member Countries to heed this request, Al-Shahristani said the whole purpose of OPEC was for countries to come together and agree on decisions. But once they agreed on an issue, they had to respect the agreements and commitments made.

Concerning Iraq's special position in OPEC and the fact that, due to years of conflict and unrest, it did not have an assigned production allocation, the Minister said he did not think this issue would be discussed among the Ministers before 2011.

When the time came, they would have to sit down and agree bases and what the criteria should be in deciding an appropriate and fair production level, he said.

Al-Shahristani said he personally felt the country's needs for reconstruction should be the top criteria, in addition to its output capacity and capability, its reserves, as well as its production history.

"Because of the situation in Iraq over the past years, the country has been deprived of its true share in the world oil market and this has to be taken into account," he asserted.

The year 2009 proved to be a landmark period for the country, with Al-Shahristani's Oil Ministry holding two extremely successful oil bidding rounds that have the potential to add 11m b/d of new capacity to the country's overall production capability in the next six or seven years.

"The whole process has been very transparent and competitive and we received very good offers. The level of contractual production that the successful companies have committed themselves to has gone beyond our expectations. We were never really expecting to see 11m b/d from the ten fields involved in the bidding," he said.

There were reports that the first bidding round in June 2009 proved to be disappointing, with only one large contract agreed, but Al-Shahristani said that was not the case.

"We have been extremely pleased with the second round of bidding, but we were also happy with the results of the first round. We attained the production target we were looking for."

He explained that during the first round, some of the oil companies taking part were not in a position to accept the ceiling for Iraq's remuneration fee.

"They have since come back and accepted terms for the three fields on offer — with a combined output plateau of 6.4m b/d — so there is really nothing to be displeased about from the first round," he contended.

### *Pleased with the fees agreed*

Al-Shahristani said he was particularly pleased with the fees agreed with the oil companies. In fact, the combined average fee for all ten fields' total production was less than \$1.90/b.

"And if one takes into account the fact that that the companies have to pay 35 per cent in taxes and another 25 per cent to the Iraqi partner in the projects, what remains for the firms is less than 50 per cent of the fee,

which means 89 cents/b from the ten fields. This is what the oil companies are going to collect,” he said.

In some cases, it was even less, he added. One of the consortiums — Lukoil and Statoil — had signed up for phase two of the West Qurna oil field for a fee of \$1.15/b. “When you take out the taxes and the other commitments, the consortium is just left with around 56 cents/b.

### **No to third bidding round**

“So we are pleased with the production levels, we are pleased with the fees, and we are pleased with the service contract itself,” stated the Minister, adding that his Ministry was still working out with the oil companies how much would be spent in total on developing the fields.

“We will continue to be very open about our production plans and our expectations for the future,” he affirmed.

Asked whether Iraq was considering a third exploration round of bidding any time soon, Al-Shahristani replied that they did not feel at the present time that the country needed a higher production capacity.

“If we add the 11m b/d to the current production from other fields, it means we will be at 12m b/d plus in six or seven years. So, there is obviously no urgency for holding any further rounds at the moment.”

Of course, all this capacity expansion requires considerable new infrastructure, a development the Oil Ministry is already well on top of.

“We are working on a master plan for providing new pipelines and export terminals,” commented Al-Shahristani.

He said the blueprint was actually ready — they were just waiting for the final results of the second bidding round to determine which fields would be developed, at what kind of levels and what types of crude would be involved.

“Based on this information, we will revise and finalize our plan,” said the Minister.

The idea, he continued, was to have new pipelines running parallel with existing lines in the west of the country. They would have another system of pipelines to the east of the Tigris River — from Basra to Baghdad — and new pipelines from the north to the interior.

The pipelines would handle different kinds of oil. “We will be separating the light from the medium from the heavy.”

New terminals, some fast-track, would be built throughout the country to complement existing facilities



*Dr Hussain Al-Shahristani (l), Iraq's Minister of Oil, arrives for the press conference, accompanied by Dr Falah J Alamri, Iraq's Governor for OPEC.*

that were already operating at near capacity, said the Minister. “All will be ready in time for the first real boost in production, scheduled for two to three years’ time.”

And accompanying all this activity, he said, was a new oil and gas law for the country, which had been with Parliament for some two-and-half years now.

“I do not expect it to be passed before our next elections, which will be held on March 7. Everything will depend on the election results and the new Parliament and how it will look at the draft legislation,” he said.

Finally, his last word went to OPEC, which this year celebrates its 50<sup>th</sup> anniversary. Asked whether he thought the Organization would be around to celebrate its centenary, in 2060, Al-Shahristani replied:

“Maybe 50 years is a bit too long to make a judgment, but I would say that over the next 30 years the world will still be depending to a large extent on oil as a major source of energy. Personally, I would not be surprised if we celebrate the 100<sup>th</sup> anniversary of OPEC, where oil is still the dominant energy source in the world.”

What he was sure of was OPEC’s contribution to the international oil market. That, he said, would continue to be as it had always been — responsible, in always making available to the consumers what was required. 🌱

Gas Forum gathers steam — goes legal, appoints first Secretary General

# Producers, consumers must cooperate to forge common policies — Qatari Emir

By Siham Alawami and Jerry Haylins



*Sheikh Hamad Bin Khalifa Al-Thani, the Emir of Qatar.*

Gas-producing countries and the consuming nations they supply must intensify dialogue and cooperation to adopt common policies that will benefit the two sides, as well as the world economy in general.

That was the message delivered by Sheikh Hamad Bin Khalifa Al-Thani, the Emir of Qatar, to the opening session of the 9<sup>th</sup> Ministerial Meeting of the Gas Exporting

Countries Forum (GECF), held in the Qatari capital, Doha in December 2009.

“As exporting countries with the largest share of world gas reserves, we realize the extent of our responsibilities and the burden placed on our shoulders ... to develop the gas resources necessary and make them available to the world at large,” he told the GECF gathering.

Al-Thani pointed out, however, that such an undertaking from the producers required securing massive investments, employing qualified personnel, as well as using state-of-the-art technology for increasing extractable gas reserves and reducing the production, liquefaction and transportation costs.

## Significant exposure

“There is a significant political factor here in the need for cooperation among gas-exporting and importing nations, as well as the transit countries, whose territories and territorial waters the gas passes through, in order to develop the gas and deliver it to the areas of consumption,” he noted.

Established in 2001, the GECF represents and promotes the interests of the world’s leading gas producers. Currently comprising 11 Members — Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Qatar, Russia, Trinidad and Tobago and Venezuela, along with two observers (Norway and Kazakhstan) — it exchanges expertise in gas exploration and transportation and looks to draw up frameworks for global gas markets.

The Forum, which has acquired significant exposure on the world economic stage since securing its status as an official organization in December 2008, also seeks to promote dialogue between the producers and the consumers.

It has just elected its first Secretary General — Leonid Bokhanovsky, Vice President of Russia’s Stroytransgaz (see story on page 55) — and is embarking on a four-year plan (2010–13) to promote increased use of the environmentally friendly fuel, as well as enhance the industry through the utilization of state-of-the-art technologies and improved pipeline and tanker infrastructure.

The Qatari Emir said that in accordance with the targets of the Gas Forum the group must protect the sovereign rights of Member Countries in the development of their gas resources.

There was a need to coordinate policies that brought just rewards from the level of the revenues accrued from investing in the industry.

“We must orchestrate our efforts to do our best, in order to enable the gas-exporting countries to deliver their products to the markets of the consuming countries at



fair prices, and to meet their needs for this clean energy and contribute to maintaining global economic growth,” he affirmed.

Al-Thani said that, in the aftermath of the sharp fall in oil and gas prices seen at the beginning of 2009, the increase in crude prices seen throughout last year had not been matched with a similar increase in gas prices.

Accordingly, the price of a thermal unit of gas had become far less than the price of its oil equivalent.

“We hope that this situation is temporary, but regardless of the duration, the Members of this Forum should analyze the causes that led to this difference between the two prices and act together to restore the linkage between oil and gas prices and achieve parity between them.

“We see this as a fair and tenable target, if we take into consideration the outstanding characteristics of gas in comparison with other traditional energy sources,” he maintained.

The Qatari Emir stressed that the Forum should act to increase its reach and promote the status of gas as the preferred energy source. “We should defend and protect the interests of its producers, as is the case with other alternative energy sources.”

He explained that these targets, which would lead to the expansion of gas trade and securing supplies at fair prices, were in the interests of the gas-importing countries.

“Hence, the importing countries should refrain from taking unilateral measures that may seem practicable in

*Overlooking the signing ceremony is Sheikh Hamad Bin Khalifa Al-Thani, the Emir of Qatar; signatories are Abdullah bin Hamad Al Attiyah (seated left), Qatar’s Deputy Premier and Minister of Energy and Industry, who is GECF President; and Dr Chakib Khelil (seated right), Algeria’s Minister of Energy and Mines and GECF Vice President.*

*The Emir of Qatar, Sheikh Hamad Bin Khalifa Al-Thani (r); with Abdullah bin Hamad Al Attiyah (l), Qatar's Deputy Premier and Minister of Energy and Industry, President of GECF, and Dr Chakib Khelil (c), Algeria's Minister of Energy and Mines and Vice President of the GECF.*



the short run, but could be detrimental to all parties in the long term,” he said.

Al-Thani said another issue that demanded close attention by the Forum was the environment.

“We give utmost significance to the environmental aspects, especially the harmful environmental effects which have become evident in the world as a result of greenhouse gas emissions and the ensuing global warming,” he said.

The Emir contended that a historical responsibility fell on both energy producers and consumers to protect and preserve the environment by applying all available technological methods to reduce greenhouse gas emissions and cut the utilization rates of energy resources not deemed to be clean.

“Demand for gas has increased in recent years, due to its environmental and operational advantages. But maintaining the continuation of this trend depends on overcoming the challenges facing the world gas industry on technological, economic and marketing levels.

“This requires full cooperation among us all, as well as strengthening dialogue with the leading developed countries, in order to promote the spirit of cooperation and enhance concord for the benefit of all parties,” he added.

Al-Thani reminded delegates that the resolutions to be adopted by them should comply with the aspirations attached to the Forum on the day of its inception, namely

to become the most important organization dealing with gas affairs and regulating the fuel’s trade.

The importance of gas supplies to the future welfare of the global economy was also stressed by Qatar’s Deputy Premier and Minister of Energy and Industry, Abdullah bin Hamad Al Attiyah.

In a keynote address to the Forum he said natural gas would remain a key energy source for industrial sector uses and for electricity generation.

“The industrial sector currently consumes more natural gas than any other and this trend is expected to continue through 2030, when 40 per cent of world natural gas consumption will be for industrial uses,” he forecast.

## Prudent utilization

Al Attiyah, who is the GECF President, noted that 2009 had seen collaborative global efforts aimed at bringing about a recovery from the economic recession. The consequences of the crisis were not just limited to financial institutions — they had directly affected other markets, including oil and gas. Hopefully, this was only a short-term challenge and the long-term outlook would remain unchanged.

“The economic crisis gave us the opportunity to review our strategy to tackle the possible impact of these changes. We need a greater level of mutual support to ensure the uninterrupted supply of energy to the world and a wise and prudent utilization of our natural



Commenting on solutions for tying the price of gas to that of crude oil, **Dr Shokri M Ghanem** (pictured left), Chairman of the Management Committee of the National Oil Corporation of the SP Libyan AJ, said on the sidelines of the GECF meeting that this was one of the tasks set for the Forum. “It will study the matter and the new Secretary General will be given a mandate to prepare a report in this regard.

“We need to look for reasonable solutions because, in any case, gas is a caloric unit and should be treated equally.” He said the recent fall in gas prices represented a problem that affected all gas-exporting countries. “We have to study all the factors and look at tying the gas price to oil. However, due to the price volatility, our vision is currently blurred and I do not think we can do anything now in this meeting,” he stated.

Regarding the future role of the Gas Forum, **Odein Ajumogobia** (pictured right), Nigeria’s Minister of State for Petroleum Resources, said one of the top priorities was to create the dialogue that the GECF represented to ensure that all the producers benefited from the work of the association. He said he was very happy with the choices already made for the Forum’s Secretariat in Doha and the first Secretary General from Russia. “Qatar is a very strong gas country, while Russia is also very strong, so I think the combination makes this a very formidable organization.” The Minister said he hoped that being a Member of the Forum would help Nigeria as it implemented its ambitious new gas master plan that sought to develop the country’s huge gas resources.



resources. In this context, the role of this Gas Forum is essential,” he asserted.

The Minister pointed out that Qatar was playing an essential role in energy supply. It had embarked on an extensive development of its giant North Field reservoir, the single largest non-associated gas field in the world.

Qatar was currently the world’s largest exporter and trans-shipper of liquefied natural gas (LNG). Eleven of its 14 LNG production trains were now in operation. These included three of the six so-called mega-trains, each with a capacity of 7.8 million tonnes of LNG per annum.

“For several years, together with its major energy industry partners, Qatar has pioneered new technology and new market approaches to reduce LNG production and transportation costs,” he explained.

“The economies of scale generated by the larger trains and ships and the receiving terminals have made it possible for Qatar LNG to reach all the global gas markets in a reliable and cost-effective manner,” he said.

“These recent achievements further reinforce our commitment to supply the most reliable, environmentally friendly and economical fuel in the world,” he added.

Al Attiyah told delegates that their meeting was particularly significant as it was the first to be held following the completion of the basic procedure to ratify the Forum’s statutes, which was signed in Moscow in December 2008. It also elected its first Secretary General.

The objectives of the Forum, continued Al Attiyah, required continuous work and efforts by all Forum Members and committees, while the GECF Secretariat in Doha had a major role to play in setting and implementing future plans, in order to achieve the Forum’s objectives.

In this way, the Forum was providing the support necessary for helping Member Countries develop their natural gas resources through research and development efforts, enabling them to face future energy challenges and open up investment opportunities.

# Consumers have nothing to fear from Gas Forum



The following brief interview with Qatar's **Dr Ibrahim B Ibrahim** (pictured), who has unparalleled experience in the oil and gas industry, was conducted by the OPEC Bulletin's **Siham Alawami** on the sidelines of the 9<sup>th</sup> Gas Exporting Countries Forum (GECF) in Doha. Economic Advisor to the Emir of Qatar since 1988, Ibrahim, who has a PhD in Business Administration, is Secretary General of Qatar's General Secretariat for Development Planning, and Vice Chairman of the RasGas Board of Directors.

**Will the Gas Forum Secretariat in Qatar play a role in supporting cooperation between the producers and the consumers?**

Yes. As you know, one of the main objectives of the GECF is to enhance cooperation among the gas producers and to safeguard their interests. But a second important role is to promote and enhance dialogue with the consumers because, sometimes, one-sided decisions negatively affect all other parties in the long term.

**We have all seen reports stating that the Gas Forum could become a second OPEC. What do you think about this?**

Every type of energy resource has someone defending it. It is natural that gas exporters defend their interests as well.

**What are the priorities of Qatar in its membership to the Gas Forum?**

The main objective is to make sure that cooperation exists among the producers — and on many fronts — in technologies, in information and in strategies. The second is creating a dialogue, a fruitful dialogue, between the gas-exporting countries and the consuming nations to ensure that any procedure or policy adopted will result in benefits to both sides.

***Elements of the media tended to criticize the Forum even before it was properly established. What do you think about this and how are you getting your message across that the GECF is to the benefit of the consumers, as well as the producers?***

I think the negative elements you speak of should refrain from attacking our organization. But this kind of reaction is expected because it comes out of fear. One of our jobs is to show that there is nothing to fear from this Forum. Let's face it, we have a common objective — to make sure this resource reaches the consuming countries. We also want gas to have a fair price. The consuming countries have their own groupings — the OECD and the IEA for example — and we have no objection to that because we think it is better to talk group-to-group, rather than individual countries to one another. I would say they should not be afraid of this Forum. We are not doing anything different now than we did before.

***Is there going to be cooperation between the Forum and OPEC?***

Yes: there is no question — we should have real cooperation with OPEC because, after all, when we talk about gas we cannot say it has nothing to do with other energy sources. And, of course, substitution between these resources is very important.

***Tell us about the mechanism of tying gas pricing to that of crude oil. How can this be done?***

I do not have this mechanism right now to tell you about, but there are other things, for example, the increasing uses of gas and transportation demand, factors that are supporting the rise in oil prices seen at present. In the transportation sector, oil is dominant, so we can think about increasing the uses of gas in this sector. Also coal — regardless of its negatives with regard to the environment — forecasts indicate that demand for this fuel is expected to grow. Why? Because there are lobbyists for coal and there are people defending it. Therefore, since gas is a preferable energy source, we should look at all means to support its demand.

***With the latest climate change talks being held in Copenhagen in December last year, how do you feel gas, as a fuel, is positioned in the environmental debate?***

Gas, compared with other traditional sources of energy, is the cleanest fuel with very low emissions. If there is any commitment, or any procedure to reduce global emissions further, then I think gas will not lose out — it will benefit. Of course, our job as producers of this source of energy is to also make sure that we reduce the level of harmful emissions further through the use of modern technology and the latest research techniques.

***Turning to domestic developments, how do you see gas investments developing in Qatar in the years ahead?***

The most important thing for us in Qatar was to solve our problems in this regard. The first problem was our location — Qatar is situated far away from all consumer markets, in Asia, Europe and the United States. So, we solved this problem by reducing the cost of production, liquefaction and transportation of the gas. The second thing was to make Qatar Gas a brand name, one that is associated with reliability, timeliness in the arrival of shipments to customers and commitment to and compliance with the agreements we sign with other parties.

# GECF ideally placed to confront gas challenges

**Conrad Enill** (pictured right), Minister of Energy and Energy Industries of Trinidad and Tobago, joined his country's government in December 2001. Holder of a Masters Degree in Business Administration, he was initially appointed a Member of Parliament in the Upper House. In 2007, he assumed the energy portfolio. The OPEC Bulletin's **Siham Alawami** caught up with the Minister at the end of the 9<sup>th</sup> GECF in Doha.



## **How was your meeting today?**

The meeting was a success. We agreed on a Secretary General and we agreed on a number of things that the Secretariat would do, in preparation for the next meeting.

## **What are the priorities of the Forum right now?**

The priorities are to put in place an organization that can start to deal with the challenges facing the gas business as we see it. One of the issues to be addressed is the pricing of gas and the differential between it and that of crude oil. This is something we need to understand and therefore deal with.

## **It is widely said that gas is the more efficient burning fuel, yet seemingly less efficient in terms of getting a better price for it. Do you see this situation changing?**

Of course, the world has changed — and the gas supply industry has changed. We have new challenges now. For example, we have shale gas and I think everybody needs to understand how this industry will survive in the current environment. This Forum is going to do just that. Gas contracts are different to those associated with oil. Normally, gas deals are set long term — for 25 years and we need to see how this will work. One of the things we are looking at is whether or not contracts can be negotiated, or renegotiated, for shorter periods. The pricing environment has changed — the world has changed — and whenever you have a situation where the world has changed, companies tend to renegotiate contracts. We think we may be able to do the same thing at this time.

## **How do you view the work of the Gas Forum? Can it make a difference?**

We now have the makings of an organization that can actually look at the gas business and conduct work that will be able to tell us how we can get the best benefits out of our operations and activities. There is already a suggestion

that if we look at transportation and if we work with one another we can reduce the costs in this important area. This is just one example and there might be more opportunities for us to get other benefits. There are countries that have long transportation routes and if we collaborate with them, we can reduce costs.

## **What are the future energy plans for Trinidad and Tobago?**

The future plans for our country are very similar to everyone else's in our situation — continue exploration activity and look at developing more projects. We are currently involved in constructing an aluminum smelter and we are looking at compressed natural gas (CNG) as an alternative to normal gas. Of course, we are also looking at sustainable development which has to do with the climate change issue.

## **Speaking of climate change, what is your impression concerning the recent talks in Copenhagen?**

I think the fact that Copenhagen happened means that most countries and most companies have started to look at the climate issue. If you can achieve that simply by hosting an event, then I think you have already come a long way in achieving something. I think it will eventually work out because it is a serious issue — an issue that requires all of us to deal with it. That requires us to work together and I feel that is what will happen. There is really no other choice.

# Forum appoints Russian as first Secretary General



Leonid Bokhanovsky (l), the first Secretary General of the Gas Exporting Countries Forum (GECF); with Qatar's Deputy Premier and Minister of Energy and Industry, Abdullah bin Hamad Al Attiyah, who is GECF President.

Leonid Bokhanovsky, Vice President of Russian engineering and construction firm, Stroytransgaz, has been chosen as the first Secretary General of the Gas Exporting Countries Forum (GECF).

His name was put forward with other candidates from the 11-Member grouping in October 2009. He was unanimously elected to the position at the 9<sup>th</sup> GECF meeting in Doha in December. He will serve a two-year term, renewable for another two years.

The GECF sees the appointment of a Secretary General as very important for taking the Forum's activities forward.

"The key tasks before us are, first and foremost, the establishment of an organization that will represent the interests of producers and exporters of gas on the international scene and express the coordinated position of its members on the current situation in the gas market and its future prospects," Bokhanovsky said after his appointment.

## Development plan

"At present, strengthening cooperation among gas producers reflects their determination to make the market more predictable and reduce risks. However, turning the organization into a gas cartel is not on the agenda and will not be in the near future," he added.

Bokhanovsky will work closely with the Executive Board of the GECF as it draws up a four-year plan (2010–

13) for the organization to promote and adopt latest technologies in the gas industry, coordinate pipeline and tanker transport of natural gas and facilitate broader worldwide use of the fuel.

According to a GECF press release issued in Doha, he will be looking to develop the Forum's scientific and research activities; promote gas exploration, production and transportation technologies worldwide; monitor and forecast gas exploration and production trends; present and anticipate the supply-demand balance for gas; coordinate transportation projects, pipelines and LNG carriers; study gas correlation with other energy resources; and promote the increase of natural gas utilization.

"Moreover, the Secretary General plans to establish and promote close cooperation between the GECF and various international organizations, regional and international energy organizations, and various trade unions," the release stipulated.

These included OPEC, the International Energy Forum, the United Nations, the European Union, the International Energy Agency, the Association of Southeast Asian Nations, the Asia-Pacific Economic Organization and the International Gas Union.

The release said the other significant direction for the Secretary General to pursue was in establishing cooperation between the gas-exporting and importing countries.

In the case of the gas exporters, it was important to attract new members. Equally as important was developing closer ties with the main gas-importing countries, such as EU states, the United States, China, India and Korea.

"Forming close partnerships with leading natural gas companies, especially those located in Member States of the Forum, is an important part of the GECF Secretariat's activities," commented the release.

The size of the Forum's membership is already set to increase with provision for Brunei, Indonesia, Malaysia, Norway, Turkmenistan and the United Arab Emirates already made. Azerbaijan, Uzbekistan and Canada are potential future members.

# Gas producers make history — go from strength to strength

*When the Gas Exporting Countries Forum (GECF) was established in 2001, parallels were immediately drawn about it being the gas equivalent of OPEC. However, the ‘gas-OPEC’ tag has been repeatedly downplayed over the years with officials from both sides making it clear that even though OPEC and the GECF look to protect the interests of their Members, their aims and objectives are different. The OPEC Bulletin’s **Siham Alawami**, who was in Doha for the 9<sup>th</sup> Meeting of the GECF, in December 2009, spoke with Mohammed **Naser***



***Al-Hajri** (pictured), Manager of Downstream Business Development and Evaluation at Qatar Petroleum and his country’s representative on the GECF Executive Board. He had this to say about the Forum so far.*

It was in May 2001, in the Iranian capital, Tehran, that a group of gas-exporting countries decided to formulate the Gas Exporting Countries Forum (GECF). The idea was just to exchange information and experience and to develop the relationship between the world's main gas producers.

Part of the formulation document was to have a committee of high-level experts, which would study and present reports on the situation in the gas industry, and to convene an annual ministerial meeting of the Forum. At this time, there were no signatures — just basic agreement among the ministers.

## Healthy discussions

The second ministerial meeting was held in Algiers, Algeria in 2002, where it was decided to establish a technical committee to conduct various studies. Qatar offered to undertake a comprehensive study on LNG technology, while Iran committed itself to a report on the legal framework of gas contracts. At the same time, Algeria put its name to hosting a roundtable of financiers and technology providers for Forum Members.

The GECF's third meeting was held in Qatar, where the idea of a Secretariat for the Forum was born. Communication among Member Countries was not regulated, so it was decided to create, at first, a Liaison Office. Qatar was chosen as the location for this and I was appointed Liaison Officer for the Gas Forum in February 2003.

The Forum continued to hold its ministerial meetings — in 2004 in Cairo, Egypt and the following year in Trinidad and Tobago. The discussions on gas were very healthy and the objectives of the Forum were spelled out and clarified. The Cairo meeting decided to set up an executive board and I represented Qatar on this. The board was mandated to establish a general framework for the Forum and one of its objectives comprised structuring the organization, with each Member coming with ideas as to how this should be done.

There was talk about moving the Liaison Office with the annual conference, but it was finally agreed to keep it in Qatar. Later, Qatar was chosen to host the headquarters.

The 2006 GECF meeting was initially due to be held in Caracas, Venezuela, but was subsequently postponed as it conflicted with the convening of an OPEC Conference there. The Forum was then held in Qatar, in April 2007. During those talks, another important decision was taken, following a proposal by Russia, to establish a high-level

committee mandated to formulate, within one year, proposals covering statutes and a headquarters for the Forum, as well as the stipulation of the main objectives of the GECF.

The committee proved to be very active, holding some ten meetings in Doha, Tehran and Cairo. Its deliberations culminated in the presentation of a list of statutes detailing how the Forum should function. A legal document — the Gas Exporting Forum Functioning Agreement — was signed on December 23, 2008, in Moscow, Russia.

December 2008 proved to be a landmark month for the GECF, acting as the trigger for establishing the Forum as a legal entity. Eleven countries — Algeria, Bolivia, Equatorial Guinea, Egypt, Iran, Libya, Nigeria, Qatar, Trinidad and Tobago, Russia and Venezuela — signed the functioning agreement. It was also decided to site the headquarters in Qatar. The process of establishing the Secretariat came from the Qatari Side.

Further progress was made at the 9<sup>th</sup> Meeting of the Forum in December 2009 when a first Secretary General was chosen. It also saw the host country agreement signed as well. This all meant that the Gas Forum could immediately start to function and deliver on what was expected from it.

The Forum is defined as an international multinational organization, with the main objective of respecting the sovereign rights of its Member Countries, regarding their natural resources.

## Exchanging information

It sets out to increase the exchange of information and experience among the Member Countries in gas industry affairs. However, the gap between some Members when it comes to experience in the gas sector is huge — some are beginners, while others are advanced. The expectation is that the Forum can help bridge this gap and help the new countries develop their businesses more quickly.

This kind of work is what is expected from the Secretariat — to gather information and present it in a way that will help expedite and speed up the development of gas-producing Members, especially those that are starting to exploit their gas resources.

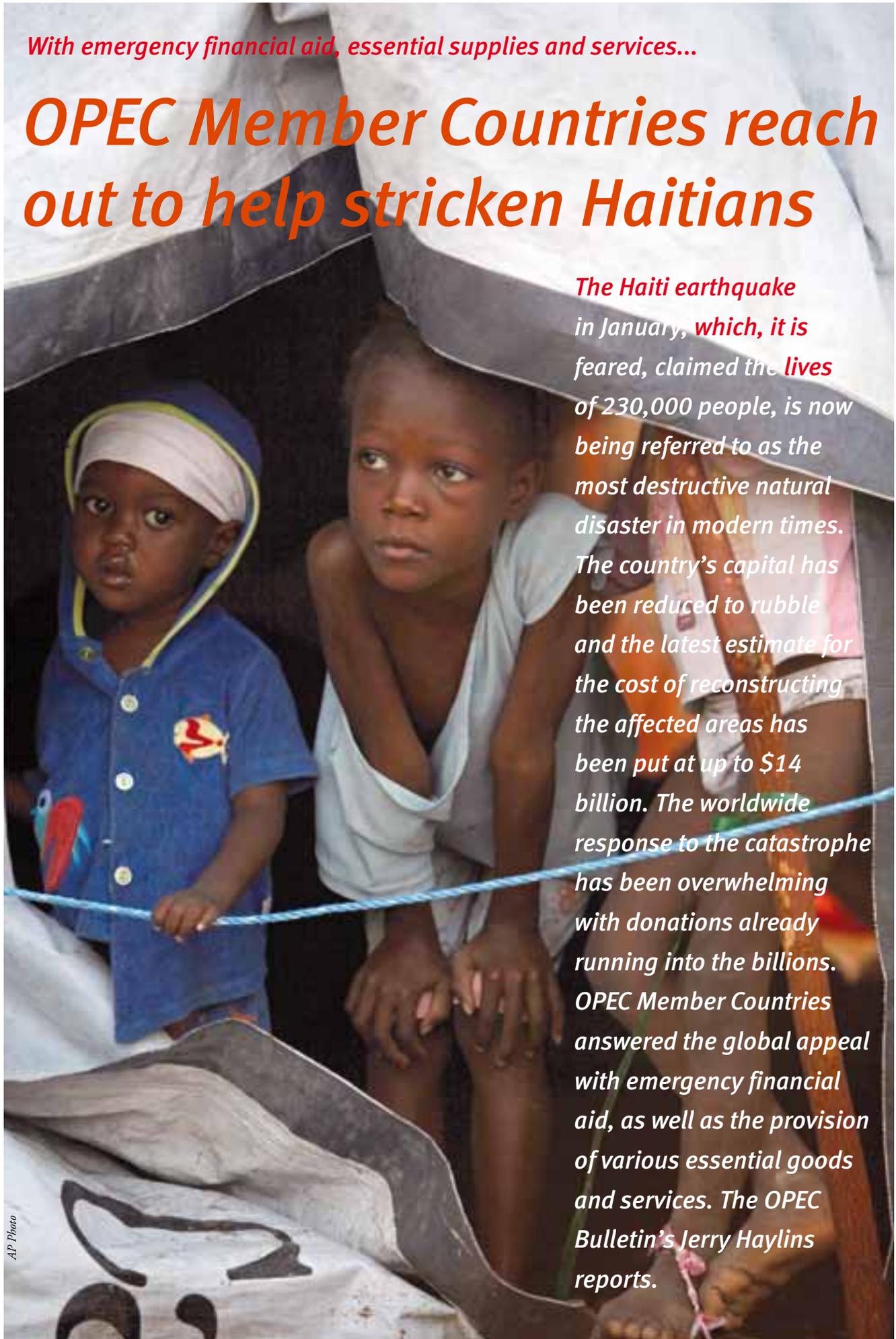
The Forum also aims to cultivate ties between the producers and consumers, but there is nothing stated in the statutes, or in the objectives, directly or indirectly, that it will make any decisions on prices, or production. The statutes state that prices and production are the individual interests of each Member Country. 

*All photographs Qatar Petroleum.*

*With emergency financial aid, essential supplies and services...*

# *OPEC Member Countries reach out to help stricken Haitians*

*The Haiti earthquake in January, which, it is feared, claimed the lives of 230,000 people, is now being referred to as the most destructive natural disaster in modern times. The country's capital has been reduced to rubble and the latest estimate for the cost of reconstructing the affected areas has been put at up to \$14 billion. The worldwide response to the catastrophe has been overwhelming with donations already running into the billions. OPEC Member Countries answered the global appeal with emergency financial aid, as well as the provision of various essential goods and services. The OPEC Bulletin's Jerry Haylins reports.*



AP Photo

OPEC Member Countries have individually extended considerable financial assistance and other aid to stricken Haiti following the earthquake that devastated the country in early January.

Led by Saudi Arabia, Members of the Organization have so far channelled a total of \$60 million in donations to the impoverished Caribbean country to help it recover from the catastrophe that is now considered to be the worst natural disaster in modern times. An estimated 230,000 people are feared dead, or unaccounted for.

### Aid and essential supplies

Other OPEC Member Countries to make financial donations comprise Kuwait (\$3.34m), the United Arab Emirates (\$3.21m), Nigeria (\$1.5m) and Algeria (\$1m). Indonesia, which suspended its OPEC Membership at the end of 2008, has extended \$1.7m with another \$50,000 pledged.

The UAE has made a pledge of a further \$100,000, which will be channelled through the Red Crescent Society.

In addition, other OPEC Members, including Ecuador, Iran, Qatar, and Venezuela, have given donations of various essential supplies, including water and foodstuffs, medicines, tents, blankets, clothing and fuel, while also extending the services of their experts in rescue, medical and technical fields.

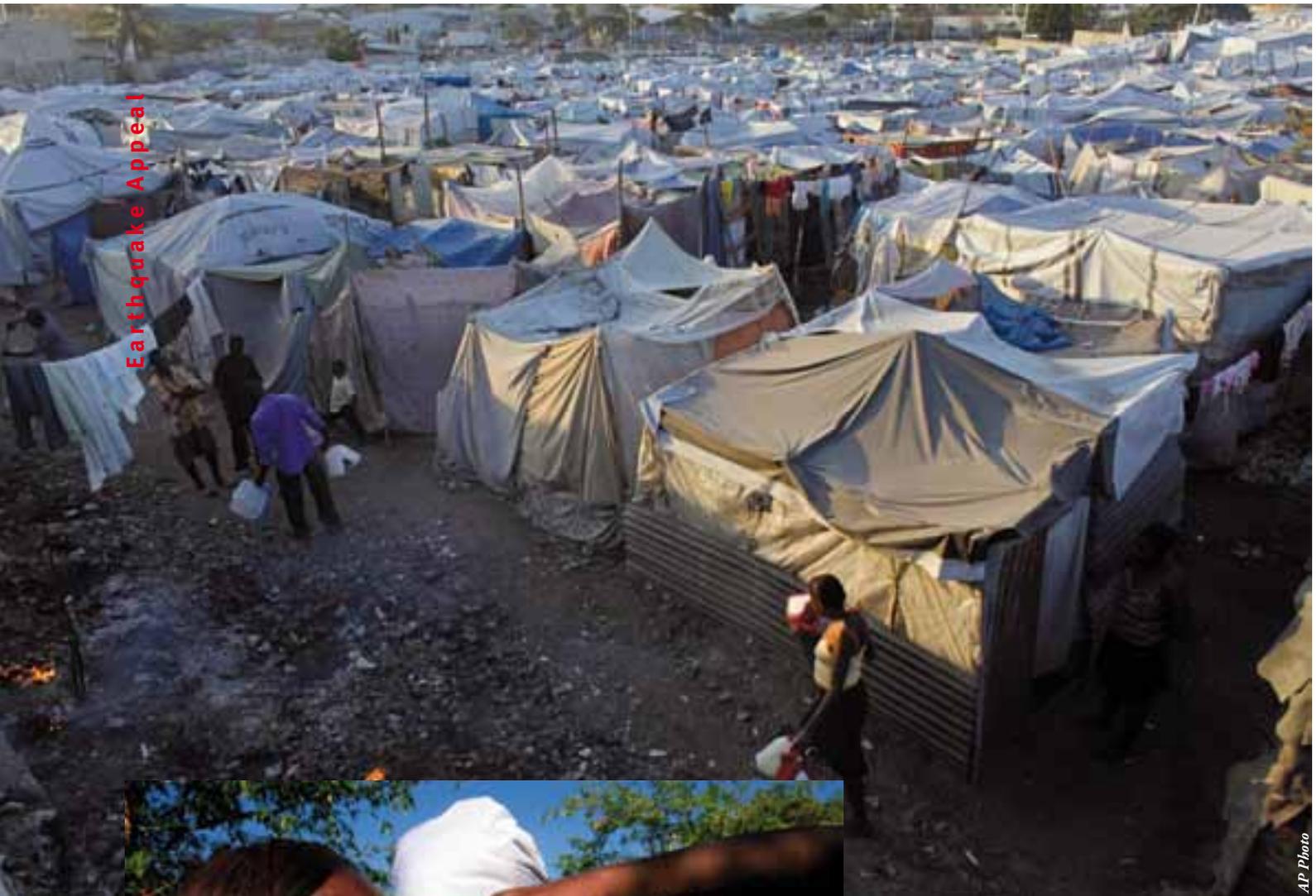
And, of the related institutions, the OPEC Fund for International Development (OFID) has extended emergency aid of \$500,000 to Haiti (*see story on page 74*), while the Andean Development Fund, of which Ecuador and Venezuela are members, has made \$250,000 available for the relief effort. A further \$100,000 has come from the Arab Gulf Programme.

It is already several weeks since the earthquake, with a magnitude of 7.3 on the Richter Scale, hit the country on the afternoon of January 12, leaving Haiti's capital, Port-au-Prince, in ruins, yet the aid effort is continuing unabated.

Latest reports from Haitian government officials say that between 217,000 and 230,000 people have been identified as dead, with an estimated 300,000 injured, and one million homeless. They also estimated that



Left: Children peer from a makeshift tent, while, above, an example of the extent of damage inflicted on the capital by the earthquake can be seen.



AP Photo



Reuters

Above: A worldwide shortage of tents hampered efforts to offer Haitians emergency shelter, while, inset, a survivor receives a welcome drink of water.

250,000 residences and 30,000 commercial buildings had either collapsed, or were severely damaged.

The capital, the centre of the country's commerce, government and communications, has been thrown into chaos. The presidential palace, the national cathedral, churches, hospitals and government offices were among buildings either destroyed or listed as unsafe.

Rescue workers were hindered during their search through the rubble for survivors by over 50 strong aftershocks, which continued almost two weeks after the main earthquake.

Urgent needs, such as the provision of food, water and medical care, which were initially lacking, are increasingly being met as some sort of normalcy and order have returned. However, many priorities remain.

Chief of these is providing emergency shelter for the homeless. Although tents and tarpaulins have been distributed to over 250,000 people, many still only have improvised shelter and most are living outside organized camps.

The situation is being exacerbated by a worldwide shortage of suitable tents, which has led the relief agencies involved to focus their efforts on providing materials that can serve as makeshift shelters, such as plastic sheeting and tarpaulins.

To make matters worse, the agencies are facing a race



AP Photo

brought further havoc, with 330 listed dead and 800,000 people in need of humanitarian aid.

The Inter-American Development Bank recently announced that the cost of rebuilding Haiti after the latest catastrophe could be as much as \$14 billion, which is almost \$3bn more than the country's gross domestic product.

Economists at the bank, in their latest study, have virtually doubled damage estimates from the earthquake, taking into account the sheer magnitude of the disaster and the number of fatalities.

### Most destructive

"While the results are subject to many caveats, the study confirms that the Haitian earthquake is likely to be the most destructive natural disaster in modern times, when viewed in relation to the size of Haiti's population and its economy," the economists agreed.

They added that, in this respect, the earthquake in Haiti was much more

Left: Rescue teams worked around the clock to find survivors trapped under the rubble, while, below, a tank of water is delivered to the needy.

against time as they strive to provide the people of Haiti with adequate shelter before the three-month rainy season starts in earnest in April.

### Challenges being overcome

The encouraging news is that the early logistical challenges that hampered rescue efforts are increasingly being overcome. More and more aircraft are now able to land at the Port-au-Prince airport, while the capital's seaport is capable of processing up to 350 containers a day. Still of concern is the road congestion inland.

As for the reconstruction work, it is widely felt among the institutions and agencies helping Haiti that it must not be rushed. Adequate time must be allowed to ensure that replacement buildings and accommodation are more secure and safe and better able to withstand any future disaster.

Haiti, the poorest country in the western hemisphere, has had its fair share of disasters. In 2004, over 3,000 people were killed when tropical storm Jeanne hit the north coast of the country, causing flooding and mudslides. Then in September 2008, four storms in as many weeks



AP Photo

OPEC bulletin 1-2/10



Left: Humanitarian aid ready to be loaded onto a ship destined for Haiti.

Reuters

Below: Due to the logistical problems, essential goods were distributed by truck.

destructive than the Indonesian Tsunami of 2004, whose damages were estimated at just over \$5bn. Haiti's disaster also caused five times more deaths per million inhabitants than the second-ranking natural killer, the 1972 earthquake in Nicaragua.

But it pointed out that a detailed accounting of the cost of Haiti's reconstruction still had to be drawn up.

The global response to the disaster has been overwhelming with aid contributions and pledges already running into billions of dollars.

Looking at a more detailed breakdown of contributions from OPEC Member Countries, Saudi Arabia's donation is the largest from the Middle East region. The Kingdom's support has been extended to the Haiti Emergency Relief Response Fund, managed by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), and will be used for various aid projects.

"The Kingdom, by the instruction of King Abdullah, is donating \$50m ... to assist the Haitian people," Foreign Ministry spokesman, Osama Nugali, was quoted as saying when news of the donation was made public.

Kuwait's emergency aid for Haiti has been made through five separate tranches, four of which involved the Red Cross. The country also sent consignments of goods, including 100 tons of food, medical supplies, tents, blankets and transport assistance, to Las Americas Airport in Santa Domingo, capital of neighboring Dominican Republic, from where the goods were transported to Haiti and distributed.

In confirming that the second batch of relief supplies had arrived, Jassem Qambar, of the Kuwaiti Red Crescent Society (KRCS), told the Kuwait News Agency (KUNA) that the consignment consisted of 30 tons of tents, which would be dispatched to those in need by truck.

He paid tribute to the excellent cooperation shown by the Red Cross of the Dominican Republic and the



OPEC bulletin 1-2/10

AP Photo

International Federation of Red Cross and Red Crescent Societies with the KRCS for making the mission a success, stating that KRCS President, Barjas Hmoud Al-Barjas, had been keen to get the aid delivered to the people as soon as possible.

The UAE's support for Haiti has been made in at least ten separate contributions and through different institutions and agencies, including the Red Crescent Society, the Mohamed Bin Rashid Al Maktoum Humanitarian and Charity Establishment, the Khalifa Bin Zayed Foundation, and the 'Dubai Cares' education for children charity.

The official UAE news agency, WAM, announced that planes carrying hundreds of tons of much-needed supplies, medicines, medical goods, water, and foodstuffs, as well as tents, blankets and housing materials, had been sent by the government to Santa Domingo.

### Emergency teams

From there, the goods were again dispatched to Haiti and distributed, mostly by the Red Crescent Society. The UAE also sent teams of officials to help with logistics and assessing the damage. Dominican Republic Foreign Minister, Carlos Morales Troncoso, received two delegations from the Khalifa Foundation and Red Crescent Authority to discuss delivery of the relief supplies to those affected. The Foundation coordinated its Haiti humanitarian operations with the Dominican authorities, as well as with the international relief agencies present, such as the World Food Programme, Save the Children, and the Dominican and Haitian Red Cross societies.

In addition, immediate assistance was given by Dubai Cares to some 200,000 children in Haiti through the help of partners in the country.

Princess Haya bint Al Hussein, the wife of Sheikh Mohammed bin Rashid, Ruler of the Emirate of Dubai, flew to Port-au-Prince to deliver aid and help Arab families in the Haitian capital.



Reuters

"Dubai may be far away, but we join in reaching out to Haitian families who have lost so much and are struggling just now to survive," the Princess, a 'Messenger of Peace' for the UN told WAM at the time.

Regarding Nigeria, Minister of Foreign Affairs, Chief Ojo Maduekwe, said the country had earmarked \$5m in emergency relief aid for Haiti.

Speaking at the UN headquarters in New York, when he presented a cheque for \$1.5m to the UN as an "immediate response" to the disaster, he said the financial aid, to be channeled through the OCHA, would be followed by the delivery of medical supplies and relief materials worth \$3.5m.

"We are also following that (the donation) with the

*Above: The International Federation of Red Cross and Red Crescent Societies has been at the centre of the aid distribution effort.*

*Below: A before and after shot of the Presidential Palace in Port-au-Prince, which suffered extensive damage in the earthquake.*



Reuters



Reuters

immediate deployment of 50 volunteers under our Technical Aid Corps. Half of the volunteers will be doctors and the other half will be made up of engineers and nurses,” he stated.

The Minister said his country had also indicated its interest to be present at the donor conference for Haiti in March.

Maduekwe cited the historic links between the two countries, saying that “as the first black republic in the western hemisphere, Haiti, long before the earthquake, resonates in Nigeria.

“For us in Nigeria, Haiti is a powerful metaphor of the resilience of the human spirit, a powerful symbol of the imperative of beauty and majesty of freedom. It is also an indication that even in dark moments, hope will always prevail,” he was quoted as saying.

Another country that was quick to respond to the emergency was Algeria, which granted two donations, each amounting to \$500,000.

“Algeria assured Haitian President, René Preval, of its sympathy and full availability and expressed the deep emotion of the Algerian people regarding this terrible disaster,” a statement from the Algerian Foreign Ministry said.

It added that a team of over 20 Algerian doctors was also on stand-by to go to Haiti.

Iran’s contribution to the relief effort also came with the delivery of urgent supplies. It sent a plane carrying 30 tons of goods, including medicines, canned food, and tents to Haiti.

An official with Iran’s Red Crescent Society told the country’s news agency, IRNA, that the relief assistance also included washing powder, sugar, kitchen utensils, and other much-needed supplies. The Society had also made its own donation to Haiti of \$106,000.

Qatar was also keen to become part of the international relief effort. It sent a transport plane to Port-au-Prince loaded with 50 tonnes of urgent supplies. The country also assembled a 26-member rescue team to help Haitian authorities.

In a statement to the Qatar News Agency (QNA), the chairman of the Qatari rescue team, Captain Mubarak Sherida Al-Kaabi said: “The emergency assistance to the Haitian people came under the directives of the High Command in Qatar as part of its continuous efforts to provide shelter, clothing, food and medicine to the needy.”

He said the rescue team comprised members of the Qatari armed forces, the internal security force (Lekhwiya), the police and the Hamad Medical Corporation, adding that it would set up a field hospital and provide assistance in Port-au-Prince and other affected areas of the country.

The Qatari search-and-rescue team had conducted similar relief efforts in Indonesia and Pakistan.

### Tons of essential supplies

A similar response came from Venezuela. The South American OPEC Member initially arranged a plane loaded with 12 tons of essential supplies, including food, water and clothing.

## OPEC Presidents and Heads of State sanction relief aid

*OPEC Member Countries have together donated financial assistance to Haiti totalling \$60 million. They have also responded to the earthquake appeal by sending such essential supplies as food, water, medicines, tents, and blankets, as well as medical and emergency support teams. Pictured here are the Presidents and Heads of State of Member Countries who have contributed to the effort by sanctioning the aid.*



This was quickly followed by another government dispatch of humanitarian aid comprising 616 tons of food, medicines and drinking water, as well as 116 tons of special machinery for reconstruction work, along with four medical and rescue teams.

Venezuela's Director of Civil Protection and Disasters Management, Luis Diaz Curvelo, said his country would send a fifth team of 48 personnel to join the Venezuelan doctors, rescuers and firemen already working in Haiti.

He added that Venezuela also planned to send a special vehicle to Port-au-Prince to help ease the communications problems in the capital.

In addition, Venezuela's national oil company, PDVSA, provided non-governmental organizations working in the country with 225,000 barrels of different kinds of fuel, desperately needed by hospitals and for emergency power generators.

OPEC's re-established Member, Ecuador, has been heavily involved in determining ways and means of helping Haiti recover from the disaster. It hosted a meeting of the Union of South American Nations (UNASUR), which looked at how to better coordinate relief efforts for the country.

The meeting was convened by Ecuadorean President, Rafael Correa, whose country currently holds the UNASUR chair.

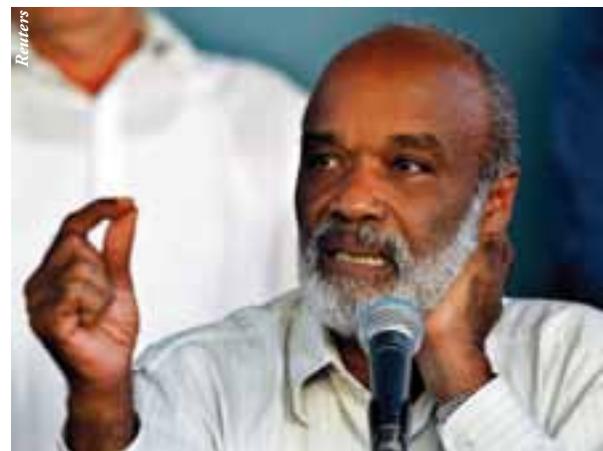
Ecuadorean Foreign Affairs Minister, Ricardo Patiño, revealed that Haitian President, René Preval, had held talks with Correa, during which he outlined the priorities as he saw them for boosting the international aid needed for reconstructing Haiti.

Preval said humanitarian aid was gradually reaching most of the Haitian population through improved distribution, but the mid and long-term goal was rebuilding the country's virtually non-existent infrastructure in which "UNASUR could play a leading role."

Commented Patiño: "The idea is that the enormous support effort from the Latin American community and its governments in support of Haiti does not dilute into a lack of coordination and is done in direct contact with the elected authorities of Haiti."

Ecuador has helped Haiti with the provision of search and rescue teams and a large consignment of foodstuffs.

Also of note, Indonesia's aid has been channelled through the Haitian government. The urgent supplies included some 30 tons of tents, medicines, foodstuffs, baby and children's kits, water purifying equipment, and vehicles, in addition to a 75-man humanitarian team comprising rescue workers, electrical technicians, construction and telecommunications experts, and doctors. ■■



Haiti's President, René Preval, answering questions during a news conference after his meeting with Ecuadorean President, Rafael Correa.



1. *The Custodian of the Two Holy Mosques, HM King Abdullah Bin Abdulaziz Al-Saud, of Saudi Arabia.*
2. *The Emir of Kuwait, HH Sheikh Sabah Al-Ahmad Al-Sabah.*
3. *United Arab Emirates President, HH Sheikh Khalifa Bin Zayed Al-Nahyan.*
4. *Nigerian President, Umaru Musa Yar'Adua, GCFR.*
5. *Algerian President, Abdelaziz Bouteflika.*
6. *Iranian President, Mahmoud Ahmadinejad.*
7. *The Emir of Qatar, HH Sheikh Hamad Bin Khalifa Al Thani.*
8. *Venezuelan President, Hugo Chávez Frías.*
9. *Ecuadorean President, Rafael Correa.*

# Iran planning ambitious oil and gas development programme

Iran is planning huge investments in its oil and gas operations over the next few years and is looking to both domestic and foreign sources for the funding required.

The aim is to increase the nation's crude oil output capability to 5.1 million barrels/day by 2015 under a five-year national development plan, which has been submit-



Masoud Mir-Kazemi, Iran's Minister of Petroleum.

Facilities at phases two and three of the South Pars gas field are illuminated at night in Assaluyeh on Iran's Gulf coast.

ted to Parliament by President Mahmoud Ahmadinejad.

The Petroleum Ministry's news agency, SHANA, disclosed that total investment in the country's oil and gas sector from 2010 to 2015 would amount to \$155 billion, including \$65bn from domestic resources.

Citing the development plan, the report said Iran's

gas production would rise to 1.1bn cubic metres a day. This would mostly come by exploiting more phases of the country's giant South Pars field in the Gulf.

SHANA pointed out that, in order to attain both oil and gas production targets, the country needed to develop 15 oil fields and 20 gas fields.

The oil field development would lead to the addition of some 1.5bn b of crude to the country's reserves annually, it added.

## Foreign investment

Iran's Minister of Petroleum, Masoud Mir-Kazemi, was recently quoted by the official IRNA news agency as saying that his country was looking at proposed foreign investments totaling \$20bn in its energy sector.

The Iranian government is keen to secure foreign capital with which to develop its lucrative oil and gas operations. The nation sits on a near 140bn barrels of proven crude oil reserves, the third largest in the world after Saudi Arabia and Venezuela, and has proven natural gas deposits of over 29.6 trillion standard cu m, second only to Russia globally, according to the *2008 OPEC Annual Statistical Bulletin*.

Mir-Kazemi said the intention was to invest at least \$35bn a year in the upstream oil and gas sectors over the next five years.

This would compare with yearly investment of \$10bn that Iran, a Founder Member of OPEC, had attracted from just foreign investors over the past four years.

However, Mir-Kazemi, in an earlier statement, made it clear to newsmen that as part of the new development programme, his country would also be looking to encourage domestic investment to support the expansion projects planned, in addition to schemes backed by overseas sources.

Industry officials say that the higher crude oil prices seen of late — the OPEC Reference Basket is currently fetching around \$70–80/b — would inspire confidence among potential investors by providing an enabling environment for the capital injections required.

Companies from Asia, particularly India and China, have expressed an interest in making investments.

IRNA confirmed in late 2009 that Iran had approved the first-phase development of its giant Yadavaran oil field and planned to expand the Jufair oil field.

China's Sinopec reached a \$2bn agreement to develop the Yadavaran field in 2007.

"This development will boost the country's production capacity by 85,000 b/d," IRNA commented.

It added that with the government's approval for plans to develop the Jufair oil field, in Khuzestan province, another 25,000 b/d of crude oil, as well as 6.3 million cubic feet/day in condensates, would be added to the nation's petroleum output capability.

Iran is also starting to develop oil and gas blocks in the Caspian Sea under an investment programme worth an estimated \$10bn.

According to SHANA, over the next two years, it was envisaged to exploit 200 million b of crude oil and more than 20bn cu m of gas from its development operations.

It said 45 oil blocks in the southern area of the Caspian had been identified, of which nine were considered exploitable. First drilling was centred on Block six, located some 250 km offshore.

Studies had shown that the area being worked possessed over 20bn b of crude deposits.

Meanwhile, Iran intends to invest some \$85bn in gas export projects over the next ten years.

SHANA quoted Reza Kasaizadeh, Managing Director of the National Iranian Gas Exports Company, as saying that 20 per cent of the investment required would come from the gas exports firm.

Of the schemes planned, three multi-billion-dollar liquefied natural gas plants would be set up, utilizing gas from the South Pars field.

## Great potential

South Pars offers great potential for the future. Only eight of its planned 28 phases have so far gone onstream, mainly for domestic use. Each phase could produce around 28m cu m of gas a day.

Iran, which for the moment only exports its gas to Turkey — an amount of 24m cu m/day via pipeline — is looking to extend shipments to Asian, Middle Eastern and European countries.

The country injects large volumes of gas into its older oil fields to maintain underground pressure and maximize oil flow.

Despite the ambitious development plans, Iran's actual gas production is not expected to rise over the next three years, the semi-official Mehr news agency quoted Mohammad Javad Owji, Managing Director of the National Iranian Gas Company, as saying.

Owji stated earlier that output had actually fallen by around 4m cu m/d during the current Iranian year, which started in March 2009.

He revealed that the firm's production capacity stood at 630m cu m/d of sour and sweet gas with a refining capability of 530–540m cu m/d. Domestic consumption was put at 467m cu m/d and output in November 2009 at 506m cu m/d.



# Burj Khalifa — Dubai rises to new ‘heights’



AP Photo

Dubai has recorded another milestone in the unprecedented development of the Emirate with the opening of the \$1.5 billion Burj Khalifa tower, the world's tallest building — and by a long stretch at that — it is twice the height of the Empire State Building in New York.

Mohammed Alabbar, Chairman of Emaar Properties, the Dubai developer of the project, said at the opening in early January that the tower, measuring a cloud-hugging 828 metres, went beyond its imposing physical specifications.

“In Burj Khalifa, we see the triumph of Dubai’s vision of attaining the seemingly impossible and setting new benchmarks. It is a source of inspiration for every one of us in Emaar.”

He said the project was a declaration of the Emirate’s capabilities and of the resolve of its leaders and people to “work hand-in-hand on truly awe-inspiring projects.”

### Tribute to engineering

Alabbar said the Burj Khalifa was the Arab world’s tribute to the art and science of modern engineering and design. “It symbolizes the aesthetic unison of many cultures — from Arabia and the rest of the world,” he maintained.

And awe-inspiring, the Burj Khalifa truly is. Not only is the tower the world’s tallest building, dwarfing the previous highest, the Taipei 101 financial centre, in Taiwan, at a considerably less 509.2 metres, it has two further records to boast of. It is the tallest structure on the globe, an achievement previously held by the KVLV television mast in North Dakota, with 628.8 metres, and it is the tallest free-standing structure, a record that had been held by Toronto’s 553.3 metre CN Tower. It even has the world’s highest swimming pool, located on the 76<sup>th</sup> floor!

Burj Khalifa, with its 160 habitable floors, comprises 37 office floors of corporate suites, over 1,000 private residential apartments, the Armani Hotel, with its 160 guest rooms and suites, a four storey fitness club and recreation annex, 3,000 underground parking spaces and a surrounding park measuring 11 hectares and boasting six water features.

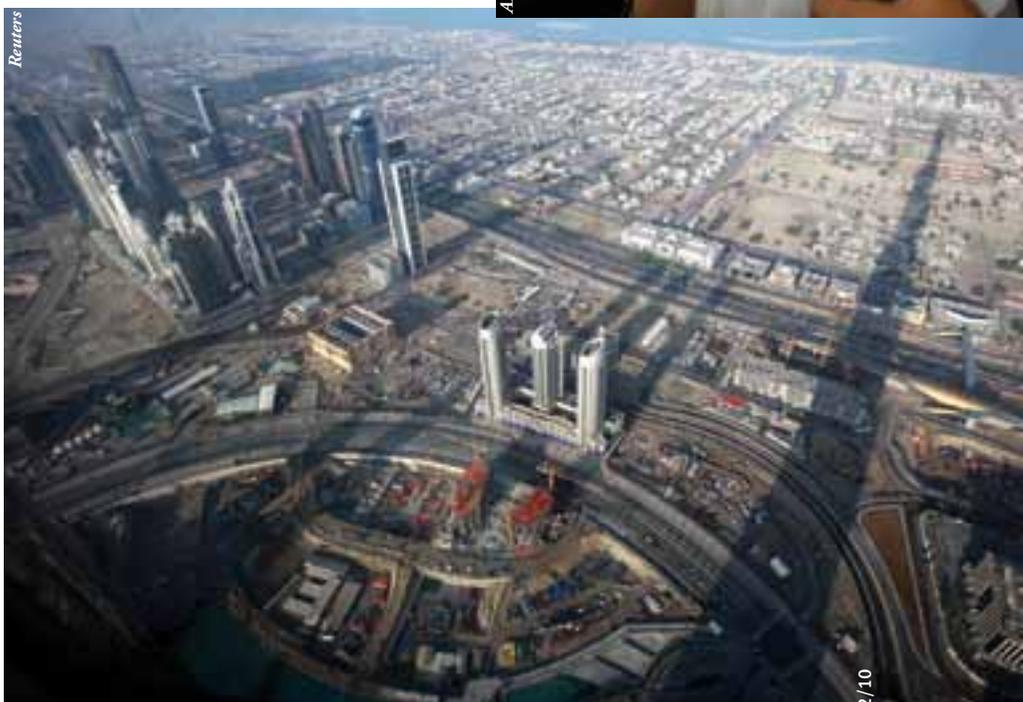
The hotel will not be opened until March, while the corporate suites and offices will start opening from March onwards. Floors 122, 123 and 124 house a restaurant, a sky lobby and an indoor and outdoor observation deck, respectively. The outdoor observation deck is the highest in the world, at 442 m.



Sheikh Mohammed bin Rashid Al Maktoum, UAE Prime Minister and Ruler of Dubai, seen inaugurating the Burj Khalifa during its opening ceremony in Dubai.



Mohammed Alabbar, Emaar Properties Chairman, talks to journalists on the observation deck of the skyscraper.



The view from the observation deck on the 124<sup>th</sup> floor shows a shadow cast by the tower on the city of Dubai below.



Under construction — the tower as seen in September 2007.  
Below, a smiling saleswoman holds up a commemorative t-shirt.



The tower has a total of 57 elevators and eight escalators. The elevators travel at 64 km/hour and reach the top in just one minute. Of course, one could take the stairs — there are 2,909 of those from the ground floor to the 160<sup>th</sup> floor. At any one time, Burj Khalifa is expected to hold up to 25,000 people.

Alabbar said after the opening that 90 per cent of the tower's properties had already been sold, with the first residents due to move in during February. His firm stood to receive a ten per cent yield on its investment, which would considerably boost Emaar's earnings in 2010.

The tower was designed by Skidmore, Owings and Merrill, who also designed the Willis Tower (formerly the Sears Tower) in Chicago, Illinois, and the World Trade Centre in New York, among numerous other famous skyscrapers. It was constructed by South Korean company,

Fireworks explode around Burj Khalifa, during the opening ceremony in Dubai.





AP Photo



AP Photo

Sheikh Mohammed bin Rashid Al Maktoum (c), UAE Prime Minister and Ruler of Dubai, with Mohammed Alabbar, Chairman of Emaar Properties (foreground right), during the opening of Burj Khalifa.

Samsung Engineering and Construction, which also did work on the Petronas Twin Towers and Taipei 101.

Work began on Burj Khalifa in January 2004. It took just 1,325 days for the building to become the world's tallest free-standing structure. The exterior of the tower was finished by October 2009.

Overall, the project took 22 million man-hours to complete with the use of 330,000 cubic metres of concrete and 39,000 tonnes of steel rebar. Laid end-to-end, this amount of rebar would extend over a quarter of the way around the globe. Additionally, the total weight of aluminium used on the structure is the equivalent of five A280 aircraft. Some 380 skilled engineers and on-site technicians were employed on the project.

Other interesting facts: because of its immense height, at its tallest point the tower sways a total of 1.5m; there are 28,261 glass panels on the exterior of the tower. This means that, under normal conditions, when all building maintenance units are operational, it will take 36 workers three to four months to clean the entire façade.

For Emaar Properties, the opening of the Burj Khalifa marks the completion of the last of its big local landmark projects. The firm is embarking on a new strategy expected to focus on overseas projects.

Emaar is the Arab world's largest listed developer. Owned 31.2 per cent by the Dubai government, it saw its net operating profit rise by 53 per cent to \$178 million in the third quarter of 2009, on revenue of \$531m.

Although 2010 was expected to remain challenging for the company, it intended pursuing the construction of hospitals and hotels across the Middle East and North Africa, the Indian Subcontinent and South East Asia and Europe.

Construction workers hold the pipe during the first cement pouring ceremony at the foundation of the tower in September 2004.



AP Photo

OPEC bulletin 1-2/10

In the course of his official duties, OPEC Secretary General, Abdalla Salem El-Badri, visits, receives and holds talks with numerous dignitaries.

These pages are dedicated to capturing those visits in pictures.



*Suleiman Jasir Al-Herbish (l), Director-General of the OPEC Fund for International Development (OFID), visited the new OPEC building on December 3, 2009. He was received by Abdalla Salem El-Badri, OPEC Secretary General.*



*Ali Khalfan Al Mansouri (l), Representative of the State of Qatar in Vienna, visited Abdalla Salem El-Badri, OPEC Secretary General, on December 1, 2009.*



*Pictured above (l-r): Dr Hasan M Qabazard, Director, OPEC Research Division; Ulrich Benterbusch; Abdalla Salem El-Badri; Ann Eggington; Mohamed Hamel, Senior Advisor to the OPEC Secretary General; and Abdullah Al-Shameri, Head of the Office of the OPEC Secretary General.*



*Ulrich Benterbusch, the International Energy Agency's Director for Global Energy Dialogue, and Ann Eggington, Head of the IEA's Office of Global Energy Dialogue, visited the OPEC Secretariat on January 5, 2010.*



*Above: Japan's Deputy Minister of Finance, Rintaro Tamaki (l), visited the OPEC Secretary General, Abdalla Salem El-Badri, on January 13, 2010.*



*Above: Jamal Saghir (l), Director, Energy, Transport and Water, World Bank, visited Abdalla Salem El-Badri, OPEC Secretary General, on January 26, 2010.*



*Above: Dr Manuel Marcelo Monteiro Curto (l), Portuguese Ambassador to Austria, visited Abdalla Salem El-Badri, OPEC Secretary General, on January 26, 2010.*



*Pictured above is Ulrich Benterbusch (l); and Abdalla Salem El-Badri, OPEC Secretary General.*



*Above: Daniel Doctoroff (l), President of Bloomberg, visited Abdalla Salem El-Badri, OPEC Secretary General, on January 27, 2010.*



# OFID emergency aid helps **HAITI** earthquake victims

By Jerry Haylins



# OPEC Fund for International Development (OFID)



Reuters

The OPEC Fund for International Development (OFID) was quick to respond to the devastating earthquake in Haiti in January, extending essential grant aid to the crippled country amounting to \$500,000.

The Vienna-based institution, which, over the years, has provided similar aid for many such global disasters, channelled the emergency assistance to Haiti through the International Federation of Red Cross and Red Crescent Societies (IFRC).

## Emergency operations

According to an OFID press release, the grant was to be used to provide essential relief supplies and help finance emergency operations to help victims of the earthquake, which struck the coast of Haiti on January 12.

The Fund has since entered into discussions to see how it can provide longer-term assistance to the stricken country as it begins reconstruction. An important step will be OFID's participation in the international donors' conference, scheduled to take place at United Nations headquarters in New York in March.

In making the announcement, OFID Director-General, Suleiman J Al-Herbish, said: "Haiti needs our support now more than ever before and we stand ready to do whatever we can to help the country rebuild."

The Fund's emergency grant to Haiti brought to \$62.4 million the amount of emergency relief aid OFID

*In the wake of the devastation, where buildings in parts of the country completely collapsed, people were desperate for food and water.*



Reuters



has made available to developing countries, both inside and outside the institution, since it began operations in 1976.

The extent of the problems facing Haitians after the earthquake, which measured 7.3 on the Richter Scale, was apparent immediately after the first dust settled. It was the worst in the region in more than 200 years with as many as 230,000 people feared dead.

The IFRC has said that there were estimates that up to three million people (roughly a third of Haiti's population) had been affected by the catastrophe.

OFID noted in its release that the most severely-affected cities were the capital Port-au-Prince, Carrefour and Jacmel, located in the West Province area and home to some 2.2 million people.

"The devastation wrought upon the area is extensive, a situation exacerbated after the occurrence of more than ten aftershocks that measured 5.0 on the Richter Scale. Vital infrastructure has been destroyed and government buildings have collapsed, or have suffered severe damage," said the release, issued on January 15.

The buildings affected included the presidential palace and several ministries, as well as the local United Nations headquarters.

"One three-story hospital was razed to the ground, and many of the remaining ones are not admitting additional patients as they are already operating at full capacity," OFID said at the time.

IFRC staff from all over the world assisted the rescue effort, offering relief coordination and providing water and sanitation facilities, shelter, telecommunication services and medical supplies.

Immediate assistance was directed toward the most vulnerable groups and emphasis was placed on restoring family links during the initial response stage.

On January 13, the IFRC launched a preliminary emergency appeal seeking \$10 million to assist some 100,000 people (20,000 families) for nine months. This was reviewed as the extent of the damage and devastation became more apparent.

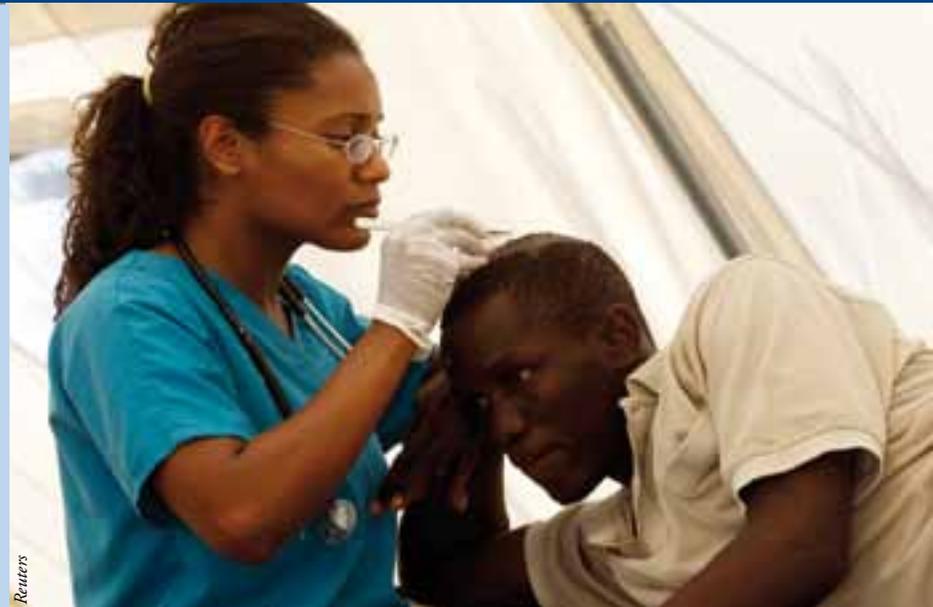
Haiti is the poorest country in the western hemisphere with 80 per cent of the population living under the poverty line and over half in abject poverty.

Two-thirds of all Haitians depend on the agricultural sector for survival. This mainly comprises small-scale subsistence farming. The country is vulnerable to natural disasters and suffers from widespread deforestation.

While the economy has recovered in recent years, registering positive growth since 2005, four tropical storms in 2008 severely damaged transportation infrastructure and agricultural operations.

Haiti suffers from high inflation. Insecurity and a lack of infrastructure translate into a lack of investment and a crippling trade deficit. In 2005, the country did manage to pay its arrears to the World Bank, and in 2009 it was expected to receive forgiveness for about \$525m of its debt.

# OPEC Fund for International Development (OFID)



## Longstanding ties

The government basically relies on formal international economic assistance for fiscal sustainability.

OFID has longstanding ties with Haiti, with its first dealings stretching back almost 34 years. In fact, its loan of \$3.15m to the country for balance of payments support, approved in August 1976, was among the first batch of loans committed by the Fund, when it began operations in the Austrian capital, Vienna, that very same month.

Since then, Haiti has benefited from some 15 OFID loans worth a total of \$70m. These have been extended for a variety of projects, including agricultural and industrial development, water supply, irrigation, sanitation and drainage, road schemes, education and the provision or rehabilitation of basic infrastructure.

Apart from the loan support, Haiti has received almost \$2m in OFID direct grant aid, which has been channelled into programmes for attaining food security, to assist rural water supplies and sanitation and to help the development of renewable energy initiatives.

In addition, a one-off payment of \$1m was given to Haiti by the Fund to pay its subscription to the Common Fund for Commodities, the inter-governmental financial institution set up by the United Nations in 1989 to improve the terms of trade of developing countries.

Haiti has also been one of the countries benefiting from OFID grant aid for regional and multiregional pro-

grammes. The majority of these relate to initiatives for the treatment and prevention of HIV/AIDS.

Other support for Haiti from the Fund comes in the form of the Heavily Indebted Poor Countries (HIPC) initiative, under which OFID has restructured loans to meet agreed levels of debt relief.

*An estimated 230,000 people are now thought to have died in the earthquake. Aftershocks also posed many problems as rescue workers from all over the world fought to bring essential aid to survivors.*



This section includes highlights from the OPEC Monthly Oil Market Reports (MOMR) for December 2009 and January 2010, published by the Petroleum Studies Department of the Secretariat, with additional graphs and tables. The publication may be downloaded in PDF format from our Website ([www.opec.org](http://www.opec.org)), provided OPEC is credited as the source for any usage.

## December 2009

### Crude oil price movements

Bullish market sentiment in November lifted prices across the globe. This was backed by perceptions over economic growth for the coming year, in tandem with the expected positive outlook for oil demand. The depreciation of the US dollar against other currencies also lent support to the market's direction.

The weekly OPEC Reference Basket price jumped to \$76.36 a barrel in the week ended November 6, compared with \$67.88/b one month earlier. Over the same period, the price of American benchmark crude WTI and Dated North Sea Brent surged to \$78.98/b and \$76.56/b, respectively, from \$71.03/b and \$67.79/b. Dubai crude followed a similar trend, rising to \$77.49/b from \$68.31/b a month earlier.

In the following week, the market lost some of its strength, as data showing unemployment in the United States rising to 10.2 per cent triggered profit-taking by fund managers. An appreciation of the US dollar also contributed to adverse price movements.

The developments led to a lower weekly average price for the OPEC Basket, which fell by 11¢ to reach \$76.25/b on November 13. WTI and

Brent also declined – to \$78.16/b and \$76.34/b, respectively. But due to higher demand in Asia, Dubai crude did not follow other benchmarkers, rising instead by 29¢ to \$77.78/b.

Moving into the third week of November, a shut-in of oil and natural gas production on the US Gulf Coast, due to the threat from Hurricane Ida, along with a rise in equity prices and another depreciation of the US dollar, underpinned bullish market sentiment once again, resulting in higher oil prices.

It led to the weekly average price of the OPEC Basket rising to \$76.77/b on November 20. WTI and Dated Brent crude prices increased to \$78.36/b and \$77.19/b, respectively. The price of Dubai improved to \$78.19/b.

However, the market lost ground in the latter part of November, due to technical sell-offs prior to the US Thanksgiving holiday, bearish developments in US stock movements, rising concerns over future demand, due to downward revisions to US GDP figures in the third quarter of 2009, as well as Dubai's debt problems.

On November 27, the OPEC Basket fell to \$75.79/b. The other benchmark crudes, especially WTI, slipped further amid stock-builds at Cushing, Oklahoma, the delivery point of the WTI Nymex contract.

"Over the last few weeks, amid a lack of substantial seasonal stock-draws for both crude

and products, market sentiment has turned, exerting pressure on prices," commented the OPEC report.

It noted that, considering rising concerns over the slow recovery in world oil demand growth next year, along with the unusual seasonal behaviour of petroleum inventories across the globe, and coupled with higher non-OPEC supply, there was a risk that the influence of external factors, including both rising equity prices and the depreciation of the US dollar, would lead to bearish fundamentals weighing further on the market and prices.

Looking into early December, the report observed that, backed by these developments, the OPEC Basket lost momentum, falling by more than \$7/b to average \$70.69/b on December 14.

### Commodity markets

Looking at trends in selected commodity markets, the OPEC report noted that the IMF commodity price index rose by 4.2 per cent month-on-month in November, two per cent lower than in the previous month. This was as a result of a deceleration in the pace of growth of both the energy complex and non-fuel commodity prices.

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).

"It is worth noting that, on a monthly basis, food price index growth outpaced that of industrial metals in November," it observed.

It pointed out that volatility had remained a feature of many markets, notably crude oil and industrial metals. Nevertheless, crude oil, food and industrial metals were up by 86.7 per cent, 14.6 per cent and 37.3 per cent, respectively, in November, compared with December 2008. In June 2009, the IMF total commodity index remained 44 per cent lower than the year-ago figure. In November, the index was 20.4 per cent higher than a year earlier.

Commodity prices increased in many markets during the second and third quarters, especially industrial metals, which benefited from the positive influence of Chinese demand, essentially due to restocking. Encouraging macroeconomic data, supply restrictions in the industrial metal complex and bullish news regarding some agricultural products, also supported commodity values, as did the US dollar's devaluation against the euro.

The IMF energy price commodity index (crude oil, natural gas and coal) posted 4.5 per cent m-o-m growth in November, compared with an increase of six per cent the previous month. Crude oil expanded by 4.7 per cent, while the Henry Hub (HH) gas price plummeted by 8.1 per cent and coal increased by 11 per cent in November.

The HH gas price declined from \$4.47 million British thermal units in October to \$2.52m Btu for a decline of 45 per cent below the average price seen over the same period the previous year.

Over the first half of November, the gas market was negatively impacted by bearish fundamentals coming from milder-than-expected weather and lacklustre industrial demand. HH natural gas prices reported signs of recovery in late November, due to cold snaps and lower-than-expected storage additions. Nevertheless, the flat crude oil prices resulted in the WTI/HH spread narrowing by four per cent in November.

Non-energy commodity prices improved by 3.9 per cent m-o-m in November, owing to a more-than-double increase in food prices, while

growth in industrial metal prices remained unchanged.

The industrial metal price index grew by 2.6 per cent m-o-m in November, the same pace as the previous month. It stood 22 per cent higher than a year earlier. Copper and aluminium prices continued growing at faster rates in the month, but this was partially counterbalanced by a hefty decline in the price of nickel and lead and a lower growth rate for zinc.

November saw a stronger increase in total industrial metal inventories on the London Metal Exchange (LME) than in the previous month.

Aluminium prices rallied by six per cent m-o-m in November, up by two per cent from October, ending the month at \$2,009 a tonne. Aluminium prices were supported by positive macroeconomic factors, such as the end of the US recession and greater-than-expected growth in Chinese GDP in the third quarter.

The OPEC report maintained that price developments in the aluminium market were defying supply/demand fundamentals. Brook Hunt estimated a sizeable surplus in the market of 1.6m t in 2009 and 2.4m t in 2010. Furthermore, inventories at the LME stood at 4.6m t at the end of November, up by one per cent over the previous month.

"The main factor driving the aluminium market remains Chinese demand which, although down by 78 per cent m-o-m in October, due to several holidays, still increased by 150 per cent over the same period last year," commented the report.

Copper prices jumped by six per cent m-o-m in November, up from 1.8 per cent a month earlier, and rallying to a level of \$6,900 t in late November – a level not reached since September 2008.

Some supportive factors, such as the US dollar's weakness and positive macroeconomic data, may have encouraged the market. Nevertheless, the picture for copper was similar to aluminium with LME inventories rising to almost 430,000 t in November and the market remaining in surplus.

Nickel prices plummeted by 8.5 per cent m-o-m in November to stand at \$16,772 t in a

very volatile market. Oddly enough, the nickel market was in deficit and no further decline in prices was expected. LME inventories rose by 8.6 per cent in November.

Zinc prices exhibited lower growth in

**... the gas market was negatively impacted by bearish fundamentals coming from milder-than-expected weather and lacklustre industrial demand.**

November of six per cent m-o-m, compared with 10 per cent the previous month. The market was characterized by high volatility and continued weak global demand. Zinc inventories at the LME increased by six per cent in November to 455,275 t.

The IMF food price index rebounded by 3.6 per cent m-o-m in November after one per cent growth in October on price gains on the soybean complex, wheat and sugar.

Gold prices expanded by eight per cent in the month under review. Again, investment-led strength on a weak US dollar and inflation concerns maintained the rally in the metals market.

## Highlights of the world economy

In looking at developments in the global economy, the OPEC report observed that the recovery in the world's largest economy, the US, was continuing. Unemployment fell again, retail sales increased, existing home sales moved up to a level of over 6m for the first time since 2006 and home prices were starting to improve on a monthly basis.

"However, despite these promising signs,

## US unemployment, while improving in November for the first time in many months, remained an area of concern at a level of ten per cent, compared with 10.2 per cent in October.

it may still be too early to classify the current momentum as a sustainable trend. The US economy faces many challenges that could easily dampen the current recovery," warned the report.

It continued that while improving, private consumption remained at low levels and the financial system in the US was dependent on a government lifeline and support from the Federal Reserve Board, with the possibility of further funding needed, particularly for smaller banks in the coming quarters. Public gross debt levels were expected to reach new highs of more than 90 per cent of GDP in 2010. With rising interest rates on the cards

for the future, the price tag for the taxpayer may be high. A future increase in taxes was therefore possible as one way to help repay debt, particularly as government revenues had fallen, as a result of higher unemployment and declining corporate profits.

The latest ISM business sentiment surveys from November indicated a slowdown in growth momentum. Both the manufacturing index and the service index were lower than month-ago levels. The ISM manufacturing index fell to 53.6 in November from 55.7 a month earlier, but remained well above the 50 level, the dividing line between expansion and contraction. The non-manufacturing ISM decreased from 50.6 to 48.7, again moving below 50.

"While it remains to be seen how the ISM indices develop over the coming months, this

recent development is important since the services sector constitutes the bulk of US GDP and is still fluctuating at around 50, indicating the economy is still fragile. While the ISM indices are much improved from the lows of below 40 at the end of last year, they still do not point to strong growth in the economy," maintained the report.

It noted that recent developments in the US equity markets, usually a measure of confidence, reflected the economic uncertainty. Between March and the beginning of November, the S&P 500 index moved up by more than 60 per cent from its lows, but had since moved sideways, trading within a two per cent range, usually an indication that the market was poised for a sharp break in either direction.

One important development to watch, it said, was the Fed's decisions on interest rates and current monetary programmes. An unprecedented amount of money had been injected into the monetary system via various emergency measures, while interest rates were decreased to almost zero per cent levels, with the Fed fund target rate at 0 per cent to 0.25 per cent.

US unemployment, while improving in November for the first time in many months, remained an area of concern at a level of ten per cent, compared with 10.2 per cent in October.

"This might have been a positive effect from the various stimulus measures, such as the 'cash for clunkers' programme. But as this is now finished, it remains to be seen whether the underlying trend is strong enough to push unemployment down further," said the report.

A positive note was seen in the growth in retail sales, which were up by 1.3 per cent in November, after an increase of 1.1 per cent the previous month. Even excluding auto-sales, figures rose by 1.2 per cent.

"This fuels hope that the current sales season might turn out to be better than expected."

The OPEC report said the slight improvement in the economy was reflected in the 2010 GDP forecast, which pointed to growth reaching 1.6 per cent, compared with the previous month's estimate of 1.4 per cent. For 2009, the decline was unchanged at 2.5 per cent.

Turning to Japan, the report said the coun-

try's economy, which reached a trough in the first quarter of 2009, had been expanding ever since. After a record 11.9 per cent decline in the seasonally adjusted annualized rate (SAAR), GDP grew at a pace of 2.7 per cent in the second quarter. However, in the third quarter, growth disappointed, falling to a revised 1.3 per cent.

"This demonstrates the fragility of the Japanese economy as the initial published estimate was for much higher growth of 4.8 per cent."

It noted that these uncertainties were probably the main reason the new government issued an additional stimulus package of \$270 billion, which included an \$80bn contribution from the central government.

Exports were offering the country's economy some support. While still in decline in October by 23.2 per cent year-on-year, this was the third straight month of improvement and up from a September level of minus 30.6 per cent y-o-y. Exports to Asia recovered the most and were almost positive on an annual basis at minus 1.9 per cent.

On the other hand, industrial production was again seen trending lower, with an increase of only 0.5 per cent m-o-m in October. Most important was a decline of 0.2 per cent in consumer goods production which highlighted still weak private consumption.

The report said that, thanks to the large support of the government, Japan's unemployment rate fell to 5.1 per cent in October, the third consecutive month of improvement. However, as in the previous month it was mainly a decline in the employment force that led to the improvement as the number of unemployed had not changed dramatically.

"All in all, the recent numbers can be read more as a sign of stagnation rather than improvement."

The cautious mood of the Japanese consumer was being reflected in a drop in consumer prices. The CPI index fell for the fourth consecutive month — by 2.5 per cent y-o-y in October — following a drop of 2.2 per cent in September.

"Taking all the challenges into consideration, the GDP growth forecast for 2010 for the

Japanese economy remains unchanged at 1.1 per cent. For 2009, the forecast improved slightly to minus 5.3 per cent from minus 5.6 per cent," observed the report.

Looking at the Euro-zone economy, it said that it continued to show signs of improvement. Germany and France, which constituted more than half of the regional economy, were mainly responsible for the upward trend, while countries such as Greece and Spain were becoming areas of concern.

Germany, Italy and France managed a SAAR expansion in the third quarter of 0.7 per cent, 0.6 per cent and 0.3 per cent, respectively, while Greece and Spain both declined by 0.3 per cent.

However, a further worrying sign was the high unemployment rate that still remained at 9.8 per cent in October, the same level as in the previous month. Although this had stabilized, labour markets had witnessed strong support in the Euro-zone and it remained to be seen whether, when the support was withdrawn – as part of it already had been, as in Germany with the cash-for-clunkers and other supportive programmes – the unemployment level did not rise again.

With the exception of mainly Germany, Ireland and Malta, all countries recorded higher unemployment rates in October. Youth unemployment increased by 0.3 per cent to stand at 20.6 per cent.

Euro-zone retail sales in October were unchanged, compared with a month earlier. The pattern witnessed over the last six months was still leaning towards the negative with three months posting unchanged data and three months having negative sales numbers.

The industrial order numbers – considered a front-running indicator – were more encouraging, rising in September by 1.5 per cent, after an increase of 0.6 per cent the previous month.

Exports improved in the main Euro-zone economy, Germany, in October, up by 2.5 per cent from the previous month, when they rose by 3.6 per cent. In France, the second biggest Euro-zone economy, exports declined by 1.3 per cent, adding to the mixed picture in the region.

The Euro-zone purchasing managers' index (PMI) reflected some positive momentum. It

showed private sector activity expanding in October. The composite index, covering the Euro-zone services and manufacturing sectors, rose to 53.7 in November, from 53 in October, the fourth consecutive month of expansion.

The report said that, taking into consideration the current positive developments seen within the Euro-zone, the remaining challenges for the economy would still have to be managed. Consequently, the forecast was revised slightly higher with a growth expectation of minus 3.9 per cent for 2009 and 0.6 per cent for 2010.

Looking at other selected economies, the OPEC report noted that Russian industrial production barely grew in October, data from the Federal Statistics Service showed. This, it said, was due to a lack of bank lending and stymied demand in key sectors of the economy. Industrial production for October grew by 0.8 per cent from the previous month, while production in the period from January to October was down by 13.3 per cent. In October it declined by 11.2 per cent from a year earlier. Vital economic sectors, like cement and brick production, as well as automobiles, showed only negligible growth, or were down m-o-m, as consumers were unable to make major purchases, due to a lack of bank lending.

However, the annual rate of consumer price inflation in the country eased to 9.1 per cent in November from 9.7 per cent in October. Inflation was actually at its lowest level since August 2007.

Russia's economy returned to growth in the third quarter from the previous three months, prompting government officials to declare that the country had emerged from its first recession in a decade.

However, the government expected a 6.8 per cent contraction in GDP for the second half of the year and an 8.5 per cent decline for 2009 as a whole, after growth of 5.6 per cent in 2008 and 8.1 per cent the year before.

In China, the OPEC report noted that consumer prices had risen for the first time in 10 months in November, as the stimulus-driven economic recovery fueled inflation. Official data released earlier this month showed the

nation's consumer price index gained 0.6 per cent in November from a year ago, although producer prices declined by 2.1 per cent during the month.

Data also showed an acceleration in other

**India's economy expanded by 7.9 per cent in the third quarter of 2009, accelerating from a 6.1 per cent growth rate seen in the preceding three months.**

economic indicators, with monthly industrial production rising by a better-than-expected 19.2 per cent and retail sales climbing by 15.8 per cent.

Spurred by China's fiscal stimulus, and some well-targeted tax cuts, the country's auto sales, in what is now the world's largest car market, could well have risen by 45 per cent y-o-y by the end of 2009.

Meanwhile, India's economy expanded by 7.9 per cent y-o-y in the third quarter of 2009, accelerating from a 6.1 per cent growth rate seen in the preceding three months. India's industrial sector maintained a robust pace of output growth in September, with firms increasing production by 9.1 per cent y-o-y, following an 11 per cent increase in August.

Over the third quarter as a whole, industrial output growth averaged 9.1 per cent y-o-y, compared with 3.8 per cent in the second quarter.

Looking at OPEC Member Countries, the report singled out Nigeria, which, according to the nation's National Bureau of Statistics, saw its economy expand by 7.07 per cent in the third quarter, compared with 6.13 per cent in the same period a year earlier, as the contribution of the oil sector expanded. The contribution of oil to Nigeria's total GDP rose to 16.52 per cent from 15.54 per cent a year earlier. In the third

quarter, agriculture in the country expanded by 5.99 per cent, while the telecommunications sector saw annual growth of 34.7 per cent.

Concerning the United Arab Emirates (UAE), it observed that the IMF could reduce its 2010 growth forecast for the country because of the recent debt crisis in Dubai. It was expected that that there would be a significant reduction in non-oil sectoral growth, down from three per cent and probably somewhere between one and two per cent.

"The debt problems of Dubai World have dented confidence in the city and could lead to higher credit borrowing costs. Nevertheless,

**Demand for OPEC crude in 2010 was projected to average 28.6m b/d, representing an upward revision of 100,000 b/d from the previous assessment.**

the UAE as a whole is expected to still register positive growth in 2010, albeit below the pre-crisis forecast, the IMF predicts."

## World oil demand

In its review of the world oil market, the OPEC report stated that 2009 was proving to be one of the worst years, not just for the world economy, but also for global oil demand.

It said the US economy this year had experienced devastating results, amounting to minus 2.8 per cent growth. As a result, US oil demand was estimated to have declined by 900,000 barrels/day. This was a little less than one-third above last year's level of decline. The drop in North America's oil demand resulted in a 3.9 per cent decrease in total OECD oil demand.

Non-OECD oil demand suffered a weak performance this year in comparison with the last five years, losing 67 per cent of growth, compared with 2008. Consumption in the emerging economies was too weak to rescue world oil demand from a 1.4m b/d decline. With the exception of the Former Soviet Union (FSU) and Other Europe, non-OECD regions managed to bounce back in the second half of the year to show steady growth. However, growth was mild on average with the increase in China and Middle East oil demand below last year's level by more than 50 per cent.

Most of the decline was in industrial fuels, resulting from an extreme slowdown in world industrial production. Automobile sales fell to a very low level; consequently, automakers were forced to shut some of their plants for weeks in order to reduce stocks. Hence, transport fuel showed a decline as well. Low oil prices in the first three quarters of the year did not contribute much to consumption. Furthermore, high unemployment in the OECD region further lowered driving mileage by a substantial amount, causing gasoline and diesel usage to fall considerably.

However, fourth-quarter oil demand was seen bouncing back as a result of better economic activity worldwide. Increasing oil demand in the OECD had helped world oil demand to increase from the third to the fourth quarter by 600,000 b/d.

"Global oil demand is forecast to switch from negative to positive for the first time since the middle of last year," commented the OPEC report. Hence, world oil demand was forecast to show a total decline of 1.4m b/d for 2009 averaging 84.3m b/d, broadly unchanged from last month's OPEC assessment.

It said that demand for OPEC crude in 2009 was revised down by some 70,000 b/d to stand at 28.6m b/d, reflecting mainly an upward revision in non-OPEC supply as demand remained almost unchanged.

"However, this still represents a considerable decline of 2.3m b/d from the previous year. While the first half experienced negative growth of around 3.1m b/d, compared with the same period last year, the decline narrowed in

the second half to show a loss of only 1.6m b/d. The fourth quarter is projected to show negative growth of 1.4m b/d," it stated.

Demand for OPEC crude in 2010 was projected to average 28.6m b/d, representing an upward revision of 100,000 b/d from the previous assessment as world oil demand was revised up and OPEC NGLs data was revised down.

"Required OPEC crude is forecast to show a slight increase of 30,000 b/d, following two consecutive annual declines. The first half of the year is still showing a drop of 300,000 b/d, while the second half is estimated to see positive growth of around 300,000 b/d, implying a steady recovery," added the report.

It pointed out that, following the onset of the financial crisis, 2009 was marked by continuous economic deterioration in most OECD nations and many non-OECD countries.

This factor inevitably reduced world oil consumption, which suffered a y-o-y decline of 1.4m b/d, or 1.6 per cent, the largest decrease recorded since 1982, both in terms of volume and percentage.

In general terms, the bulk of the contraction in oil consumption took place in the OECD, in which all three regions experienced reductions. The largest volume was recorded in North America and the US, in particular.

Japan's oil demand declined by eight per cent, as a result of low transport and fuel demand. The regions hit hardest in the non-OECD were the FSU and Other Europe. Latin America and Africa were affected to a lesser extent.

The report pointed out that the unique structures in the Chinese and Middle East economies, including numerous domestic economic stimuli, had enabled the two regions to be the biggest contributors to world oil consumption growth during 2009.

Industrial and transport fuel were the worst to be hit by the economic downturn worldwide. This resulted in a massive reduction in the use of industrial fuel, automotive diesel and gasoline.

The first half of 2009 saw exceptionally large reductions in world oil consumption, with

more than 97 per cent of the volumes taking place in the OECD region. In the non-OECD, especially the FSU and China, the major impact of the financial crisis peaked during the first quarter.

As a result of the financial turmoil, the quarterly distribution of growth in world oil demand was seen to deviate significantly from the historical pattern, in which maximal growth used to occur during the first and fourth quarters. The fourth quarter was the first quarter expected to display growth in world oil consumption since the second quarter of 2008.

The OPEC report stressed that developments in the US economy were the most important for oil consumption worldwide. "US oil demand has been the wild card for global oil consumption since 2007."

Following an extremely weak first half of the year, US oil consumption showed signals of some improvement during the third quarter, particularly in September. Product-wise, US consumption of distillate fuel and motor gasoline was hit hard as a result of declining industrial activity and shrinking driving mileage.

Canada and Mexico were more or less in the same situation with declining oil consumption for 2009. In general, all incentives and stimulus plans taken by the governments of these countries to support the economy (ie cash for clunkers) had little impact on oil demand throughout 2009.

The report noted that Japanese oil demand had been on a downward trend for the last 15 years, resulting not only from a sliding economy, but also from an increase in energy efficiency, energy-related policies and an ageing population.

"The year 2009 was in that sense not exceptional, except for the magnitude of shrinkage in oil consumption in the region's export-oriented economies during the financial turmoil," said the report.

The remaining countries in this region displayed a similar downward oil consumption trend, although at much lower volumes. Only South Korean oil demand bounced back in the second half of the year and was expected to be in the green in 2009.

Similar to the OECD Pacific, the big four European countries (Germany, France, Italy and the UK) had all exhibited weak oil consumption over the last seven years. Despite various stimulus plans targeted at lifting economic activity, the picture in oil consumption had remained unchanged, exhibiting a contraction of four per cent. In all of the OECD European countries, the sectors that were hit the most were industry and transport, resulting in lower consumption for distillates and gasoline.

The report said that in Other Asia, Indian oil consumption had not been affected during 2009, due to a number of factors, including strong GDP growth, low prices of transport fuel and a boom in new car registrations.

A strong decline in oil usage in the first half of the year for Taiwan, Singapore, and Malaysia was offset by higher oil demand later in the year when economic activity picked up.

Solid growth in most Middle Eastern countries, especially Saudi Arabia, Iran and Kuwait, made the Middle East the leading region as far as oil demand growth in 2009 was concerned.

In Latin America, Brazil, Venezuela and Ecuador were the dominating countries for growth in oil consumption. The region's oil demand expanded by only 0.5 per cent in 2009, down from 3.9 per cent in 2008.

In Africa, Algeria, Libya and South Africa accounted for most of the oil demand growth on the continent.

Chinese oil demand, which contracted during the first quarter by 4.6 per cent, bounced back remarkably during the remaining three quarters of 2009. Products leading growth were automotive and industrial diesel oil, followed by LPG, used by the petrochemical industry.

Like the OECD, Other Europe and the FSU experienced no improvement in oil consumption during the year, with demand continuing to decline. Romania, Bulgaria and Serbia showed the largest declines, whereas severe problems in the Russian economy led to the bulk of the oil consumption decrease seen in the FSU.

US oil demand was still seen struggling to return to positive growth. Although the country's third quarter oil demand performed much

better than in the first two quarters of the year, October and November oil demand were not as strong as expected, dragging down to minus 4.6 per cent and 3.4 per cent, respectively, due to a plunge in industrial fuel consumption.

**Solid growth ...  
made the Middle  
East the leading  
region as far as oil  
demand growth  
in 2009 was  
concerned.**

The 0.3 per cent growth in gasoline consumption in November was not sufficient to pull the country's total oil usage out of the red.

"US oil demand has been dipping in and out of negative territory since early 2006, long before the financial crisis. However, the recent financial crisis managed to worsen the situation and push the country's oil demand to lose 1.2m b/d in 2008 and 800,000 b/d in 2009," observed the OPEC report.

It noted that turbulence in the US economy was causing fourth quarter oil demand to decline. The forecast was for it to be much worse than in the third quarter, despite the cold season.

Canadian oil demand was seen to be in a similar state as that of the US, with demand declining by 62,000 b/d in October y-o-y. Although motor gasoline grew by 4.4 per cent, industrial product usage declined massively. Canadian industrial products decreased at an average of ten per cent in the first ten months of the year, suppressing the country's total oil demand to a loss of 50,000 b/d in 2009 y-o-y.

North America's oil demand was forecast to decline by 800,000 b/d y-o-y in 2009 to average 23.3m b/d.

New car sales, which experienced some growth late this year, the result of various

**As a consequence of strong Asian oil demand, the Group of Developing Countries oil demand growth was forecast at 400,000 b/d in 2009, averaging 25.7m b/d.**

stimulus plans, did not help push for more gasoline usage across OECD Europe. The European 'big four' were responsible for the majority of the decline in oil consumption. However, their oil demand was forecast to be in a better situation in the fourth quarter, as a result of improved economic activity.

In total, the OECD Europe October oil demand decline was only 60 per cent of that seen the previous month. The region's oil demand in the fourth quarter was forecast to be at minus 400,000 b/d, almost half the third quarter decline.

The report noted that although Japan's October oil demand declined by 240,000 b/d,

it was 20 per cent better than a month earlier. Apart from August, Japan's monthly oil demand showed a massive decline y-o-y. It was forecast that Japanese oil demand would lose eight per cent this year.

"This slow demand for oil encouraged Japanese oil companies to permanently scrap some refining capacity," the report observed.

Unlike Japan, South Korea continued its positive oil demand situation, which started in June. This trend offset the decline seen in the first half of the year. South Korea's oil demand was expected to grow by 37,000 b/d this year.

As a result of the better-than-expected oil demand in Japan, the OECD Pacific's fourth quarter oil demand was revised up by 70,000 b/d. For the whole of 2009, the region's oil

demand was forecast to decline by 400,000 b/d, averaging 7.7m b/d.

In India, improving economic activity led to a strong increase in new vehicle registrations. In addition, the season of local festivities resulted in a massive 19 per cent growth in Indian October gasoline consumption. Other economic factors, such as industry and agriculture, called for more diesel usage in the country, bringing about an extra 118,000 b/d in Indian diesel consumption. Other industrial fuels, such as LPG, showed an increase as well, all signs of a healthier economy.

As a result of the strong transport and industrial fuel demand, Indian October oil demand grew by 12 per cent, or 300,000 b/d, y-o-y, averaging 2.7m b/d. Given the healthy Indian economy, the country's oil demand was forecast to grow by 140,000 b/d in 2009, averaging 3.0m b/d.

Considering the better-than-expected Asian oil consumption, Other Asia oil demand growth was revised up by 50,000 b/d to average 9.5m b/d in 2009.

OPEC Member Countries in the Middle East kept the region's oil demand intact, while other regions showed a decline early in the year. The region's total oil demand growth was expected to end the year as forecast. Middle East oil demand was estimated to grow by three per cent, or 200,000 b/d, y-o-y in 2009, almost half of what was seen the previous year.

"The recent financial setback in Dubai is not expected to have a major impact on the region's oil demand," commented the report.

In spite of a decline in Brazil's economy, the country's oil demand was forecast to grow slightly in 2009, compared with the previous year. Due to the strong growth recorded in alcohol energy use, the country's oil demand expanded by 90,000 b/d in October, averaging 2.6m b/d.

As a consequence of the strong Asian oil demand, the Group of Developing Countries oil demand growth was forecast at 400,000 b/d y-o-y in 2009, averaging 25.7m b/d.

Chinese jet fuel demand has shown a constant increase in the third and fourth quarters as a result of the nation's improving econ-

omy. Recent data indicated that air passenger demand was set to improve in the last three months of the year.

As a response to increased demand, local production of jet fuel had been hiked by 25 per cent in the first three quarters of 2009. China's apparent oil demand picked up sharply after it dipped into the red in the first quarter of the year.

Chinese apparent oil demand for October exceeded all expectations and, taking into consideration the build-up in strategic oil storage, grew by seven per cent, or 550,000 b/d, to average 8.3m b/d.

The economic factors bringing about such a thirst for energy were listed as an increase in new vehicle registrations, higher industrial production, summer demand for electricity and the high-demand agricultural season.

Turning to 2010, the OPEC report said world oil demand was forecast to return to growth in 2010, following two years of devastating decline. Global GDP was expected to increase by 2.86 per cent, with improvements in all regions.

"OECD oil demand is seen bouncing back and slashing its losses by 93 per cent, resulting not only from a recovery in Europe and the Pacific, but also from expected growth in the US, following two years of strong decline," noted the report.

The US, which represented almost one-quarter of total world oil consumption, was a key driver of world oil demand growth. Given the expected late US economic recovery next year, the majority of the country's oil demand growth was expected to occur in the second half of 2010.

The report observed that recent world economic data indicated a better-than-expected outlook for next year. Hence, world oil demand was revised up by 70,000 b/d to show growth of 800,000 b/d y-o-y for an average of 85.1m b/d in 2010.

"Despite the low base in world oil demand in 2009, which suggests a strong increase in 2010 oil demand growth, the possibility of a weak and slow economic recovery could adversely affect oil demand growth," warned the report.

"Downward risk factors exist and might put

pressure on next year's oil demand," it added.

One factor was the oil price, which would have a large impact on oil demand; another was the timing of economic recovery in the OECD region. The weather would also play a role in winter fuel usage next year. Warm weather could shave 200,000 b/d off expected heating fuel consumption.

Furthermore, any extra blend of biofuels would be at the expense of oil consumption. "Should the move to E15 in the US take place, this would, of course, affect total fossil fuel demand. Furthermore, should the US economic recovery be set back slightly, then the country's oil demand would experience a reduction that would suppress total world oil demand significantly," the report stated.

It said North America's oil demand was expected to return to positive growth in 2010, driven by a recovery in US oil consumption. US oil demand was expected to be positive during the year, due to enhanced economic activity.

Given the fact that the bulk of US economic recovery was expected to occur in the second half of the year, the accumulated oil demand growth was likely to be moderate. Most of the recovery would be in both industrial and transport fuel.

Manufacturing and the sale of automobiles were expected to show positive growth. Potential changes in biofuel blends would adversely affect the amount of oil used in the US. Driving mileage within the US was also expected to improve, although this would be influenced by gasoline prices.

European oil demand in 2010 was forecast to be on the decline. The largest decrease would occur in the 'big four' European economies. A weak European economic recovery of only 0.5 per cent would not pull the region's oil demand out of the red.

OECD Europe's oil demand was forecast to decline by 1.3 per cent y-o-y. As in the rest of the world, the decline was expected to be in the industrial fuel sector.

Pacific oil demand in 2010 was also expected to be on the decline – by 2.3 per cent. Japan would account for all of the drop in regional oil consumption in the year. Japanese

oil usage would manage to reduce the decline to only five per cent in 2010. Most of the decline was related to a slowing economy.

"However, an ageing population, along with the shift to smaller cars, will play a role in next year's oil demand," maintained the report.

Chinese oil demand was expected to follow the country's strong GDP growth in 2010. All economic sectors were forecast to push for more oil usage. New auto sales were seen to be strong, resulting from the stimulus plans that started last year.

The development of rural areas, along with strong agricultural activity, was expected to strengthen diesel demand next year. Recent Chinese economic data indicated a better-than-expected outlook for next year. Hence, China's oil demand growth was revised up by 70,000 b/d to reach 400,000 b/d in 2010 y-o-y.

However, the report pointed out that China was undergoing a five-year efficiency programme that ended in 2010 and the government was expected to put pressure on the country's oil demand to reduce it by four per cent per capita GDP. "China fell short of its efficiency plan target in the past four years and it is not expected to achieve this target next year."

Middle East long-term energy-intensive projects, along with subsidized transport fuel, were seen keeping the region's oil demand growth within the range of 3.3 per cent, slightly higher than in 2009. However, that was far less than the six per cent growth seen in 2008.

Given the fact that the region's economy was expected to triple in strength, this would add to the upward risk in the region's oil demand.

"There is a higher chance that Middle East oil demand might be greater than existing forecasts by a third."

Middle East oil demand growth was the second largest worldwide after China and had been on the sturdy side for years. The region's oil demand was forecast to grow by 240,000 b/d in 2010 to average 7.3m b/d.

An increase in India's GDP was likely to lead to increased oil consumption next year. The country's oil demand was not affected by the economic crisis in 2009; hence, oil

usage in 2010 was forecast to be in growth territory.

All economic sectors were calling for more energy. New vehicle registrations were expected to continue the fast growth seen in 2009, resulting in gasoline demand growing by 15 per cent, making it, percentage-wise, the fastest-growing product of all.

Total Other Asia was estimated to use 180,000 b/d more oil in 2010 than in 2009.

Given the high demand for oil in most of the non-OECD region, oil demand was expected to grow by 900,000 b/d y-o-y in 2010.

## World oil supply

Preliminary figures indicate that world oil supply averaged 85.59m b/d in November, an

**Preliminary figures indicate that world oil supply averaged 85.59m b/d in November, an increase of 290,000 b/d from the previous month.**

increase of 290,000 b/d from the previous month. The increase was mainly from non-OPEC supply, which outpaced the rise in OPEC supply. The share of OPEC crude oil production in global supply remained steady in November at 34 per cent. The estimate was based on preliminary data for non-OPEC supply, estimates for OPEC NGLs, and OPEC crude production from secondary sources.

Meanwhile, non-OPEC oil supply was estimated to have grown by 500,000 b/d over the previous year to average 50.96m b/d in 2009, following an upward revision of 100,000 b/d from the previous month's OPEC report.

The revisions, both positive and negative,

were made to the US, Canada, Mexico, Norway, the UK, Argentina, Brazil, Colombia, Oman, Congo, Gabon and Russia. These were introduced mainly to adjust for actual production data, project start-ups and ramp-up changes and expectations of different output circumstances in various countries. The fourth quarter witnessed the most significant upward revision of around 220,000 b/d, while the second and third quarters experienced lower positive revisions. On a quarterly basis, non-OPEC supply in 2009 was estimated at 50.95m b/d, 50.64m b/d, 50.83m b/d and 51.42m b/d, respectively.

Total OECD oil supply in 2009 was slated to have reached 19.54m b/d, a decline of 60,000 b/d compared with the previous year, and an upward revision of 50,000 b/d from the previous month. In general, OECD oil supply experienced the largest revision in the second quarter; however, the third and fourth quarters also showed considerable revisions, although some of the positive revisions were offset by negative ones. On a quarterly basis, total OECD supply in 2009 was estimated at 19.91m b/d, 19.29m b/d, 19.34m b/d and 19.63m b/d, respectively.

On a regional basis in November, the OECD Western Europe supply forecast was revised lower, OECD North America production was revised up and Asia Pacific supply remained flat, compared with the previous month.

OECD North America oil supply was estimated to have grown by around 230,000 b/d over the previous year to average 14.15m b/d, supported by the healthy growth in US supply. On a quarterly basis, North America oil supply for 2009 was estimated at 14.16m b/d, 13.98m b/d, 14.19m b/d and 14.28m b/d, respectively.

US oil production was expected to have averaged 7.99m b/d in 2009, an increase of 480,000 b/d from a year earlier, indicating an upward revision of 33,000 b/d from the previous month. The US showed the highest annual growth in 2009, compared with all non-OPEC countries, with a very large disparity (around 350,000 b/d) for Brazil's supply growth – the country with the second largest expected supply growth in 2009.

The considerable volume that came from

new projects during 2009, whether from start-ups or ramp-ups, strongly supported growth. Additionally, the return of most shut-in production in 2008, due to hurricanes Gustav and Ike, along with an uneventful hurricane season this year, further supported US oil supply gains.

Biofuels production also added to the US supply situation in 2009 and the percentage of idle capacity continued to shrink as the year progressed.

According to preliminary data, US oil supply stood at 8.21m b/d in November, slightly higher than in the previous month.

Oil supply from Canada was anticipated to have decreased by 50,000 b/d over the previous year to average 3.20m b/d in 2009, an upward revision of 31,000 b/d compared with a month ago

Mexico's oil supply was forecast at 2.97m b/d in 2009, a decline of 200,000 b/d from the previous year and representing a minor upward revision of 10,000 b/d from a month earlier.

Oil supply from OECD Western Europe was expected to have declined by 290,000 b/d over 2008 to average 4.75m b/d in 2009, indicating a minor downward revision of 27,000 b/d from the previous month. The negative adjustment came from actual production figures in the third and fourth quarters. OECD Western Europe was expected to have 2009 quarterly supply figures of 5.11m b/d, 4.70m b/d, 4.50m b/d and 4.72m b/d, respectively.

Norway's oil supply was projected to have averaged 2.34m b/d in 2009, a drop of 120,000 b/d from a year earlier and representing a downward revision of 8,000 b/d from the previous month. According to preliminary data, Norway's oil supply stood at 2.41m b/d in November.

UK oil supply was slated to have declined by 100,000 b/d over the previous year to average 1.47m b/d in 2009, a downward revision of 15,000 b/d from the previous month.

Denmark's oil supply was estimated to average 270,000 b/d in 2009, a minor drop of 10,000 b/d over a year earlier and flat from the previous month.

OECD Asia Pacific oil supply for 2009 was seen remaining flat from the previous year at an average of 630,000 b/d, unchanged from

OPEC's assessment the previous month. On a quarterly basis, total oil supply for this region in 2009 was estimated to average 640,000 b/d, 610,000 b/d, 660,000 b/d and 630,000 b/d, respectively.

Australia's oil supply was expected to have averaged 540,000 b/d in 2009, a minor increase of 10,000 b/d over a year ago and flat from the previous month.

Developing Countries oil supply was expected to have increased by 150,000 b/d over the previous year to average 12.51m b/d in 2009, representing an upward revision of 20,000 b/d from the previous month.

There were some historical revisions going back to 2007. The majority of the upward revisions came from the Middle East, while Africa and Latin America were seen steady to declining. On a quarterly basis, total oil supply in this group of countries in 2009 was slated to average 12.48m b/d, 12.47m b/d, 12.49m b/d and 12.60m b/d, respectively.

Other Asia's oil supply was anticipated to have decreased by 40,000 b/d over the previous year to average 3.71m b/d in 2009, indicating a minor downward revision of 5,000 b/d from the previous month. Among the countries of the region, only Thailand and Vietnam were expected to show some growth, while the rest were seen to either remain steady, or experience a decline.

Indonesia's oil supply forecast remained steady, while Malaysia's oil supply forecast was unchanged. On a quarterly basis, Other Asia supply in 2009 was foreseen to average 3.71m b/d, 3.70m b/d, 3.70m b/d and 3.72m b/d, respectively.

Oil supply from Latin America was estimated to have grown by 230,000 b/d over the previous year to average 4.43m b/d in 2009, flat from a month earlier. However, there were many upward and downward revisions to individual supply estimates, but these offset one another.

Argentina's oil supply forecast was revised up slightly on the back of improved production, while Brazil's oil supply forecast – which showed the second largest growth among all non-OPEC countries – was revised down slightly

to adjust for updated production data in the first three quarters of the year. Actual production so far in the fourth quarter remained healthy. At the same time, biofuels output was reported to be lower on the back of a weak sugar cane harvest.

The supply forecast for Colombia was revised up slightly, compared with the previous month, due mainly to reported strong production figures. On a quarterly basis, Latin America's oil supply in 2009 was estimated at 4.38m b/d, 4.41m b/d, 4.41m b/d and 4.51m b/d, respectively.

Middle East oil supply was seen to have declined by 10,000 b/d in 2009 over a year earlier to average 1.66m b/d, indicating an upward revision of 40,000 b/d from the previous month. The revision was introduced to Oman's oil supply, while other countries in the region remain unchanged on the back of strong production data. On a quarterly basis, Middle East oil supply in 2009 was foreseen to average 1.65m b/d, 1.65m b/d, 1.67m b/d and 1.66m b/d, respectively.

Oil supply from Africa was anticipated to have declined by 30,000 b/d over a year earlier to average 2.72m b/d in 2009, following a minor downward revision of 10,000 b/d. Downward revisions were made to the forecast for Congo and Sudan oil supply on the back of adjustments to actual production data. However, Gabon's supply encountered a minor upward revision of 5,000 b/d, due to updated production data. The quarterly distribution average for Africa in 2009 was put at 2.73m b/d, 2.72m b/d, 2.71m b/d and 2.70m b/d, respectively.

Oil supply from the FSU was expected to have increased by 360,000 b/d over the previous year to average 12.92m b/d in 2009, representing the highest growth among all non-OPEC groups. The supply estimate indicated an upward revision of 29,000 b/d from the previous month. On a quarterly basis, total oil supply from the FSU in 2009 was seen to average 12.63m b/d, 12.90m b/d, 12.98m b/d and 13.18m b/d, respectively.

Other Europe's oil supply was slated to have declined slightly by 10,000 b/d to average 140,000 b/d in 2009.

Oil supply from Russia was expected to have averaged 9.92m b/d in 2009, an increase of 140,000 b/d over the previous year, and representing an upward revision of 25,000 b/d from a month ago. On a quarterly basis, Russian oil supply in 2009 was seen to average 9.78m b/d, 9.88m b/d, 9.97m b/d and 10.05m b/d, respectively. Preliminary figures indicate that Russia's oil supply stood at 10.10m b/d in November, higher than in the previous month.

Kazakhstan's oil supply was projected to have grown by 120,000 b/d over the previous year to average 1.54m b/d in 2009, relatively steady from a month earlier. Preliminary data for November shows Kazakhstan's oil supply at 1.63m b/d, higher than a month earlier.

Oil supply from Azerbaijan in 2009 was expected to have grown by 120,000 b/d over a year earlier to average 1.03m b/d, unchanged from the previous month's estimate. The quarterly breakdown for this country in 2009 stood at 940,000 b/d, 1.08m b/d, 1.02m b/d and 1.07m b/d, respectively.

China's oil supply was seen to have averaged 3.86m b/d in 2009, an increase of 200,000 b/d over a year earlier, and unchanged from the previous forecast. The quarterly figures for 2009 were seen to average 3.80m b/d, 3.86m b/d, 3.89m b/d and 3.90m b/d, respectively.

Turning to 2010, the OPEC report said that non-OPEC supply was expected to increase by 310,000 b/d over 2009 to average 51.27m b/d, indicating a minor upward revision of 42,000 b/d from a month earlier. On a quarterly basis, non-OPEC supply for 2010 was put at an average of 51.39m b/d, 51.05m b/d, 51.02m b/d and 51.62m b/d, respectively.

Most of the revisions to the supply forecast were due to the changes introduced to the 2009 supply estimate, which were then carried over to 2010.

## OPEC oil production

Total OPEC crude oil production in November averaged 29.08m b/d, representing growth of around 47,000 b/d over the previous month,

according to secondary sources. Nigeria's crude oil production indicated the highest increase in the month under review, followed by Iran, while the UAE's crude output showed

**Total OPEC crude oil production in November averaged 29.08m b/d, representing growth of around 47,000 b/d over the previous month.**

the largest decline. OPEC crude oil production, not including Iraq, averaged 26.61m b/d in November, an increase of 44,000 b/d from the previous month.

OPEC production of NGLs and non-conventional oils were forecast to have averaged 4.77m b/d in 2009, representing growth of 450,000 b/d over the previous year. In 2010, OPEC NGLs were estimated to average 5.26m b/d, an increase of 490,000 b/d over the previous year.

## Downstream activity

Looking downstream, the OPEC report said that due to sluggish demand and high inventories of petroleum products, refining economics remained weak in November. This encouraged refiners, especially in the Atlantic Basin, to trim operation levels.

"Cold weather in the coming months may provide some support for product markets and refining margins, but given the excess overhang in distillate stocks and the slow recovery in demand, it is not expected that the circumstances of product markets will change sufficiently in the near future to provide support for crude fundamentals or prices," commented the report.

## The continuation of persistent low refinery utilization rates with higher supplies of crude, could ... exert pressure on crude fundamentals and prices in the near future.

The performance of European refineries was very weak and refining margins for Brent crude at Rotterdam slumped by \$1.27/b to 61¢/b in November from \$1.88/b a year earlier.

In the US, due to a relative strengthening of the gasoline market, refining margins for WTI crude on the US Gulf Coast improved by \$1.78/b, rising to \$3.16/b in November from \$2.28/b the month before.

In Asia, despite the good performance of the naphtha market, refining margins plunged amid a drop in the gasoline crack and weakening fuel oil market. High prices for Dubai crude oil also contributed to the downward movement of refining margins in Asia. Dubai crude oil mar-

gins in Singapore declined to minus \$1.51/b in November from \$1.98/b the previous month.

“Looking ahead, a cold snap, particularly in the Atlantic Basin, may provide some support for product markets and lift the bearish sentiment next month. However, the overhang of distillate barrels, both onshore and offshore, along with idle refining capacity and the slow recovery in demand, is likely to cap any upward movement in product prices and refining margins in the coming months,” observed the report.

It noted that refiners usually maximized throughput levels in November, in order to meet winter season demand. But an ample overhang in product stocks, along with the slow demand recovery, had adversely affected refinery operations across the world.

“The continuation of persistent low refinery utilization rates with higher supplies of crude, could raise the risk of counter-seasonal builds for crude stocks and exert pressure on crude fundamentals and prices in the near future, warned the OPEC report.

Refinery utilization rates in the US during November were gauged at around 80 per cent. “Except during periods of hurricane disruptions, US refiners have not operated at such low levels since 1992,” said the report.

In Europe, refinery utilization rates were estimated to have increased by 1.3 per cent to reach 82.5 per cent in November from 81.2 per cent the previous month.

In Asia, due to guaranteed profits by the Chinese government, Chinese refiners were seen running at maximum capacity, but amid poor refining margins, with other Asian refiners not following suit. Refinery utilization rates in Japan rose to 83.4 per cent in November from 81.3 per cent the previous month, whereas, typically, they should run at much higher levels during this month.

“Looking ahead, given the overhang in barrels of various products, especially for distillates, and the lack of demand from the industrial sector, as well as ample supplies of low-priced gas as a substitute for both fuel oil and heating oil, refinery utilization rates are not expected to increase sharply in the coming months,” maintained the report.

US product market movement was relatively mixed. Expected higher demand during the Thanksgiving holiday provided support for gasoline. But, at the same time, higher imports and regional gasoline output, due to adjustments in refinery operations in favour of gasoline, led to stock-building for the product over the last weeks and undermined gasoline market sentiment.

## Oil trade

Concerning oil trade, according to official data, US crude oil imports declined further in November to average 8.58m b/d, some 52,000 b/d lower than the previous month and 14 per

cent, or 1.37m b/d, down from the same month a year earlier.

November’s crude oil imports brought US average imports for the first 11 months of 2009 to 9.2m b/d, a decline of six per cent, or 600,000 b/d, from the same period a year ago.

In contrast, US product imports increased in November by seven per cent, or 177,000 b/d, compared with the previous month, to average 2.71m b/d, eight per cent, or 230,000 b/d, lower than in the same month last year.

Finished motor gasoline imports stood at 162,000 b/d, steady with the previous month, but 41 per cent higher than in November the previous year. Average gasoline imports during the first 11 months of 2009 were put at 220,000 b/d, a decline of 30 per cent from the same period a year earlier.

Distillate fuel oil imports in November were estimated at 176,000 b/d, compared with 168,000 b/d the previous month and 203,000 b/d a year earlier. Average distillate fuel oil imports during the first 11 months of 2009 were gauged at 225,000 b/d, an increase of eight per cent over the same period in 2008.

Residual fuel oil imports in November were estimated at 299,000 b/d, compared with 319,000 b/d the previous month and 285,000 b/d a year earlier. Average residual fuel oil imports for the first 11 months of 2009 were put at 350,000 b/d, steady with the same period the previous year.

Jet fuel imports in November averaged 76,000 b/d, down from 86,000 b/d the previous month.

US product exports in November were three per cent higher than in October, averaging 1.94m b/d. On an annual basis, this volume of product exports was about 17 per cent, or 275,000 b/d, higher than in the same month a year earlier. US product exports during the first 11 months of 2009 averaged 1.78m b/d, compared with 1.79m b/d in the same period of 2008.

As a result, US net oil imports in November rose by one per cent, or 74,000 b/d, over the previous month to average 9.31m b/d. This was the result of a 52,000 b/d decline in net crude oil imports and a 126,000 b/d increase in net

product imports, both compared with the previous month.

November's net oil imports were 17 per cent lower, compared with a year earlier, while average net oil imports over the first 11 months of 2009 were put at 10.16m b/d, a decline of nine per cent, or 960,000 b/d, from the same period the previous year.

Japan's net crude oil imports in October were the highest for six months and backed by higher crude imports and lower product exports.

According to official data, Japan's crude oil imports increased by 14 per cent, or 448,000 b/d, in October to average 3.72m b/d, but yet were three per cent lower compared with October 2008. At the same time, Japan's average crude oil imports for the first ten months of 2009 were put at 3.62m b/d, a decline of 14 per cent, or 593,000 b/d, from the same period a year earlier.

In contrast, Japan's product imports declined in October by five per cent, or 54,000 b/d, compared with the previous month, to average 1.05m b/d. This represented an annual decline of seven per cent, compared with the same month a year earlier.

Japan mainly imports three products – naphtha, LPG and fuel oil – which accounted for about 97 per cent of its total monthly product imports in October. The country's average product imports in the first ten months of 2009 averaged 1.02m b/d, indicating a decline of 12 per cent, or 136,000 b/d, over the same period a year ago.

On the export side, Japan's product exports in October, at an average of 598,000 b/d, were estimated to be 21 per cent, or 157,000 b/d, lower compared with the previous month and 11 per cent down from the same month in 2008. Gasoil, fuel oil and jet fuel are Japan's main product exports, which together accounted for about 93 per cent of the country's total product exports in the month.

Japan's average product exports during the first ten months of 2009 were put at 640,000 b/d, a decline of six per cent from the same period a year earlier.

It meant that the country's net oil imports in October were gauged at 4.18m b/d, the high-

est level since April 2009, and indicating an increase of 15 per cent, or 551,000 b/d, over the previous month, but three per cent lower than a year earlier. Net crude imports were higher by 448,000 b/d and net product imports rose by 103,000 b/d. Japan's net oil imports during the first ten months of 2009 were put at 4.0m b/d, a decline of 15 per cent, or 687,000 b/d, over the same period a year ago.

Saudi Arabia was Japan's top crude oil supplier in October, supplying 26 per cent, or 950,000 b/d, of Japan's total crude oil imports, down from 980,000 b/d the previous month. The UAE supplied 890,000 b/d in October, up from 720,000 b/d the previous month, while Qatar supplied 440,000 b/d, compared with 350,000 b/d the previous month.

Altogether, OPEC Member Countries supplied 87 per cent, or 3.14m b/d, of Japan's crude oil imports in October, up from 2.79m b/d the previous month.

The top non-OPEC crude oil suppliers to Japan in October included Russia with 140,000 b/d, up from 110,000 b/d the previous month, and Indonesia with 100,000 b/d, up from 80,000 b/d a month earlier.

On the products side, with the exclusion of LPG imports, preliminary data indicates that the UAE was Japan's top supplier in October with 143,000 b/d, up from 131,000 b/d the previous month, followed by Saudi Arabia with 113,000 b/d, up from 78,000 b/d in September.

Altogether, OPEC Member Countries supplied some 51 per cent, or 370,000 b/d, of Japan's product imports in October, up from 360,000 b/d the previous month.

The top non-OPEC product suppliers in the month included the US with 59,000 b/d, followed by South Korea with 58,000 b/d and Indonesia with 45,000 b/d.

China's net oil imports increased in October by six per cent, compared with September, and by 19 per cent from a year earlier, backed by higher crude imports.

According to official data, China's crude oil imports in October rose by nine per cent, or 370,000 b/d, from September to average 4.57m b/d, 20 per cent, or 894,000 b/d, higher than during the same month a year ago. China's crude

oil imports for the first ten months of 2009 averaged 4.0m b/d, nine per cent, or 343,000 b/d, higher than in the same period of 2008.

In contrast, China's product imports declined in October by 16 per cent, or 141,000 b/d, compared with the previous month, to average 760,000 b/d, 23 per cent higher than in October 2008.

Altogether, China imported an average of 1.01m b/d of oil products in the first ten months of 2009, compared with 970,000 b/d during the same period the previous year.

On the export side, China's crude oil exports in October were put at 85,000 b/d, compared with 95,000 b/d the previous month. For the first ten months of 2009, China exported an average of 108,000 b/d of crude oil, compared with 76,000 b/d during the same period of 2008.

On the other hand, China's product exports in October were estimated at about 570,000 b/d, three per cent lower than in the previous month, but 32 per cent higher than in October 2008. Average product exports for the first ten months of 2009 were gauged at 550,000 b/d, compared with 400,000 b/d during the same period of 2008.

With net crude oil imports of 4.49m b/d and net product imports of 190,000 b/d, China's net oil imports in October were put at 4.68m b/d, six per cent, or 258,000 b/d, higher than in the previous month and 19 per cent more than in October 2008. Average net oil imports for the first ten months of 2009 were put at 4.34m b/d, five per cent, or 204,000 b/d, higher than during the same period of 2008.

Angola and Saudi Arabia were China's top crude oil suppliers in October, each supplying 900,000 b/d, or 20 per cent of China's total crude imports for the month. Iran supplied 390,000 b/d. Altogether, OPEC Member Countries supplied China with 3.16m b/d, or 69 per cent, of its crude oil imports in October, up from 2.76m b/d the previous month.

The country's top non-OPEC crude oil suppliers in October included Russia and Sudan, each with 290,000 b/d, and Oman with 200,000 b/d.

India's net oil imports declined in October

by 18 per cent on lower crude and product net imports.

According to preliminary data, India's crude oil imports declined in October by eight per cent, or 220,000 b/d, compared with the previous month to average 2.55m b/d. October crude imports were 137,000 b/d lower than in the same month a year earlier. India's crude oil imports during the first ten months of 2009 averaged 2.6m b/d, virtually unchanged from the same period a year earlier.

Similarly, India's product imports declined in October by 19 per cent, or 46,000 b/d, compared with the previous month to average 200,000 b/d. This was 50 per cent lower than in the same month the previous year. For the first ten months of 2009, India imported an average of 290,000 b/d of products, compared with 430,000 b/d in the same period the previous year, indicating a 33 per cent annual decline.

India's total product exports of 752,000 b/d in October were 27 per cent, or 160,000 b/d, higher than in the previous month, yet eight per cent lower compared with a year earlier. For the first ten months of 2009, India exported an average of 570,000 b/d of products, down by 26 per cent, or 200,000 b/d, from the average recorded during the same period a year earlier.

As a result, India's net oil imports in October averaged 2.0m b/d, indicating a decline of 18 per cent, or 426,000 b/d, from the previous month and 12 per cent down from October 2008.

Net crude oil imports were lower by 220,000 b/d and net product imports fell by 206,000 b/d. India's net oil imports for the first ten months of 2009 averaged 2.32m b/d, an increase of three per cent, or 67,000 b/d, over the same period the previous year.

According to preliminary data, FSU crude oil exports were steady in October, increasing by less than one per cent, or 40,000 b/d, compared with the previous month to average 6.73m b/d.

Russian crude oil exports in the month averaged 3.91m b/d, steady with the previous month.

During the first ten months of 2009, FSU crude oil exports averaged 6.63m b/d, nine per

cent, or 536,000 b/d, higher than in the same period the previous year. During the same period, Russian crude oil exports averaged 3.97m b/d, just under one per cent higher than in the same period the previous year.

Meanwhile, FSU product exports declined in October by 335,000 b/d to average 2.46m b/d, compared with 2.79m b/d in September. During the first ten months of 2009, FSU product exports declined by two per cent, or 66,000 b/d, compared with the same period the previous year, to average 2.89m b/d.

In total, FSU crude oil and product exports averaged 9.19m b/d in October for a decline of 295,000 b/d over the previous month. For the first ten months of 2009, total FSU crude and product exports averaged 9.52m b/d, indicating an increase of five per cent, or 470,000 b/d, compared with the same period the previous year.

## Stock movements

Concerning stock movements, according to preliminary data for November, OECD commercial oil inventories were stable, while other components, such as floating storage, oil at sea and independent storage, increased further, supported by the contango structure in the futures market.

US commercial oil inventories slipped by a marginal 1.4m b in November, compared with 30m b in October. However, even with a draw of more than 31m b over the previous two months, US commercial oil stocks remained above the upper end of the five-year range, which kept the overhang with the five-year average at 67m b, or seven per cent.

Crude oil stocks added a further 1.3m b in November to stand at nearly 338m b and continued to hover above the upper end of the five-year range, implying an overhang of 25m b, compared with 52m b in January.

The build of 1.3m b took place despite a drop in imports, implying weaker demand. However, in addition to lower demand from refineries, the contango in the futures market contributed to the build at a time when crude

oil stocks typically decline in November, before falling significantly in December, due to end-year taxes.

"It is worth noting that US crude oil stocks increased by just 12m b during the first 11 months of 2009, one-third of the volume of a year earlier. A year ago, US commercial oil stocks increased by 18m b during June-November, while this year they lost 24m b during the corresponding period. Again the build in stocks so far this year is due to lower demand as imports fell by 700,000 b/d, compared with the same period last year," said the report.

On the products side, and in contrast to crude oil, distillate stocks edged lower by a marginal 900,000 b to stand at 166.6m b, which kept the overhang at 33m b, or 25 per cent, compared with just 12m b in January. The increase in the overhang was due mainly to continuing weakness in demand.

Following an opposite trend and due to lower demand, gasoline stocks surged by 5.8m b to offset the draw of the previous month and moved above 214m b, the highest level since last March.

Residual fuel oil and jet fuel inventories saw mixed patterns with the former increasing by 1.7m b and the latter falling by 2.8m b. However, while residual fuel oil stocks remained below the lower-end of the five year-range, jet fuel stocks continued to hover above the upper end, even though they dropped in both October and November.

According to the stocks' data for the week ending December 4, US commercial oil stocks fell by 4.3m b, due to an unexpected draw of 3.8m b in crude oil inventories, resulting from an increase in the refinery utilization rate to 81.1 per cent and a drop of 260,000m b/d in imports.

In contrast to crude oil, distillate stocks increased by 1.6m b, the first rise in four weeks, while gasoline stocks added a further 2.3m b, the third build in a row, to move beyond 216m b for the first time since mid-April on a weekly basis.

However, while commercial crude oil stocks dropped, inventories at Cushing, Oklahoma, the delivery point for WTI, increased for the sixth

week in a row to reach 33.4m b. The surge in stocks at Cushing resulted in WTI falling to a discount to Brent.

“Taking into consideration forward demand, US commercial oil inventories are very high for all components. Both crude oil and gasoline stocks correspond to 24 days of forward cover, compared with a seasonal average of 20 days and 22 days, respectively, while distillate stocks correspond to more than 47 days, compared with a seasonal average of just 31 days,” said the report.

The US Strategic Petroleum Reserve (SPR) resumed its upward trend, increasing by 800,000 b in November to reach a new all-time high of 725.9m b. The build took place in late November and continued in early December when prices declined.

European (EU-15 plus Norway) total oil inventories reversed their trend and increased by 8.7m b, or 290,000 b/d, in November to approach 1,147m b, the third-highest level seen so far this year. Following this build, the overhang with the five-year average widened to 20m b. Low refinery runs left crude oil stocks higher and product stocks almost unchanged.

Crude oil inventories surged by 8m b on the back of lower demand from refineries and incentives to hold stocks as the futures market remained in contango. Despite a two-month build, crude oil inventories remained slightly below the five-year average. Nevertheless, at 480m b, stocks were higher than a year earlier. It was the third consecutive month since September when crude oil stocks stood below the five-year average – down to 5m b – compared with January when they were 18m b above the five-year average.

Within products, both gasoline and distillate stocks remained almost unchanged, due to lower supplies. However, gasoline stocks lost less than 1m b to remain at around 117m b, while distillates edged up by 200,000 b to 412.5m b. Nevertheless, stocks of both gasoline and distillates remained unchanged, although gasoline stood below the lower end of the five-year range and distillates hovered well above the upper-end of the five-year range.

Distillate stocks we seen 40m b, or 11 per cent, above the five-year average, the highest so far this year, whereas gasoline stocks were 14m b, or 11 per cent, below the five-year range.

This opposite picture was attributed to lower demand for distillates, particularly due to the mild winter weather, and lower gasoline output, due to poor refining margins. For gasoline, transatlantic arbitrage opportunities also contributed to low gasoline stock levels. Both residual fuel oil and naphtha stocks increased. Residual fuel oil inventories gained 800,000 b to offset the draw of the previous month and hit 110m b, the highest level since last July, while distillate stocks added a further 400,000 b to move above 28m b for the first time since last May.

Meanwhile, recent weekly data showed that Japanese commercial oil stocks declined by nearly 8m b over the four weeks of November. Crude oil accounted for two-thirds of the loss, while naphtha fell by 2.4m b, gasoline inched up slightly and middle distillates increased by 600,000 b.

## January 2010

### Crude oil price movements

Contrary to November, when the OPEC Reference Basket remained virtually stable, two distinct trends were seen throughout December. In the first two weeks of the month, the OPEC Basket followed a steep downward trend, declining by \$7.24/b, after having moved from \$77.88/b on the first day of the month to a two-month low of \$70.64/b on December 14. The seven consecutive sessions of decline seen during this period were the longest since early July 2009 when the Basket lost \$9.90/b over nine consecutive days.

The downward trend in the first half of December was driven by bearish sentiment in the futures market, supported by high levels of US oil inventories and rising concerns about

the economic recovery and hence oil demand. All Basket components came under pressure, particularly Middle East crudes.

Middle East crude market sentiment remained bearish in December, particularly

**The OPEC Basket managed to reverse its downward trend during the second half of the month, resulting in an accumulated gain of \$6.42/b.**

during the first three weeks of the month. This was due to ample supply within the region.

West African crudes were also under pressure during the first half of December due to poor refining margins and weaker demand for January loadings. Furthermore, a rising premium of North Sea crude versus WTI also contributed to the pressure by undermining interest among US buyers for West African crude.

However, the OPEC Basket managed to reverse its downward trend during the second half of the month, resulting in an accumulated gain of \$6.42/b, after prices moved from \$70.64/b on December 14 to close the final day of the month at \$77.16/b.

The upward trend was driven by a sudden recovery in the futures market, attributed to cold weather in the Northern Hemisphere. Basket components saw a mixed trend during the second half of December.

In the third week, the Basket received support from Brent-related crudes, while Middle Eastern crudes remained under pressure. West African crudes improved during the second half of December amid stronger demand from the United States and Asian buyers, as well as by improving margins for naphtha.

As a result of the mixed movements, the OPEC Basket averaged December at \$74.01/b,

the second highest monthly level recorded in 2009 after November's \$76.29/b.

For the whole year, the Basket averaged \$61.06/b for a decline of 35 per cent from the \$94.45/b registered in 2008. However, it did manage to follow an overall upward trend in 2009, moving steadily from an average of \$41.54/b in January to \$74.01/b in December.

In early 2010, the Basket maintained its momentum to move above \$80/b on January 7, following ten consecutive sessions of gain. This surge in the price was driven by bullish sentiment in the market, resulting from cold weather in the Atlantic Basin.

The second week of January saw a mixed

pattern with the Basket reaching \$80.29/b, the highest level since early October 2008. However, by January 18 the Basket had fallen to \$75.79/b after bearish sentiment once again emerged in the futures market.

## Commodity markets

Looking at trends in selected commodity markets, the OPEC report noted that the declining trend seen in the IMF commodity price index in November continued in December, with the month experiencing a 0.4 per cent fall. The index was particularly affected by the decline in crude and food prices, with industrial metals recording relatively strong gains.

On a quarterly basis, commodity prices

increased by 8.4 per cent in the last three months of 2009, compared with 9.6 per cent in the third quarter and 15.8 per cent in the second quarter.

Commodity prices, as a whole, benefited from the second quarter of 2009, driven by positive macroeconomic news, as well as bullish supply developments in the industrial metal complex and agricultural products. Dollar weakness versus the euro also added to the situation.

"It seems that the rising trend in commodity prices is almost over, but forecast strong growth for the US and Europe in the first quarter of 2010 has encouraged observers to expect further upward price movements in crude oil and industrial metals in the short term," said the report.

"Nevertheless, the existence of some question marks over the sustainability of global growth and the continued dependence on Chinese demand may lead to slower commodity price increases in 2010, despite the fact that the price downside is limited in most of the markets," it added.

The IMF energy price commodity index (crude oil, natural gas and coal) fell by 2.4 per cent m-o-m in December on negative growth in crude oil prices (minus 3.5 per cent).

The Henry Hub (HH) gas price jumped by 45 per cent in December, due to colder-than-normal temperatures.

"HH natural gas experienced one of the worst performances in 2009 but soared 45 per cent m-o-m in December, owing to the tightening of the physical markets and driven by colder-than-expected weather and large inventory withdrawals," the report said.

The non-energy commodity price index expanded by 3.2 per cent in December, compared with 3.8 per cent a month earlier. Slower growth in food prices was counterbalanced by accelerated growth in industrial metals, which expanded by 5.3 per cent in the month, compared with 2.6 per cent in November.

The improvement in December followed positive manufacturing data from the US and China.

The report said aluminium seemed to have experienced a bubble with prices at the LME

increasing by 11.5 per cent in December, compared with four per cent a month earlier.

After a hefty fall of 8.5 per cent m-o-m in November, nickel prices recovered to increase by 1.2 per cent in December. This was essentially sustained by supply tightness in the major producing economies, due to strike action.

Zinc prices increased in December by eight per cent, compared with six per cent in November.

The IMF food price index declined in December as drops in major oil seeds and grains offset the price rise in some other items.

Gold prices expanded by only one per cent in December, compared with eight per cent in November, due to the rise in US bond yields and real interest rates.

## Highlights of the world economy

In looking at developments in the world economy, the OPEC report stated that the storyline for 2010 had not changed dramatically. Economic growth in the year would still depend on government support, following the massive stimulus that had already been provided by the US Administration over the course of 2009.

"This raises the question of the sustainability of growth if the government lifeline is removed," it observed.

Amid the massive stimulus seen in the third quarter of 2009, households were the main contributors to GDP growth – to the tune of almost two per cent. This was the first quarter in almost three years that private consumption had contributed significantly to GDP growth.

Supported by incentives, such as tax credits, car scrappage schemes and other stimulus policies, households began to spend again, as shown by the solid retail numbers. However, this trend was interrupted in December as sales declined 0.3 per cent m-o-m. This surprisingly weak result followed an upwardly revised number for November of 1.8 per cent growth.

"The positive aspect is that, at least on a yearly comparison, the December numbers show growth of 5.4 per cent and for the fourth

**Question marks over the sustainability of global growth and the continued dependence on Chinese demand may lead to slower commodity price increases in 2010.**

quarter retail sales grew by 5.2 per cent y-o-y," said the report.

"The relative success of the stimulus measures might continue to support the economy and consumer spending in the coming months, but this remains far from certain," it added.

In reflecting the growth trend, the ISM manufacturing index rose to 55.9 in December, 2.3 points above November and to a level normally associated with solid economic growth.

The non-manufacturing index, which fell below the expansion threshold of 50 in November, when it stood at 48.7, rose to just above 50 again in December.

Unemployment in December was unchanged at the high level of ten per cent, with 85,000 non-farm jobs lost.

"Given the weak employment market in an economy that is still dependent on government-led stimulus and in which the housing market has again come under pressure, one has to be careful in judging the sustainability of this recovery as obvious challenges remain," said the report.

It noted that despite all the challenges, the US equity market continued to experience relatively healthy growth. The S&P 500 index was currently attracting a high forecast of 4.6 per cent GDP growth for 2010, while the consensus view was that it would come in at around three per cent.

"Not only has the stock market risen significantly in 2009, it continued to do so in the first two weeks of January – up by more than two per cent – and has moved above its recent trading range of between 1,090 and 1,130, a clear indication that the market is of the opinion that this positive momentum in economic growth might continue.

"At the same time, this renders equity markets very vulnerable. Any substantial negative news flow could lead to a sharp market correction," maintained the report.

Taking these challenges into consideration, the GDP forecast for the US in 2010 was increased only slightly by 0.3 per cent to 1.9 per cent, but adjusted to minus 2.6 per cent for 2009, from minus 2.5 per cent, given the downward revision to the third quarter.

Turning to Japan, the report said this country was still facing many challenges and the slightly positive momentum observed since the second quarter of last year was only expected to continue to a certain extent in 2010.

The economy remained dependent on government support. There were currently not a lot of positive developments in the domestic economy and the near future was still relatively uncertain.

Based on a still relatively high unemployment rate by Japanese standards, retail sales were correspondingly weak. However, Japanese industrial production, which increased by a healthy 2.6 per cent in November, was projected to continue growing in December and January – by 3.4 per cent and 1.3 per cent, respectively.

"This reflects the sharp rebound in exports, positive policy measures and inventory restocking," said the report.

The decline in exports on an annual basis continued to show signs of improvement. This solid improvement in the export market was reflected in manufacturing PMI, which stood at 53.8 in December.

"All in all, the domestic economy continues to face many challenges. Taking the relatively weak domestic economic situation into consideration, the forecast was kept unchanged at a modest growth rate of 1.1 per cent for 2010, following an estimated contraction of 5.3 per cent in 2009," the report stated.

Similar to the other major OECD economies, the economic situation had not changed dramatically in the Euro-zone during the past month. The region emerged from recession in the second half of 2009 and appeared to be making slow progress. However, there were several aspects that were challenging the sustainability of the current recovery.

"Taking the challenges into consideration, the forecast remains unchanged. Euro-zone GDP for 2010 is forecast to rise at a pace of 0.6 per cent, following an estimated decline of 3.9 per cent last year," said the report.

In Russia, the Ministry for Economic Development had forecast 2010 inflation in the range of 6.5–7.5 per cent (December

estimates), while the country's GDP would grow, under the Ministry's most likely moderate optimistic scenario, by 3.1 per cent if oil traded at \$65/b.

"For the time being, the Russian budget

**Euro-zone GDP for 2010 is forecast to rise at a pace of 0.6 per cent, following an estimated decline of 3.9 per cent last year.**

includes an annual average crude price assumption of \$58/b, while official GDP growth is forecast at 1.6 per cent."

Before the financial crisis intensified last autumn, inflation was Russia's chief economic problem. During the 1990s, the country saw double and even triple-digit price increases amid drastic economic changes and currency devaluation.

In an attempt to stimulate the country's weak economy, Russia's central bank announced another cut in interest rates and more gradual trims were expected in the coming months.

China's exports were said to be particularly strong in December 2009, rising by 17.7 per cent after 13 months of annual decline.

"If GDP growth in the last quarter proves to be stronger than expected, Beijing could move even more aggressively to manage inflation," said the OPEC report.

## World oil demand

In its review of the market, the OPEC report said that demand for OPEC crude in 2009 had been revised up by around 70,000 b/d to currently stand at 28.7m b/d. This mainly

reflected a downward revision to non-OPEC supply as global oil demand remained virtually unchanged.

The first three quarters of the year carried the bulk of the revision, while the fourth quarter remained broadly unchanged.

“However, this still represents a considerable decline of 2.3m b/d from the previous year. The first half experienced negative growth of around 3.0m b/d over the same period the previous year, while the decline narrowed in the second half to show a loss of only 1.4m b/d in the fourth quarter,” said the report.

Demand for OPEC crude in 2010 is projected to average 28.6m b/d, broadly unchanged

**Demand for OPEC crude in 2010 is projected to average 28.6m b/d, broadly unchanged from the Organization’s previous assessment.**

from the Organization’s previous assessment, as world oil demand and non-OPEC supply remained almost unchanged.

On a quarterly basis for this year, only the second quarter saw a downward revision of 100,000 b to currently stand at 27.4m b/d.

“Required OPEC crude is forecast to decline slightly by about 60,000 b/d, following two consecutive annual declines. The first half of the year is still showing a drop of 400,000 b/d, while the second half is estimated to see positive growth of around 200,000 b/d in the third quarter and 400,000 b/d in the fourth quarter,” the report observed.

Meanwhile, it pointed out that a cold winter, improved economic activity and a low base in 2009 had pushed up December oil demand, mainly in North America.

“December was cold in most of the northern hemisphere, which positively affected heating oil and fuel oil consumption.”

Improved demand in China, India and the US pulled world oil demand out of the red to show growth of 0.9 per cent, or 760,000 b/d in December. Most OECD December oil demand growth was in heating oil and fuel oil. Resulting from improved US consumption, OECD December oil demand narrowed losses to only 0.3 per cent.

The world financial crisis negatively affected 2009 oil demand, resulting in a decline of 1.4m b/d, or 1.6 per cent. Nevertheless, the world managed to consume more oil in the second half of the year with 0.25 per cent growth in the fourth quarter.

“As a result of the financial turmoil, the quarterly distribution and seasonality of growth in world oil demand deviates significantly from the historical pattern in which the maximal growth typically occurs during the first and fourth quarters,” the report observed.

“The financial crisis took everyone by surprise and made it difficult to forecast, not only its impact on the world economy, but also the impact on world oil demand as well.”

It said that most forecasters went to the extreme in estimating world oil demand; however, they carried out major revisions later on when the picture became clearer.

The IEA and EIA forecasts painted a very dim picture with world oil demand contracting by minus 2.6m b/d and minus 1.8m b/d, respectively, for the year. OPEC forecast world oil demand to decline by minus 1.7m b/d. In total, the accumulative monthly absolute change forecast by the IEA and EIA stood at 5.3m b/d and 3.7m b/d, while OPEC’s total revision was 2.9m b/d.

Cold weather, along with improved economic activity, pushed US oil demand to reduce its loss in December. Data indicated that strong heating and fuel oil consumption put the whole month’s y-o-y demand at a flat rate. Transportation fuel showed minor growth. Given the holiday season, gasoline continued its previous month’s trend in showing growth of 0.4 per cent in the month.

“US oil demand is highly affected by the country’s economic situation. Should the economy continue its recovery, then oil demand should quickly follow suit,” maintained the report.

December oil demand only showed a contraction of minus 30,000 b/d y-o-y. Most of the petroleum products either reduced their losses or even experienced growth. Bad weather slightly affected driving; consequently, it shaved the monthly rate.

Cold weather also affected oil demand in Canada with figures pointing to minor growth in December. The majority of this came from gasoline and winter products.

North America oil demand was forecast to have declined by 900,000 b/d in 2009 to average 23.3m b/d.

In Western Europe, there were registrations for more than 1.1m new cars in November – 31 per cent more than in the same month a year earlier, according to the European Automobile Manufacturers Association. The main bulk of the increase was registered in Europe’s ‘big four’ consumers: Germany (20 per cent), France (48 per cent), Italy (31 per cent) and the United Kingdom (58 per cent).

On average, the West European market remained relatively stable during the first 11 months of 2009, showing only a marginal decline of one per cent over the same period the year before.

However, the increase in new car sales did not push for more gasoline usage across OECD Europe.

The ‘big four’ accounted for the majority of the decline in Europe’s oil consumption in 2009. The contraction in their oil demand represented 50 per cent of the total decline in the region. The largest loss was associated with Germany, the biggest oil-consuming country in Europe. Germany’s oil demand was forecast to have declined by 115,000 b/d in 2009. Italian oil demand was said to have decreased by five per cent.

The weather and a slight improvement in economic activity helped OECD Europe’s oil demand to improve in the fourth quarter to minus 460,000 b/d. The region’s oil demand

was forecast to have declined by 600,000 b/d in 2009 to average 14.7m b/d.

Japan's oil demand, which dipped by 5.5 per cent y-o-y in November, was expected to have followed a similar trend in December, whereas South Korea was seen consuming more oil than in the previous year. In fact, South Korea was the only major OECD country estimated to have had higher oil demand in 2009. The country's oil demand was slated to have expanded by 3.2 per cent in the year with gasoline alone forecast to have grown by 8.3 per cent.

As a result of the better-than-expected oil demand picture in South Korea, OECD Pacific fourth quarter oil demand was revised up by 50,000 b/d. The region's oil demand was said to have declined by 400,000 b/d in 2009 to average 7.7m b/d.

The economy of Other Asia, which has experienced a strong and rapid recovery, had estimated growth of 2.7 per cent. India led the region with 6.2 per cent GDP growth; consequently, the region's oil demand was forecast to have consumed 200,000 b/d more oil in 2009 than in the previous year.

Taiwan and other major countries within Asia used more oil in the fourth quarter; hence, the region's oil demand in the last three months was revised up by 150,000 b/d to show growth of 475,000 b/d y-o-y. This growth was almost twice as much as in the third quarter.

Given the healthy Indian economy, the country's oil demand was expected to have grown by 150,000 b/d y-o-y in 2009 to average 3.0m b/d.

Slowing oil demand in certain countries within the Middle East put pressure on the region's total oil demand. Hence, Middle East oil demand was revised down by 30,000 b/d in 2009.

In spite of a two per cent decline in the Brazilian economy, the country's oil demand was forecast to have expanded slightly in 2009. November gasoline and diesel demand grew by six per cent and seven per cent, respectively.

As a consequence of the strong Asian oil demand, oil demand in the group of Developing Countries was forecast to have grown by 500,000 b/d in 2009 to average 25.8m b/d.

Chinese oil demand continued its rally, hitting 7.4 per cent growth in November, excluding oil used for stocking. Despite the downturn in the world economy, China's power generation reached 90 GW in 2009. The country's power consumption rose by five per cent.

Chinese apparent oil demand exceeded all expectations. Taking into consideration the build-up of strategic oil stocks, the nation's fourth-quarter apparent oil demand growth was forecast at 550,000 b/d y-o-y, averaging 8.2m b/d.

Turning to 2010, the OPEC report maintained that the world economic outlook offered a semi-rosy picture, following two years of devastating financial crisis. World GDP was forecast to be in the black by 3.1 per cent with changes in all regions.

"The expected economic recovery is forecast to reduce the loss in OECD oil demand to only 120,000 b/d y-o-y in 2010. Most of the recovery is anticipated to take place in the US. The US, which consumes less than one-fourth of the total oil consumed worldwide, is a key country to world oil demand changes," the report noted.

Non-OECD countries were forecast to experience some recovery in all economic activities, leading to smooth growth in oil demand, estimated at 1.0m b/d. Cold weather was affecting the northern hemisphere, which had led to additional demand for winter petroleum products.

In 2010, OECD oil demand was forecast to bounce back, reducing its decline by 93 per cent. Most of the recovery was attributed to the US; nevertheless, an improvement was forecast in all OECD regions.

World oil demand in 2010 was forecast to grow by 800,000 b/d to average 85.1m b/d, representing no major change from the previous month.

The report noted that, in January, freezing conditions in the US put pressure on heating and fuel oil. Most of the country experienced colder-than-normal weather affected gasoline demand. Europe and the Pacific region also experienced a colder-than-normal winter in January.

"It is forecast that demand for winter fuels will be higher; however this is not expected to push up total oil consumption as other products are expected to slide," the report explained.

"Although the first quarter showed minor

**World oil demand in 2010 was forecast to grow by 800,000 b/d to average 85.1m b/d, representing no major change from the previous month.**

growth in US oil demand, the down risk is high. The country's economy is still in shock, industrial production is low, new car registrations are below normal, despite the stimulus plan, and the same could be said for the rest of the OECD as well," it added.

US weekly data showed a massive drop in oil demand in the first week of January and a strong build-up in oil stocks.

"Should this trend continue, then the total OECD oil demand forecast might fall short of initial estimates. Should US oil demand fall on the negative side in the first quarter, then the expected growth in world oil demand might be cut in half from the current estimate."

A decline in Japanese oil consumption was forcing the oil industry to further reduce its refining capacity. Excess capacity was pushing refining margins down to a limit not feasible any more.

Both OECD Europe and Pacific oil demand was forecast to decline by 1.4 per cent and 2.0 per cent, respectively, in 2010. The 'big four' and Japan were the cause behind this expected decline in oil usage.

OECD oil demand was forecast to contract by 0.3 per cent in 2010 to average 45.5m b/d.

However, the report noted that strong economic growth in China, India, the Middle East

and Latin America was resulting in the world consuming more oil in 2010 than the previous year.

New vehicle sales in China were expected to be strong, resulting from the stimulus plans that started last year. China's oil demand was expected to grow the most this year, reaching 5.4 per cent.

The Middle East's long-term, energy-intensive projects, along with subsidized transport fuel were expected to keep the region's oil demand growth within the range of 3.3 per cent in 2010.

Given the healthy growth in India and the Middle East, Developing Countries' oil demand

**Preliminary figures indicate that world oil supply remained steady in December, compared with the previous month, to average 85.57m b/d.**

was forecast to grow by 2.1 per cent in 2010. This was leading to total non-OECD growth of 1.0m b/d in the year.

## World oil supply

Preliminary figures indicate that world oil supply remained steady in December, compared with the previous month, to average 85.57m b/d. Non-OPEC supply experienced a decline of 90,000 b/d, while OPEC crude supply increased slightly. The share of OPEC crude oil in global production remained relatively steady at 34 per cent in December, with a minor increase from the previous month. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC

NGLs and OPEC crude production from secondary sources.

Meanwhile, non-OPEC supply for the whole of 2009 was estimated to have averaged 50.96m b/d, representing growth of 510,000 b/d over the previous year.

On a country basis, supply estimates for the US, the UK, Australia, Colombia, Chad and Azerbaijan were revised up, while those for Canada and Brazil were revised down. On a quarterly basis, non-OPEC supply for last year was estimated at 50.92m b/d, 50.60m b/d, 50.81m b/d and 51.49m b/d, respectively.

During 2009, the FSU contributed the most to supply growth, based on the latest estimate of 370,000 b/d, while Developing Countries' supply showed a healthy increase of 130,000 b/d. The North America and Latin America regions experienced growth of 220,000 b/d each.

In contrast, OECD Western Europe experienced the biggest decline in the year, followed by Other Asia and Africa.

Non-OPEC supply in 2010 is forecast to grow by 350,000 b/d over the previous year to average 51.31m b/d, displaying an upward revision of 42,000 b/d from a month earlier. On a quarterly basis, non-OPEC supply this year is expected to average 51.42m b/d, 51.19m b/d, 51.03m b/d and 51.61m b/d, respectively.

Total OECD oil supply in 2010 is foreseen to average 19.43m b/d, a drop of 130,000 b/d from the previous year and an upward revision of 150,000 b/d from the previous report. Within the OECD, supply in North America and the Asia-Pacific are anticipated to show growth, while OECD Western Europe is expected to see a decline. On a quarterly basis, total OECD supply in 2010 is seen at 19.62m b/d, 19.38m b/d, 19.16m b/d and 19.56m b/d, respectively. Preliminary data indicates that OECD supply stood at 19.71m b/d in December 2009, down slightly from the previous month.

OECD North America oil supply in 2010 is projected to increase by 100,000 b/d over the previous year to average 14.25m b/d, indicating an upward revision of 130,000 b/d over the previous assessment. Both US and Canadian oil supply are seen to grow in 2010, while Mexico

is expected to continue its decline. On a quarterly basis, North American oil supply this year is forecast at 14.28m b/d, 14.22m b/d, 14.15m b/d and 14.35m b/d, respectively.

Total US oil supply is expected to increase by 150,000 b/d over the previous year to average 8.16m b/d in 2010, an upward revision of 100,000 b/d from the previous month. US oil supply stood at 8.09m b/d in December, according to preliminary data, lower than in the previous month.

Canada's oil supply is predicted to average 3.26m b/d in 2010, an increase of 90,000 b/d over the previous year, indicating an upward revision of 30,000 b/d over the previous assessment.

Mexico's oil supply is expected to decline by 140,000m b/d compared with the previous year to average 2.83m b/d in 2010, broadly unchanged from the last report.

OECD Western Europe supply in 2010 is foreseen to drop by 260,000 b/d over the previous year to average 4.52m b/d. This is unchanged from the previous month's assessment. OECD Western Europe quarterly supply this year is expected to average 4.69m b/d, 4.52m b/d, 4.34m b/d and 4.53m b/d, respectively.

Norway's oil supply is seen to decline by 120,000 b/d, compared with the previous year, to average 2.22m b/d in 2010, flat from last month's evaluation. According to preliminary data, the country's supply in December stood at 2.36m b/d, lower than in the previous month.

UK oil supply is seen to average 1.36m b/d in 2010, representing a decline of 130,000 b/d over the previous year and unchanged from last month's estimate.

Oil supply from Denmark is seen to remain relatively steady in 2010 with a minor decline of 10,000 b/d over the previous year to average 260,000 b/d.

OECD Asia Pacific oil supply is estimated to increase by 20,000 b/d over the previous year to average 660,000 b/d in 2010, an upward revision of 20,000 b/d from the previous monthly report. On a quarterly basis, total oil supply from this region in 2010 is estimated to

average 650,000 b/d, 640,000 b/d, 670,000 b/d and 680,000 b/d, respectively.

Australia's oil supply is forecast to remain relatively flat in 2010, compared with the previous year, at an average of 550,000 b/d, following an upward revision of 20,000 b/d to the most recent assessment.

New Zealand's oil supply is slated to average 110,000 b/d in 2010, an increase of 20,000 b/d over the previous year and unchanged from the previous month.

Developing Countries' oil supply is predicted to grow by 150,000 b/d over the previous year to average 12.63m b/d in 2010, representing a downward revision of 140,000 b/d from the previous month. On a quarterly basis, total oil supply from this group of countries in 2010 is seen to average 12.56m b/d, 12.60m b/d, 12.64m b/d and 12.71m b/d, respectively.

Oil supply from Other Asia in 2010 is forecast to remain relatively flat over the previous year to average 3.7m b/d, a downward revision of 60,000 b/d from the last assessment. The downward revisions were made to the supply forecasts of Indonesia, Thailand and Vietnam. On a quarterly basis, Other Asia supply this year is anticipated to average 3.72m b/d, 3.71m b/d, 3.69m b/d and 3.69m b/d, respectively.

Total oil supply in Latin America is projected to average 4.61m b/d in 2010, an increase of 200,000 b/d over the previous year, following a downward revision of 40,000 b/d from the previous report. The downward revisions were affected by Brazil, as well as Trinidad and Tobago. On a quarterly basis, Latin America's oil supply this year is expected to stand at 4.51m b/d, 4.57m b/d, 4.63m b/d and 4.73m b/d, respectively.

Oil supply from the Middle East this year is forecast to decline by 20,000 b/d from the previous year to average 1.64m b/d, indicating a downward revision of 10,000 b/d from the previous report. On a quarterly basis, Middle East oil supply in 2010 is seen to average 1.64m b/d, 1.64m b/d, 1.63m b/d and 1.62m b/d, respectively.

Africa's oil supply is expected to average 2.68m b/d in 2010, representing a drop of 30,000 b/d over the previous year, and a

downward revision of 30,000 b/d from last month's assessment. The downward revision affected Congo, Gabon and Sudan. The quarterly distribution average for 2010 now stands at 2.68m b/d, 2.68m b/d, 2.68m b/d and 2.66m b/d, respectively.

FSU oil supply in 2010 is projected to grow by 280,000 b/d to average 13.22m b/d, the highest growth among all non-OPEC groups. The current supply forecast represents an upward revision of 20,000 b/d. On a quarterly basis, total oil supply from the FSU this year is seen averaging 13.20m b/d, 13.21m b/d, 13.17m b/d and 13.29m b/d, respectively.

Russia's oil supply is expected to increase by 50,000 b/d in 2010 to average 9.98m b/d, representing an upward revision of 34,000 b/d from the previous month. On a quarterly basis, Russian oil supply this year is foreseen to average 10.04m b/d, 10.00m b/d, 9.95m b/d and 9.91m b/d, respectively. Preliminary figures indicate that the country's oil supply in December stood at 10.06m b/d, slightly lower than in the previous month.

Oil supply from Kazakhstan is forecast to increase by 90,000 b/d over the previous year to average 1.63m b/d in 2010, unchanged from the previous month.

Azerbaijan's oil supply is estimated to increase by 120,000 b/d over the previous year to average 1.16m b/d in 2010, also unchanged from the previous month. Quarterly supply for this country is seen to stand at 1.09m b/d, 1.13m b/d, 1.17m b/d and 1.23m b/d, respectively.

China's oil supply in 2010 is estimated to increase by 50,000 b/d over the previous year to average 3.91m b/d, indicating an upward revision of 10,000 b/d from the previous month. On a quarterly basis, China's oil supply this year is seen to average 3.91m b/d, 3.88m b/d, 3.94m b/d and 3.93m b/d, respectively.

## OPEC oil production

According to secondary sources, OPEC crude oil production averaged 29.14m b/d in December, an increase of 78,000 b/d over the previous month. Output from most Member Countries

remained relatively steady with Nigeria and the United Arab Emirates showing individual increases of more than 40,000 b/d, while Venezuela and Angola displayed production declines of more than 20,000 b/d. OPEC pro-

**According to secondary sources, OPEC crude oil production averaged 29.14m b/d in December, an increase of 78,000 b/d over the previous month.**

duction, not including Iraq, stood at 26.68m b/d, an increase of 68,000 b/d from the November level.

Meanwhile, output of OPEC NGLs and non-conventional oils was estimated to have averaged 4.72m b/d in 2009, representing growth of 390,000 b/d over the previous year. In 2010, production of OPEC NGLs is projected to average 5.25m b/d, an increase of 530,000 b/d over the previous year.

## Downstream activity

Looking downstream, the OPEC report said that a cold snap, along with increasing seasonal demand and stock-draws, had underpinned product market sentiment and lifted the crack spread and refining margins, especially in the US and Europe.

"Given the forecast for persistent cold weather, it appears that the overhang of barrels of middle distillates will mitigate and provide some relief for refiners in the coming months.

"However, the sustainability of recent positive developments in the product markets and their impact on crude fundamentals and prices will largely depend on economic growth in the future," it commented.

Furthermore, it said, considering the huge distillate volumes being stored offshore, coupled with increasing gasoline stocks and uncertainty about the degree of economic recovery, the current bullish sentiment in the product markets was not expected to remain after the winter season and could result in less support for crude fundamentals in the future.

The performance of the US refining industry improved in the last weeks and refining margins for WTI crude oil on the US Gulf Coast surged by \$1.41/b to reach \$4.57/b in December from \$3.16/b the previous month.

In Europe, the refining industry followed suit and operating profits switched from the

**According to latest official data, US crude oil imports declined in December to average 7.98m b/d, the lowest monthly average in years.**

previous downward trend. Refining margins for Brent crude oil in Rotterdam rose to \$1.59/b from about 60¢/b in November.

In Asia, due to ample supply from new refineries and less arbitrage opportunities for excess barrels, refining economics remained unhealthy and Dubai crude oil margins in Singapore extended previous losses, falling to minus \$1.64/b in December from minus \$1.51/b a month earlier.

“Looking ahead, the continuation of cold weather could provide further support for product markets and lift the bearish sentiment in the next month. However, due to sufficient product stocks and idle refining capacity, product markets are not likely to take the lead in the market and lift crude prices in future,” contended the report.

It pointed out that, due to contracting demand, in tandem with the economic recession, the refining industry had faced considerable problems in 2009. In the light of these circumstances, some unprofitable refinery units were closed down for good, while others had tried to reduce their throughput levels, in order to cope with declining margins.

With the start of the winter season and improving economic conditions, refiners were expected to lift operation levels substantially, but a huge overhang of product barrels dampened throughput levels and they had not raised their utilization rates drastically.

Refinery utilization rates in the US increased marginally by 0.2 per cent to 80.3 per cent in December from 80.1 per cent the previous month, whereas typically they exceeded 90 per cent.

Ample product stocks also influenced European utilization rates, which stayed at around 82 per cent in December.

In Asia, Chinese refiners were seen running at maximum capacity, as they benefitted from government-guaranteed margins. But poor regional margins had affected other Asian refinery operations. Refinery utilization rates in Japan rose by two per cent to 85.4 per cent in December from 83.4 per cent in November, much lower than seasonal levels.

“Again looking ahead, given the cold weather across the globe and improving demand from the industrial sectors, refinery utilization rates may improve further next month, although due to an overhang of barrels for different products, especially distillates, refinery utilization rates are not expected to increase sharply over the coming months,” maintained the report.

It said high distillate inventories were a major burden on the US downstream industry in the last months, forcing American refiners to reduce their operation levels drastically.

## Oil trade

According to latest official data, US crude oil imports declined in December to average 7.98m

b/d, the lowest monthly average in years. The imports were 600,000 b/d lower than in the previous month and 17 per cent, or 1.66m b/d, down from the same month last year. December crude oil imports brought US average imports for the whole of 2009 to 9.1m b/d, seven per cent, or 700,000 b/d, lower than the average for 2008.

US product imports in December declined by seven per cent, or 197,000 b/d, compared with the previous month, to average 2.51m b/d, 21 per cent, or 670,000 b/d, lower than in December 2008.

Finished motor gasoline imports in the month were gauged at 201,000 b/d, compared with 162,000 b/d in November. They were 36 per cent higher than in December 2008. Average gasoline imports for 2009 stood at 220,000 b/d, 27 per cent lower than a year earlier.

Distillate fuel oil imports in December were put at 264,000 b/d, compared with 176,000 b/d the previous month, and 262,000 b/d a year earlier. Average distillate fuel oil imports in 2009 were recorded at 229,000 b/d, eight per cent higher than in the previous year.

Residual fuel oil imports in December amounted to 349,000 b/d, compared with 299,000 b/d the previous month, and 383,000 b/d in December 2008. Average residual fuel oil imports in 2009 totalled 350,000 b/d, steady compared with the previous year.

Jet fuel imports in December were also steady at 77,000 b/d. Average jet fuel imports in 2009 stood at 84,000 b/d, compared with an average of 103,000 b/d in 2008.

Meanwhile, US product exports were steady in December, compared with the previous month, averaging 1.95m b/d. On an annual basis, they were 42 per cent, or 579,000 b/d, higher. US product exports in 2009 averaged 1.79m b/d, compared with 1.75m b/d the previous year.

As a result, US net oil imports in December were nine per cent, or 800,000 b/d, lower than the previous month, averaging 8.51m b/d, the lowest in many years. December net oil imports were 26 per cent lower, compared with a year earlier, while average net oil imports for 2009

stood at 10.02m b/d, ten per cent, or 1.13m b/d, lower than a year earlier.

## Stock movements

Concerning stock movements, the OPEC report stated that preliminary data for December showed that OECD commercial stocks fell by 34m b, driven by the drop in US crude and product inventories, as cold weather boosted demand for heating oil products, while year-end tax concerns encouraged oil companies to reduce crude oil inventories.

Despite the considerable stock-draw, OECD inventories finished the year at comfortable levels with an overhang of more than 90m b.

“Looking ahead to the coming two quarters, with the improvement in non-OPEC supply, lackluster global demand, as well as the upcoming refining maintenance, it is likely that OECD inventories could see a contra-seasonal build in the first quarter of this year and a much higher stock-build in the second quarter,” the report maintained.

It said that US commercial oil inventories at the end of December fell for the third consecutive month – by 39.1m b – well above the seasonal draw of close to 19m b, to stand at 1,049.0m b. The stock-draw was driven by both crude and products, which declined by 10.4m b and 27.7m b, respectively. Despite this substantial draw, US commercial oil stocks remained 14m b above the year earlier level and 46m b above the five-year average.

US crude oil stocks in December fell to an average of 327.3m b, the lowest level since December 2008.

“Crude oil inventories have followed a downward trend in the fourth quarter, falling from an all-time high of more than 370m b in April 2009. The drop of some 340,000 b/d in crude oil stocks was the result of a sharp 600,000 b/d decline in crude oil imports, which averaged less than 8.0m b/d,” the report explained

Year-end tax considerations were also behind the drop in crude oil inventories. Although falling at the end of December, US

crude oil stocks remained at a comfortable level of 21m b above the five-year average. In days of forward cover, US crude oil inventories stood at 24 days at the end of the year, three days above the five-year average.

Product stocks also declined in December – by 900,000 b/d – to total 721.7m b, but the picture was mixed across the components. Gasoline stocks rose by a further 5.6m b to 219.7m b, the highest level since March 2008, and stood 6m b above a year ago and the seasonal norm for the month of December.

The build in gasoline was driven by higher output from refiners and lower demand. With this build, days of forward cover stood at 24 days, one day more than the five-year average.

In contrast, and due to stronger demand spurred by cold weather, distillate inventories fell by 7.6m b, the biggest decline since October 2008, to stand at 159m b. Despite this strong draw, the surplus in middle distillate stocks with the five-year average remained higher at 22m b. In days of forward cover, middle distillate stocks stood at 43 days, 13 days above the five-year average, but less than the 50 days experienced in September, due mainly to improvement in heating oil demand.

Residual fuel stocks increased by 200,000 b to 37.2m b as demand for this product remained broadly unchanged. Jet fuel stocks dropped by 500,000 b to stand at 41.7m b, but remained 2.0m b above the five-year average.

The latest data for the week-ending January 8 showed that US commercial oil inventories rose by 3.5m b to 1,052.6m b, representing 50m b, or five per cent, above the seasonal norm for this week.

Crude oil stocks increased by 3.7m b to 331.0m b. With the exception of the mid-continent, all regions saw an increase, especially the US Gulf Coast, which experienced a build of 2.7m b.

“The surge in crude oil imports by 540,000 b/d to 8.9m b/d, the highest level since mid-November, was the main reason behind this build,” commented the report.

Refinery crude runs rose by 190,000 b/d to 13.86m b/d, which corresponded to an 11 week high utilization rate of 81.3 per cent.

“Crude oil stocks now stand at 21.3m b, or seven per cent, above the five-year average, which corresponds to 24 days of forward cover, compared with a seasonal average of 21 days,” said the report.

**It is likely OECD stocks could see a contra-seasonal build in the first quarter of this year and a much higher stock-build in the second quarter.**

Gasoline stocks improved by 3.8m b to 223.5m b, driven by an increase in imports, as apparent demand remained flat. Gasoline output fell sharply by 600,000 b/d. The winter is a typically low point for gasoline consumption, due partly to weather-reduced driving patterns.

“Currently, gasoline stocks are at 8.7m b, or four per cent, above the five-year average, corresponding to forward cover of 25 days, 1.5 days more than the seasonal average.”

Distillate inventories rose unexpectedly by 1.3m b, mainly due to diesel components, as heating oil inventories fell by some 1.1m b, mostly in the main consumer Northeast region.

“At 160.4m b, distillate stocks remained at very a comfortable level of 25m b, or 20 per cent, above the five-year average. Driven by sluggish demand, days of forward cover stood at 43 days, 11 days more than the seasonal norm for this week.”

Over the same January period, the US Strategic Petroleum Reserve (SPR) reached 726.6m b, unchanged from the previous week. At this level, the SPR had almost reached its capacity of 727m b, with sweet crude accounting for 292.6m b, while sour crude amounted to 434m b. Since the beginning of last year, the SPR has increased by about 23m b.

A Federal law, passed in 2005 calls for an expansion of the SPR to around 1bn b; however, the Energy Department has noted that the current administration has not stated a position on the SPR expansion.

Meanwhile, total oil inventories in Europe (EU plus Norway) rose by 1.9m b in December, following a revised stock-build of 5.8m b in November. At 1,143.2m b, European inventories stood 12.3m b, or 1.1 per cent, above the five-year average. However, they were below year-ago levels for the first time in 12 months. A substantial build in products was partially offset by a draw in crude stocks.

The region's crude oil inventories in December fell by 2.6m b to 479.2m b, but still remained 3.7m b, or one per cent, above the five-year average.

"The drop in crude oil inventories could be attributed to lower supply from North Sea countries, combined with slightly higher refinery throughput levels," the report noted.

Crude oil output from the North Sea was estimated to have declined by around 50,000 b/d in December, compared with a month earlier, while crude throughputs were at a three-month high after an increase of 185,000 b/d to average 10.78m b/d. This corresponded to a utilization rate of 82.3 per cent of total capacity, but was still very low compared with 2008 levels with November reaching 91 per cent.

"In January, cold weather should sustain crude runs and prevent any significant increase in crude oil stocks," the report maintained.

On the product side, all major products contributed to the build of 4.4m b at the end of 2009 to stand at 664.1m b, representing an excess of 8.6m b, or 1.3 per cent, above the historical norm and 2.4m b above the same time a year earlier.

Middle distillates rose by 2.0m b after three consecutive months of decline and ended the year at 408.4m b to settle at a comfortable level of 18m b above a year ago, and 32m b above the five-year average.

Gasoline also ended the year with a build of 1.5m b to 117.6m b, down by 7m b from the same month the year before and around 19m b below the five-year average. The build was mainly due to higher refinery runs, which boosted gasoline output, combined with weak demand and comfortable levels of US gasoline inventories, which limited exports from Europe.

"If the downtrend in the decline in US gasoline imports continues over the coming months, this would lead to higher gasoline stocks," the report observed.

Fuel oil stocks remained almost unchanged in December at 109.1m b, but were 8m b below a year ago and 5.5m b below the seasonal average. Stronger demand and lower output has constrained any build in fuel oil.

Naphtha stocks at the end of December experienced a slight increase of 900,000 b to 29.0m b, almost the same level as the previous year and in line with the average of the last five years.

In Japan, preliminary indications, based on weekly data published by the Petroleum Association of Japan (PAJ), showed that Japan's commercial oil inventories rose by more than 3m b at the end of December to remain 16m b, or nine per cent, below the five-year average.

The bulk of the build was expected to have come from crude, which increased by 3.0m b/d to reduce the deficit with the five-year average to 15m b, or 14 per cent. Major product inventories in December were estimated to have increased by 300,000 b, representing a small

gap with the historical norm of 1.5m b, or two per cent.

According to data for the week ending January 9, crude oil inventories fell by 3.6m b to 89.1m b, mainly due to the increase in crude runs by 80,000 b/d to average 3.94m b/d, which corresponded to a refinery utilization rate of 80.8 per cent, an increase of 1.8 per cent from the previous week.

On the product-side, total major product inventories remained virtually unchanged at 78.7m b. However, gasoline saw a build of 900,000 b, while naphtha, distillates and residual fuel declined by 500,000 b, 300,000 b and 100,000 b, respectively.

In Singapore, preliminary data for December indicated that product stocks dropped by around 3.7m b, driven by a fall of almost the same amount in residual fuel stocks. The stock-draw was due to stronger regional demand. Light and middle distillate stocks saw a mixed picture as light distillates fell by 600,000 b, while middle distillates rose by 700,000 b.

In Amsterdam, preliminary data for December showed that product stocks in ARA increased further by 2m b to stand close to 40.0m b. However, the surplus with a year ago declined to just 3.5m b. Gasoil stocks rose at the end of the year by nearly 1.0m b. This build came mainly from floating storage as volumes previously held in the UK were shifted to ARA on an anticipated increase of demand in Germany.

Almost all other products saw a build, with fuel oil stocks jumping to a record high, supported by increased imports, mainly from Russia and the US, which outweighed exports to Germany. Naphtha stocks also rose, mainly due to higher imports from Russia, while jet fuel stocks increased as open arbitrage from the Middle East boosted inventories. ■■

**Table A: World crude oil demand/supply balance** m b/d

<b>World demand</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>	<b>2009</b>	<b>1Q10</b>	<b>2Q10</b>	<b>3Q10</b>	<b>4Q10</b>	<b>2010</b>
<b>OECD</b>	49.5	49.8	49.5	49.2	47.6	46.6	44.4	45.4	46.3	45.7	46.2	44.3	45.3	46.3	45.5
North America	25.4	25.6	25.4	25.5	24.2	23.5	22.9	23.3	23.4	23.3	23.7	23.1	23.5	23.7	23.5
Western Europe	15.5	15.7	15.7	15.3	15.3	14.9	14.2	14.8	14.9	14.7	14.6	14.0	14.6	14.8	14.5
Pacific	8.5	8.6	8.5	8.4	8.1	8.1	7.3	7.3	7.9	7.7	8.0	7.1	7.2	7.8	7.5
<b>Developing countries</b>	21.8	22.6	23.3	24.3	25.3	25.2	25.9	26.0	26.0	25.8	25.8	26.3	26.6	26.5	26.3
<b>FSU</b>	3.8	3.9	4.0	4.0	4.1	3.8	3.7	4.1	4.2	4.0	3.9	3.7	4.2	4.2	4.0
<b>Other Europe</b>	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.8
<b>China</b>	6.5	6.7	7.2	7.6	8.0	7.6	8.4	8.6	8.2	8.2	8.1	8.7	8.9	8.5	8.6
<b>(a) Total world demand</b>	<b>82.5</b>	<b>83.9</b>	<b>84.9</b>	<b>86.0</b>	<b>85.7</b>	<b>84.0</b>	<b>83.1</b>	<b>84.8</b>	<b>85.4</b>	<b>84.3</b>	<b>84.7</b>	<b>83.8</b>	<b>85.7</b>	<b>86.4</b>	<b>85.2</b>
<b>Non-OPEC supply</b>															
<b>OECD</b>	21.3	20.5	20.2	20.1	19.6	19.9	19.3	19.3	19.7	19.6	19.6	19.4	19.2	19.6	19.4
North America	14.6	14.1	14.2	14.3	13.9	14.2	14.0	14.2	14.3	14.1	14.3	14.2	14.1	14.3	14.2
Western Europe	6.2	5.7	5.4	5.2	5.0	5.1	4.7	4.5	4.8	4.8	4.7	4.5	4.3	4.5	4.5
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.7	0.6	0.7	0.7	0.7
<b>Developing countries</b>	11.6	11.9	12.0	12.1	12.3	12.4	12.4	12.5	12.5	12.5	12.6	12.6	12.6	12.7	12.6
<b>FSU</b>	11.1	11.5	12.0	12.5	12.6	12.6	12.9	13.0	13.2	12.9	13.2	13.2	13.2	13.3	13.2
<b>Other Europe</b>	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>China</b>	3.5	3.6	3.7	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
<b>Processing gains</b>	1.8	1.9	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
<b>Total non-OPEC supply</b>	49.6	49.6	50.0	50.6	50.4	50.9	50.6	50.8	51.5	51.0	51.4	51.2	51.0	51.6	51.3
<b>OPEC NGLs and non-conventionals</b>	3.7	3.9	3.9	4.0	4.3	4.5	4.6	4.8	4.9	4.7	5.0	5.2	5.3	5.5	5.2
<b>(b) Total non-OPEC supply and OPEC NGLs</b>	<b>53.3</b>	<b>53.5</b>	<b>53.9</b>	<b>54.6</b>	<b>54.8</b>	<b>55.4</b>	<b>55.2</b>	<b>55.7</b>	<b>56.4</b>	<b>55.7</b>	<b>56.4</b>	<b>56.4</b>	<b>56.3</b>	<b>57.1</b>	<b>56.6</b>
<b>OPEC crude supply and balance</b>															
<b>OPEC crude oil production<sup>1</sup></b>	29.6	30.7	30.5	30.2	31.2	28.5	28.5	28.9	29.1	28.7					
Total supply	82.9	84.2	84.4	84.8	86.0	83.9	83.7	84.5	85.5	84.4					
<b>Balance<sup>2</sup></b>	0.3	0.3	-0.6	-1.2	0.3	-0.1	0.6	-0.3	0.1	0.1					
<b>Stocks</b>															
<b>OECD closing stock level m b</b>															
Commercial	2538	2585	2667	2566	2701	2747	2760	2771							
SPR	1450	1487	1499	1524	1527	1547	1561	1564							
Total	3988	4072	4166	4090	4228	4294	4321	4334							
Oil-on-water	905	954	919	951	967	900	902	871							
<b>Days of forward consumption in OECD</b>															
Commercial onland stocks	51	52	54	54	59	62	61	60							
SPR	29	30	30	32	33	35	34	34							
<b>Total</b>	80	82	85	86	93	97	95	94							
<b>Memo items</b>															
FSU net exports	7.3	7.7	8.0	8.5	8.5	8.8	9.2	8.9	9.0	9.0	9.3	9.5	9.0	9.1	9.2
<b>[(a) – (b)]</b>	<b>29.2</b>	<b>30.4</b>	<b>31.1</b>	<b>31.4</b>	<b>30.9</b>	<b>28.6</b>	<b>27.9</b>	<b>29.2</b>	<b>28.9</b>	<b>28.7</b>	<b>28.3</b>	<b>27.4</b>	<b>29.4</b>	<b>29.3</b>	<b>28.6</b>

1. Secondary sources.

Note: Totals may not add up due to independent rounding.

2. Stock change and miscellaneous.

**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 1 and 2** 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.)

Table 1: OPEC Reference Basket crude oil prices, 2008–2009

\$/b

Crude/Member Country	2008		2009											Weeks 49–53 (week ending)				
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Dec 4	Dec 11	Dec 18	Dec 25	Jan 1
Arab Light – Saudi Arabia	38.82	41.23	40.87	46.39	50.91	57.45	69.01	64.92	71.42	67.64	73.36	76.54	74.38	77.41	73.76	71.66	72.87	76.77
Basrah Light – Iraq	37.27	39.47	39.66	44.94	51.18	56.47	68.18	64.32	70.73	67.30	72.63	75.55	73.03	76.05	71.83	70.49	71.85	75.75
Bonny Light – Nigeria	43.10	45.44	45.07	49.70	52.24	57.87	69.55	66.31	73.84	68.74	74.41	77.96	75.68	78.97	74.39	73.23	74.54	77.93
Es Sider – SP Libyan AJ	39.60	42.74	42.37	46.35	50.24	56.87	68.15	64.51	72.89	67.44	72.71	76.61	74.23	77.54	72.94	71.78	73.09	76.48
Girassol – Angola	40.30	43.43	43.33	46.98	49.72	57.36	68.92	65.02	72.66	67.69	72.97	76.89	74.53	77.90	73.36	72.14	73.31	76.59
Iran Heavy – IR Iran	36.88	39.93	39.91	44.52	50.10	56.02	68.16	64.79	71.53	66.43	72.54	76.72	74.34	77.63	74.18	71.67	72.52	76.15
Kuwait Export – Kuwait	36.47	40.00	40.34	44.91	50.16	57.93	68.73	64.74	70.97	66.45	72.50	76.54	74.03	77.32	73.99	71.28	72.12	75.89
Marine – Qatar	41.24	44.62	43.74	46.58	50.82	58.09	69.94	65.31	72.02	68.44	73.61	77.78	75.36	78.48	75.58	72.68	73.42	76.96
BCF-17* – Venezuela	31.65																	
Merey* – Venezuela		37.39	38.76	39.59	43.73	52.95	61.81	60.11	65.78	62.88	66.90	70.09	68.63	71.03	67.62	66.60	67.46	71.06
Minas – Indonesia <sup>1</sup>	41.80																	
Murban – UAE	43.15	46.27	44.71	47.75	52.33	59.58	71.50	66.80	73.51	69.79	75.06	79.00	76.84	80.16	77.07	74.11	74.80	78.36
Oriente – Ecuador	29.56	35.12	35.83	42.45	42.41	53.56	63.62	58.10	65.26	63.67	68.57	70.05	68.93	69.82	65.33	66.53	70.03	74.50
Saharan Blend – Algeria	41.35	43.89	44.07	48.40	51.69	57.27	69.15	65.21	72.94	67.84	73.36	77.16	74.98	78.25	73.69	72.53	73.84	77.23
OPEC Reference Basket	38.60	41.54	41.41	45.78	50.20	56.98	68.36	64.59	71.35	67.17	72.67	76.29	74.01	77.11	73.31	71.44	72.56	76.24

Table 2: Selected OPEC and non-OPEC spot crude oil prices, 2008–2009

\$/b

Crude/country	2008		2009											Weeks 49–53 (week ending)				
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Dec 4	Dec 11	Dec 18	Dec 25	Jan 1
Minas – Indonesia <sup>1</sup>		44.98	45.04	49.06	54.11	61.69	72.71	67.23	75.88	70.25	76.43	80.51	78.67	80.94	78.75	76.04	77.36	80.43
Arab Heavy – Saudi Arabia	34.38	38.31	39.41	43.76	49.48	55.69	68.74	64.80	71.03	66.16	72.35	76.72	74.00	77.44	74.32	71.23	71.84	75.56
Brega – SP Libyan AJ	40.95	43.89	43.52	47.25	51.24	57.87	69.05	65.31	73.24	67.79	73.06	76.96	74.58	77.89	73.29	72.13	73.44	76.83
Brent – North Sea	40.35	43.59	43.07	46.55	50.44	57.27	68.55	64.61	72.84	67.39	72.76	76.66	74.28	77.59	72.99	71.83	73.14	76.53
Dubai – UAE	40.46	43.94	43.09	45.59	50.10	57.48	69.41	64.82	71.36	67.74	73.15	77.69	75.42	78.78	75.75	72.66	73.26	76.97
Ekofisk – North Sea	41.47	45.83	44.51	47.28	50.65	58.48	69.62	65.55	73.36	68.31	73.71	77.56	75.24	78.57	74.07	72.93	74.03	77.93
Iran Light – IR Iran	40.03	42.33	41.31	46.10	49.69	56.53	68.24	64.93	72.64	67.55	72.86	76.72	73.87	77.70	73.23	71.29	72.20	76.01
Isthmus – Mexico	37.27	40.15	39.39	46.98	50.38	58.51	68.52	63.70	71.04	67.16	72.91	75.99	73.05	76.20	70.99	70.48	72.22	76.63
Oman – Oman	40.91	44.28	43.52	45.83	50.16	57.59	69.47	65.08	71.59	68.27	73.34	77.85	75.48	78.85	75.79	72.69	73.32	77.06
Suez Mix – Egypt	36.66	40.08	39.44	42.89	46.26	54.33	65.35	62.15	69.53	64.35	69.83	73.42	70.83	73.99	69.54	68.59	69.80	73.66
Tia Juana Light <sup>2</sup> – Venez.	35.26	38.86	38.60	45.52	49.32	57.34	67.08	62.68	69.83	66.22	71.74	74.85	71.81	74.93	69.78	69.28	70.99	75.33
Urals – Russia	40.03	43.09	42.32	45.65	49.05	56.85	68.38	64.85	72.27	67.09	72.67	76.32	73.88	76.99	72.62	71.60	72.89	76.03
WTI – North America	41.45	41.50	39.08	48.00	49.82	59.21	69.68	64.23	71.05	69.34	75.73	77.84	74.41	76.86	71.56	71.70	74.42	79.01

Note: As per the decision of the 109<sup>th</sup> 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 108<sup>th</sup> 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 105<sup>th</sup> 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 136<sup>th</sup> (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 111<sup>th</sup> ECB, BCF-17 has been replaced by Merey as of January 2009. The ORB has been revised as of this date.

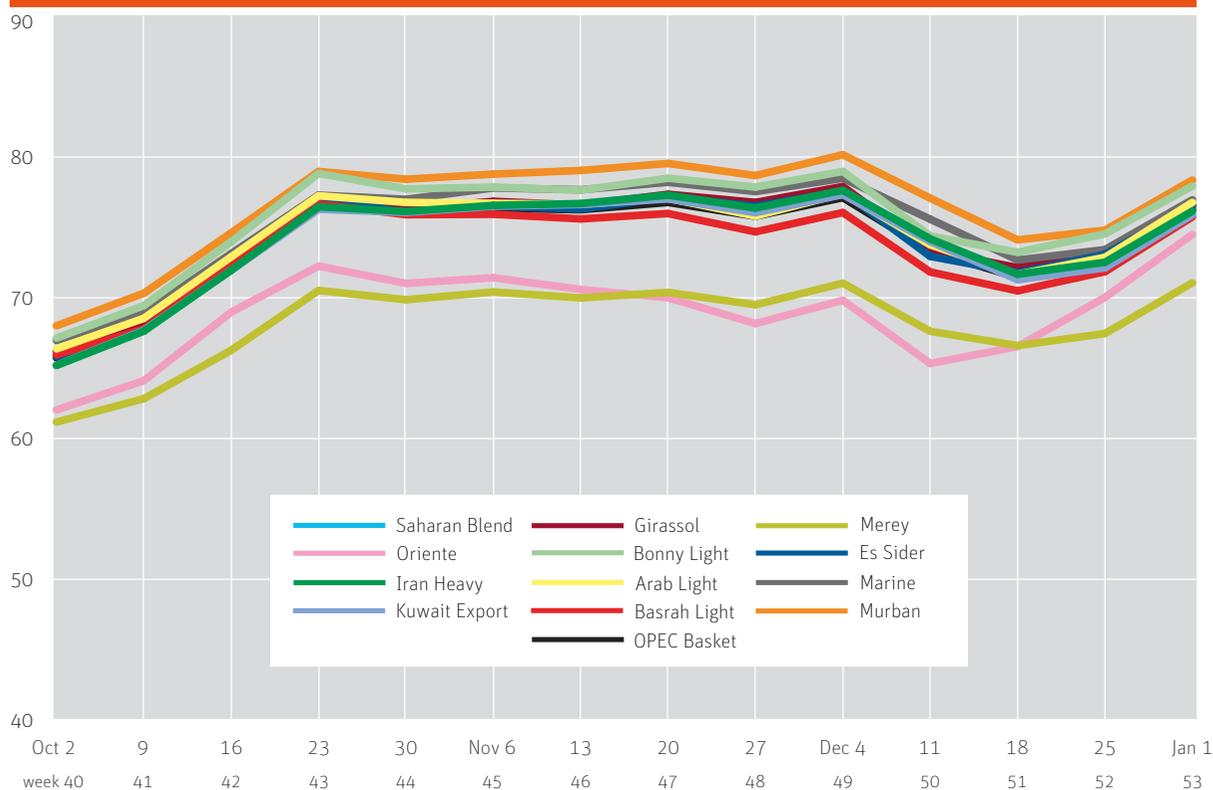
1. Indonesia suspended its OPEC Membership on December 31, 2008.

2. Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.

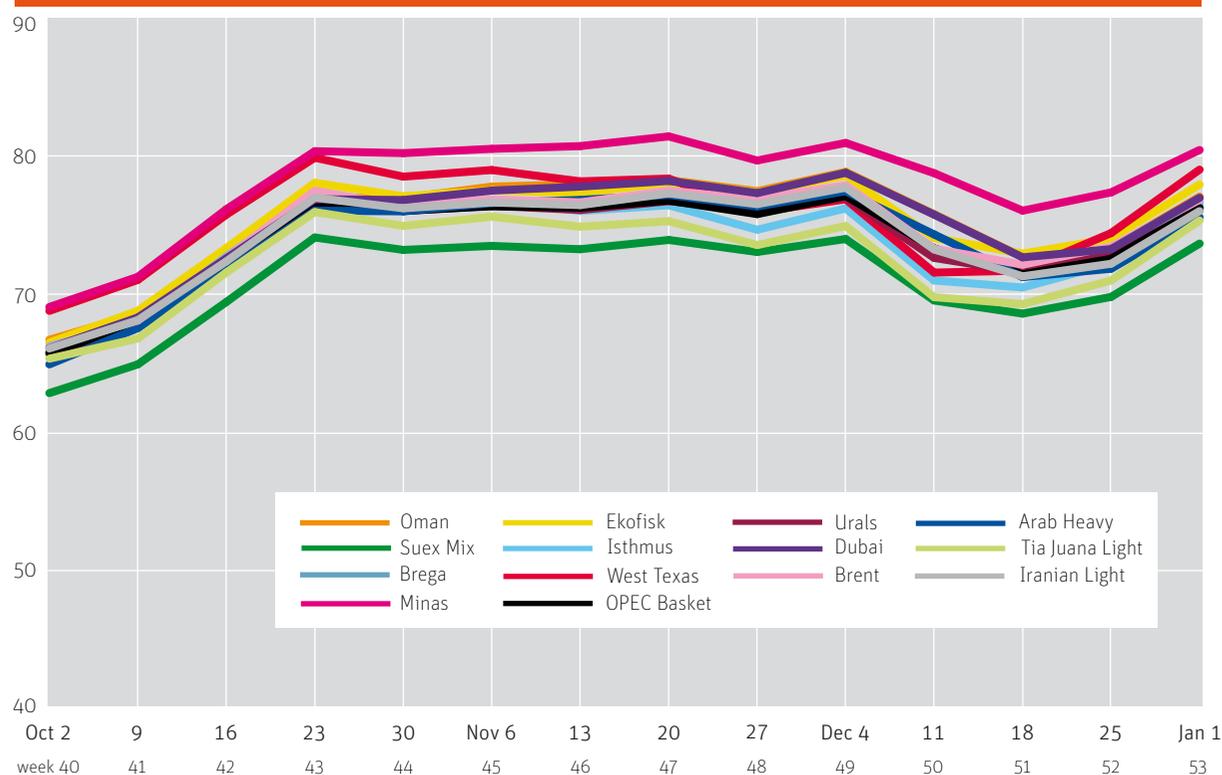
Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

Sources: The netback values for TJL price calculations are taken from RVM; Platt's; Secretariat's assessments.

**Graph 1: Evolution of the OPEC Reference Basket crudes (2009) \$/b**



**Graph 2: Evolution of spot prices for selected non-OPEC crudes (2009) \$/b**

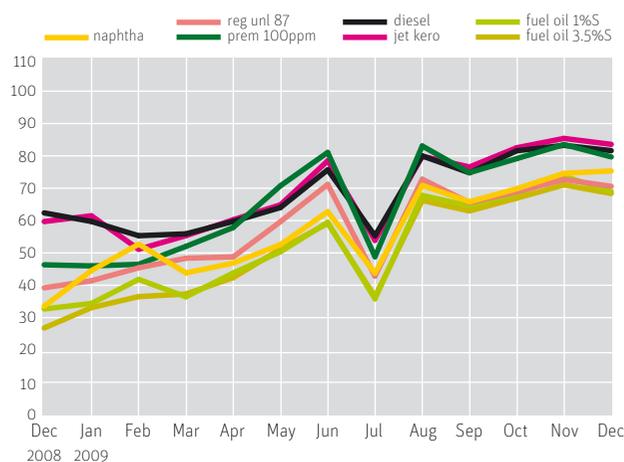


Note: As per the decision of the 109<sup>th</sup> ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108<sup>th</sup> ECB, the basket has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105<sup>th</sup> 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 136<sup>th</sup> (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 111<sup>th</sup> 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**

\$/b

	naphtha	regular gasoline unleaded	premium gasoline 10ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
<b>2008</b> December	33.53	39.21	46.33	62.38	59.70	32.67	26.78
<b>2009</b> January	44.54	41.40	45.98	59.72	61.48	34.38	33.08
February	52.70	45.39	46.48	55.32	51.13	41.82	36.50
March	43.82	48.36	52.02	55.90	55.33	36.43	37.29
April	46.84	48.77	57.85	59.72	60.25	43.80	42.35
May	52.58	59.66	70.76	64.03	64.87	50.34	51.19
June	62.74	71.18	81.07	75.69	78.47	59.46	59.14
July	43.75	42.79	48.83	55.32	53.89	35.81	36.50
August	70.85	72.78	83.06	79.99	79.89	67.78	66.21
September	65.82	65.55	74.81	74.77	76.57	64.52	62.96
October	69.17	68.89	79.16	81.60	82.53	68.35	66.93
November	74.60	72.67	83.50	83.25	85.40	73.68	71.03
December	75.35	70.59	79.68	81.62	83.56	69.02	68.36

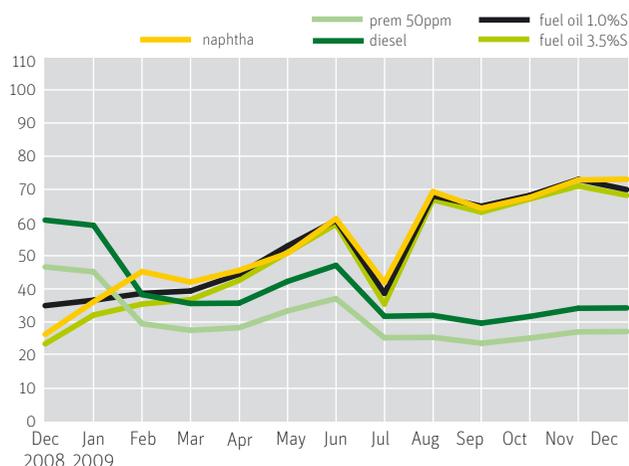


Note: Prices of premium gasoline and diesel from January 1, 2008, are with 10 ppm sulphur content.

**Table and Graph 4: South European market – spot cargoes, fob Italy**

\$/b

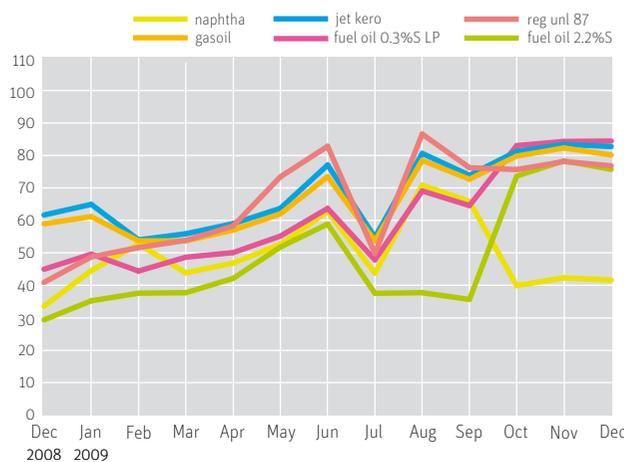
	naphtha	premium gasoline 50ppm	diesel ultra light	fuel oil 1%S	fuel oil 3.5%S
<b>2008</b> December	26.29	45.78	60.72	34.94	23.42
<b>2009</b> January	36.11	44.30	59.14	36.58	32.11
February	45.21	28.66	38.26	38.63	35.42
March	42.05	26.66	35.59	39.37	36.74
April	45.57	27.46	35.69	44.42	42.54
May	50.74	32.51	42.25	52.93	50.93
June	61.16	36.23	47.09	60.64	59.47
July	41.92	24.42	31.74	38.63	35.42
August	69.32	24.55	31.98	68.04	66.86
September	64.30	22.77	29.66	64.92	63.10
October	67.57	24.32	31.68	68.18	67.11
November	72.83	26.21	34.15	72.97	71.00
December	73.04	26.29	34.25	69.92	68.20



**Table and Graph 5: US East Coast market – spot cargoes, New York**

\$/b, duties and fees included

	naphtha	regular gasoline unleaded 87	gasoil	jet kero	fuel oil 0.3%S	fuel oil 2.2%S
<b>2008</b> December	33.24	40.87	58.93	61.64	44.92	29.33
<b>2009</b> January	45.51	48.74	61.15	64.91	49.59	35.21
February	47.88	51.61	53.68	53.98	44.37	37.55
March	51.79	53.83	53.69	55.86	48.64	37.70
April	52.45	58.24	57.00	58.98	50.05	42.10
May	65.60	73.39	61.98	63.68	55.14	51.77
June	74.77	82.83	73.45	77.05	63.67	58.85
July	70.12	49.78	53.68	54.79	47.82	37.52
August	75.27	86.58	78.49	80.62	69.05	37.71
September	68.97	76.22	72.67	73.89	64.55	35.63
October	75.66	79.71	81.17	82.95	73.56	39.80
November	78.12	82.30	83.42	84.31	78.34	42.29
December	76.81	80.13	82.73	84.44	75.70	41.59

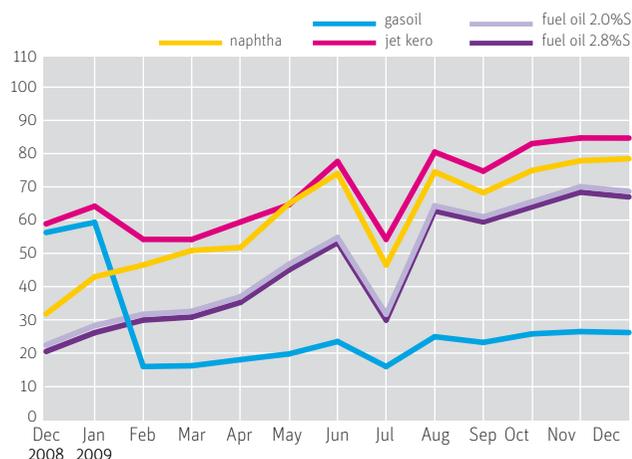


Source: Platts. Prices are average of available days.

**Table and Graph 6: Caribbean market – spot cargoes, fob**

\$/b

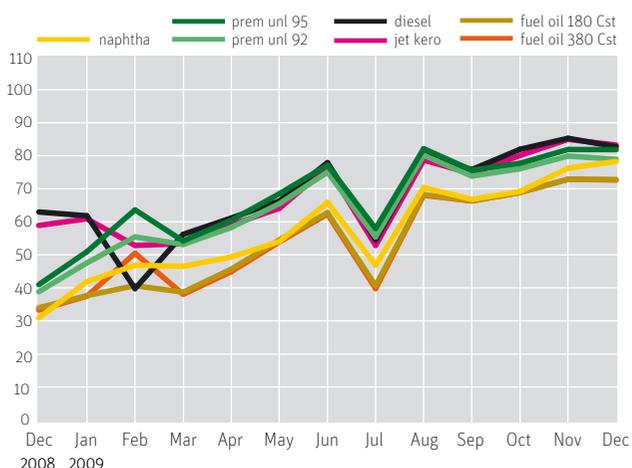
	naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S
<b>2008</b> December	31.78	56.26	58.88	22.46	20.48
<b>2009</b> January	42.95	59.33	64.18	28.28	26.13
February	46.49	15.95	54.21	31.66	29.92
March	50.87	16.19	54.18	32.55	35.25
April	51.75	18.02	59.42	36.95	35.25
May	19.75	19.75	64.62	46.72	45.02
June	74.02	23.47	77.63	54.73	53.24
July	46.49	15.95	54.21	31.66	29.92
August	74.51	24.93	80.47	64.29	62.76
September	68.22	23.20	74.72	60.96	59.45
October	74.90	25.78	82.99	65.50	63.97
November	77.85	26.46	84.70	70.04	68.39
December	78.45	26.18	84.67	68.60	66.96



**Table and Graph 7: Singapore market – spot cargoes, fob**

\$/b

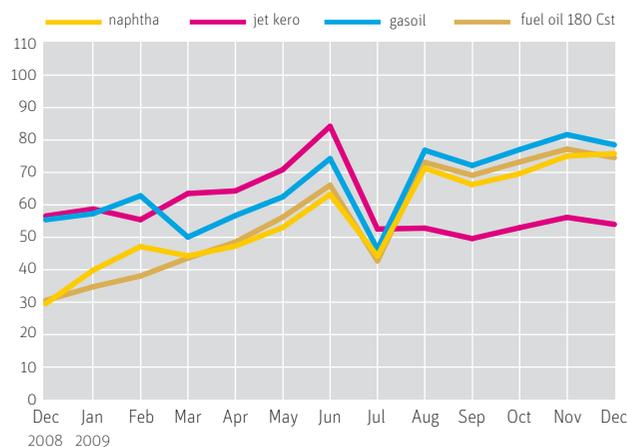
	naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 180 Cst	fuel oil 380 Cst
<b>2008</b> December	30.90	40.97	38.80	62.97	58.90	34.00	33.27
<b>2009</b> January	41.89	50.95	47.57	61.82	60.89	37.65	37.47
February	46.84	63.61	55.42	39.76	52.85	40.66	50.48
March	46.53	54.20	53.14	56.20	59.10	38.70	38.05
April	49.35	60.46	58.27	61.14	59.10	45.66	44.90
May	54.01	68.50	65.48	66.29	64.07	54.53	53.90
June	65.86	77.15	75.01	77.92	76.45	62.77	62.34
July	46.84	57.97	55.42	54.59	52.85	40.66	39.76
August	70.37	82.13	80.13	80.34	78.67	68.23	68.03
September	66.80	75.63	73.84	75.80	74.58	66.36	66.30
October	69.20	77.71	76.05	81.95	80.07	68.85	68.86
November	76.21	81.89	79.88	85.29	84.95	72.84	72.90
December	78.28	81.85	78.95	82.69	83.24	72.79	72.65



**Table and Graph 8: Middle East Gulf market – spot cargoes, fob**

\$/b

	naphtha	gasoil	jet kero	fuel oil 180 Cst
<b>2008</b> December	29.53	55.41	56.56	30.54
<b>2009</b> January	39.85	57.30	58.72	34.74
February	47.16	62.80	55.44	38.07
March	44.26	50.06	63.50	43.60
April	47.28	56.69	64.29	48.51
May	53.02	62.46	70.83	56.19
June	63.19	74.25	84.21	66.06
July	44.19	46.34	52.55	42.73
August	71.30	76.83	52.83	73.11
September	66.26	72.14	49.61	69.12
October	69.61	77.04	52.97	73.24
November	75.04	81.66	56.15	77.20
December	75.80	78.51	53.99	74.57



Source: Platts. Prices are average of available days.

## Forthcoming events

**11<sup>th</sup> Asia olefins and polyolefins markets, March 8–9, 2010**, Bangkok, Thailand. Details: Centre for Management Technology (CMT), 80 Marine Parade Road #13–02, Parkway Parade 449269 Singapore. Tel: +65 6345 7322/6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtsp.com.sg; website: www.cmtevents.com.

**Financing energy developments, March 9, 2010**, Aberdeen, UK. Details: Energy Institute, 61 New Cavendish Street, London W1G 7AR, UK. Tel: +44 207 467 7116; fax: +44 207 580 2230; e-mail: jwarner@energyinst.org.uk; website: www.energyinst.org.uk.

**ARTC, 13<sup>th</sup> annual meeting, March 9–10, 2010**, Singapore. 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@gtforum.com; website: www.gtforum.com.

**Biomass power and trade, March 11–12, 2010**, Rotterdam, The Netherlands. Details: Centre for Management Technology (CMT), 80 Marine Parade Road #13–02, Parkway Parade 449269 Singapore. Tel: +65 6345 7322/6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtsp.com.sg; website: www.cmtevents.com.

**Successful strategies for handling and avoiding bunkering disputes, March 14–15, 2010**, Dubai, UAE. 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@connection.org; website: www.cconnection.org.

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as a result of a poorer performance from their mature fields (Graph 8).

“However, the forecast for 2010 depends on the price environment, the rates of decline, the expected ramp-up of new fields, as well as project delays,” Alipour-Jeddi reminded delegates.

Of note, he said, Russia’s oil production had hit successive records of more than 10m b/d in the fourth quarter of 2009. Factors supporting this post-Soviet Union high oil output included changes in tax policy, higher crude oil prices, the start-up of various projects, as well as a devaluation in the Russian currency.

### Stock overhang shift

Looking at oil stocks, Alipour-Jeddi said OECD commercial oil inventories in November were gauged at around 80m b above the five-year average, corresponding to 59 days of forward cover.

“The composition of the stock overhang has shifted from crude to oil products, mainly due to a strong decline in product consumption, combined with OPEC efforts to reduce oversupply in crude,” he noted (Graph 9).

The inventory overhang was mainly concentrated in North America and to a much lesser extent in Europe.

Alipour-Jeddi said sluggish demand was also presenting a growing challenge for the refining industry. The refinery utilization rate in the US was still at a low level and had continued to decline since 2004 (Graph 10).

“Refinery utilization rates in the US have now reached levels not seen in the last two decades. And the situation is not likely to improve soon, given the massive distillate stock overhang, which is due to depressed industrial sector demand. There is also the availability of a cheap supply of natural gas, which is a substitute for heating oil,” he affirmed.

In addition to the onshore inventories, total products in floating storage were now at their highest level at 100 mb, he added.

In his concluding remarks, the PSD Head told the Meeting that one of the factors supporting the market since the early part of 2009 had been the rally in equity markets (Graph 11).

However, moving forward, he said, it appeared this would no longer be the case. In recent months, markets had been seen trading within a tight range.

“The reason for this can be explained by the price-to-

**Graph 11: Equity markets becoming more hesitant — trading sideways in a narrow range**



earnings ratio, which serves as a measure as to whether equity markets are correctly valuating stocks. The fact is stock values are now reaching the excessive levels seen during the ‘dotcom bubble’ in 2001.

“This fuels concern that the equity markets might have gone too high, too fast on the expectation of a pace of economic recovery that might not materialize.

### Government support essential

“Secondly, there is no doubt that government support has been essential in ending the economic downturn. It is the result of the biggest, broadest and fastest government response in history and global demand is still dependent on government support,” he said.

Alipour-Jeddi said current estimations saw fiscal stimulus packages running their course and starting to decline by the end of 2010 and the beginning of 2011.

“However, the level of spending involved will worsen government debt and will be increasingly difficult to sustain for an extended period to keep financial conditions too loose for too long. How this situation is seen unfolding will have an important impact on oil market sentiment going forward,” he concluded.

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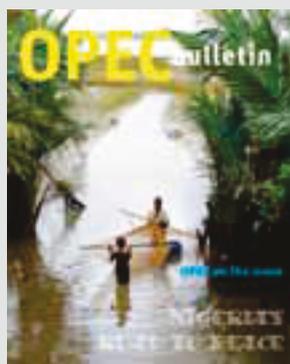
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