



A Tale of Two Speeches--OPEC's Demand Side Fear Is Very Real

Posted by [Prof. Goose](#) on September 15, 2007 - 10:00am

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This is a guest post by Roger Conner Jr., known on TOD as ThatsItimout.

(Throughout, all headlines in all caps are mine, to help structure the content of the remarks, extracted from the following speeches. Links are provided so that the original remarks and slides can be viewed in entirety by the reader)

Presentation by Dr. Nimat B. Abu Al-Soof, Upstream Oil Industry Analyst, Secretariat, to the OPEC-organized session "The Petroleum Industry: New Realities Ahead?", at the Offshore Technology Conference 2007, Houston, Texas, 30 April - 3 May.

<http://www.opec.org/opecna/Speeches/2007/OPECSpareCapacity.htm>

If we look at the future, however, the issue of security of demand, which is intrinsically linked to the issue of security of supply, is of very real concern. Without confidence that there will be demand for OPEC oil, the incentive to undertake investment will also be reduced because of concerns that this will lead to large levels of unused capacity and, in turn, to downward pressures on oil prices.

This would result in huge revenue losses and OPEC Member Countries, as developing countries with strong competing needs for financial resources, would be adversely affected in terms of available resources for education, healthcare and infrastructure.

THE THREAT OF NON-OPEC GROWTH

To complete the picture, I will now turn to non-OPEC supply. The impact of Engineering & Procurement capital expenditure increases on non-OPEC growth since 2002 has been positive. In fact on average, production has increased at record rates. Increased investment has also resulted in the stabilization of production in many mature fields by slowing the decline rate of many, enabled the development of marginal fields, allowed for more exploration and the application of more technology, and kicked off an expansion of projects under development and fields in production.

The one significant blip was 2005, when the Gulf of Mexico witnessed its most intense storms in 100 years.

Other events, such as the sinking of the world's largest floating production platform in Brazil in 2001 and the collapse of Russia's largest oil company in 2004 had very little impact on non-OPEC supply. In the six year period from 2000 non-OPEC oil production growth averaged 800,000 b/d per year, nearly five times higher than the period 1990-99, and one of the highest growth rates in 20 years.

However, the fact that non-OPEC production growth fell behind that of world demand growth for the years 2003-06 – reversing earlier trends of exceeding or matching demand growth – combined with the frequency of accidents and of downward forecast revisions, led the analytical community to under appreciate non-OPEC's recent performance and to essentially write off its potential.

NON-OPEC GROWTH, FROM WHERE?

Regionally, Russia and the Caspian region will lead non-OPEC growth, with the bulk of the increase expected to come from the Caspian. Outside these areas, supply growth is driven primarily by increases in offshore West Africa, offshore Latin America, Gulf of Mexico and non-conventional in North America. The Middle East, OECD Asia and other parts of Asia will show modest gains, while Western Europe is expected to decline driven by a fall in output from the North Sea.

WHO IS RESPONSIBLE FOR MAINTAINING EXPENSIVE “SPARE” CAPACITY?

But as a result of these uncertainties affecting security of demand, OPEC Member Countries will be reviewing their future capacity expansion plans. It also begs question: with these investment uncertainties where does the onus of maintaining sufficient spare capacity lie?

To conclude, there are challenges and uncertainties, but we believe the overall picture for the industry is positive. During the next few years we expect to see a strong increase in non-OPEC supply and OPEC capacity.

OPEC spare capacity is expected to continue to rise in the medium term and the required OPEC crude is likely to drop or remain flat at best until 2009. In order to ensure market stability, however, players in OPEC and non-OPEC countries must collaborate strongly.

This is all the more important given the challenges that the industry is currently facing and the uncertainties driven by factors like the growth of the world economy, consuming country energy policies (substantial downside risk to demand) and technological developments.

http://www.opec.org/opecna/Speeches/2007/attachments/Transport_Energy.pdf

(Notes on above remarks) Both speaker and several other OPEC speakers have repeatedly stressed over and over that "Security of supply and security of demand are tightly related."

Dr Siala recently made news when he expressed concern that oil was being "discriminate" against oil: (EUNN) London - OPEC is growing uncomfortable with all of the global criticism toward oil and talk of alternative fuels, according to Fuad Siala, alternative energy sources analyst at the Organization of the Petroleum Exporting Countries who said in Brussels at a Hart energy conference, "We have great concerns about this ... about policies which discriminate against oil,"

<http://moneynews.newsmag.com/money/archives/st/2007/5/9/120724.cfm>

The OPEC speakers have made reference to concern about this regarding the "biofuels". However, it seems hard to believe that the biofuels along are able to create much concern in OPEC nations about lost market share, although in some of their slides they do show that only a 5% percent penetration (above what is used to replace MTBE as a fuel supplement) could cost them billions, in particular in their big markets in Europe)

But let us consider another possibility: Is it possible that it is not biofuels that have the OPEC (i.e., the Saudis) nervous, but instead, developments such as this...

<http://electricandhybridcars.com/index.php/pages/phoenixpickup.html>

http://www.usatoday.com/money/autos/2007-07-25-toyota-plugin_N.htm

<http://www.reuters.com/article/scienceNews/idUSN0946978520070809?feedTyp...>

Conclusion

What we are seeing is a confluence of technology that gives us a real view forward toward to a possible future in which the transportation sector consumes less oil per vehicle mile traveled, potentially much less.

Batteries are advancing, and nano-technology makes the possibility of even faster future advance obtainable.

If grid based hybrids can be made viable, the OPEC nations face a 4 fold decline in oil consumption per new car sold if it is an advanced plug hybrid. What this means is that the grid based "plug" hybrid autos could have an impact out of all proportion to the numbers of them sold, with each one sold essentially wiping out the consumption of three or four vehicles. If one considers the possibility of using CNG (compressed natural gas) or LPG (Propane) in even a small number of such cars, the decline in transportation fuel consumption could revolutionize the energy markets. Using natural gas or propane becomes a real option in such advanced cars because the fuel carried on board is used in such small quantity, with 10 gallons providing the range that a 30 or 40 gallon tank of gasoline now provides.

The OPEC nations are being asked, sometimes very curtly, to make massive investments in oil producing and refining infrastructure based on increasing oil demand. It is well known that many

of the OPEC nations face a future of growing populations and increased need for Western capital to satisfy rising expectations in their home countries, rising home energy needs, and to service increasing debt loads.

What if the predicted increasing demand for oil does not materialize?

What if unconventional oil, using advanced in situ extraction methods such as THAI in the Canadian Tar Sands, really begins to deliver big production?

The Europeans have already made it a stated goal to reduce EU fossil fuel consumption by some 20% by 2020. Many observers feel that goal may be far too optimistic, but the OPEC nations have to ask, could they do it, and if so, what are the implications for our revenue stream?

The American and Japanese automakers are now beginning to look at competition from other auto manufacturers, and being pushed to actually deliver the “clean” and lean autos they have been long promising. They in turn are pressing the battery makers for the product needed to do it, and creating innovative financing structures to be able to meet the market demand for affordability. Can they do it?

No one knows. Ironically, the people who most doubt Western technology advance are the Westerners themselves. The OPEC oil suppliers must shiver at the thought that once more, as in so many industries before, the technicians might just do the impossible.

The West and OPEC have one thing in common: All of our futures could very well hang in the balance based on what happens in labs and shops around the world. And the clock is moving very, very fast.



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