



Global Supply and Demand

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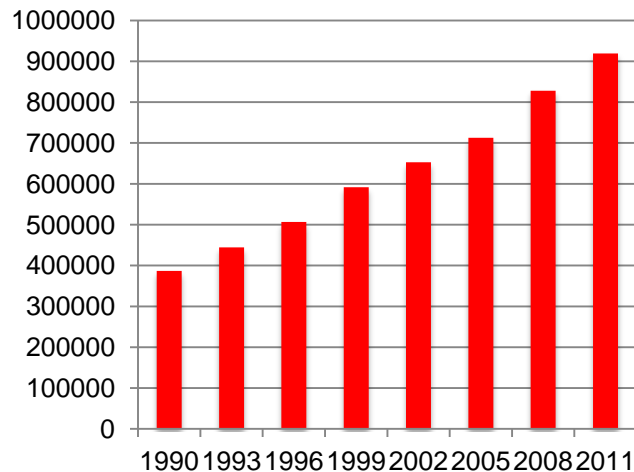
Presentation outline

- The Context
 - Currently huge uncertainty over energy markets
 - Therefore a very large potential agenda....
- The Focus: Oil and two new dimensions
 - The Arab Uprisings
 - “OPEC’s Dilemma”

The legacy of the Arab Uprisings is ...

- Need to pacify populations

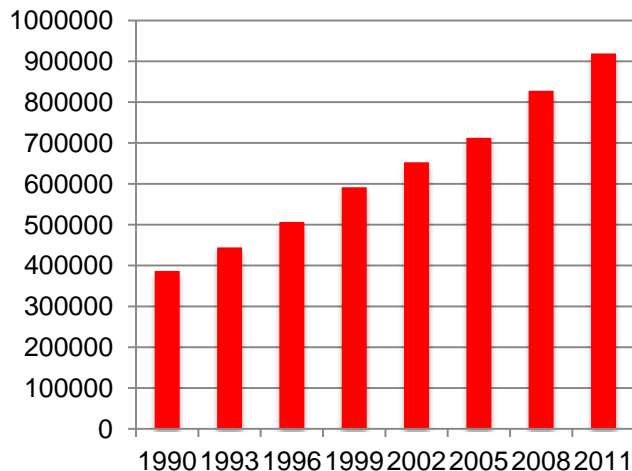
Saudi nationals employed
by the government



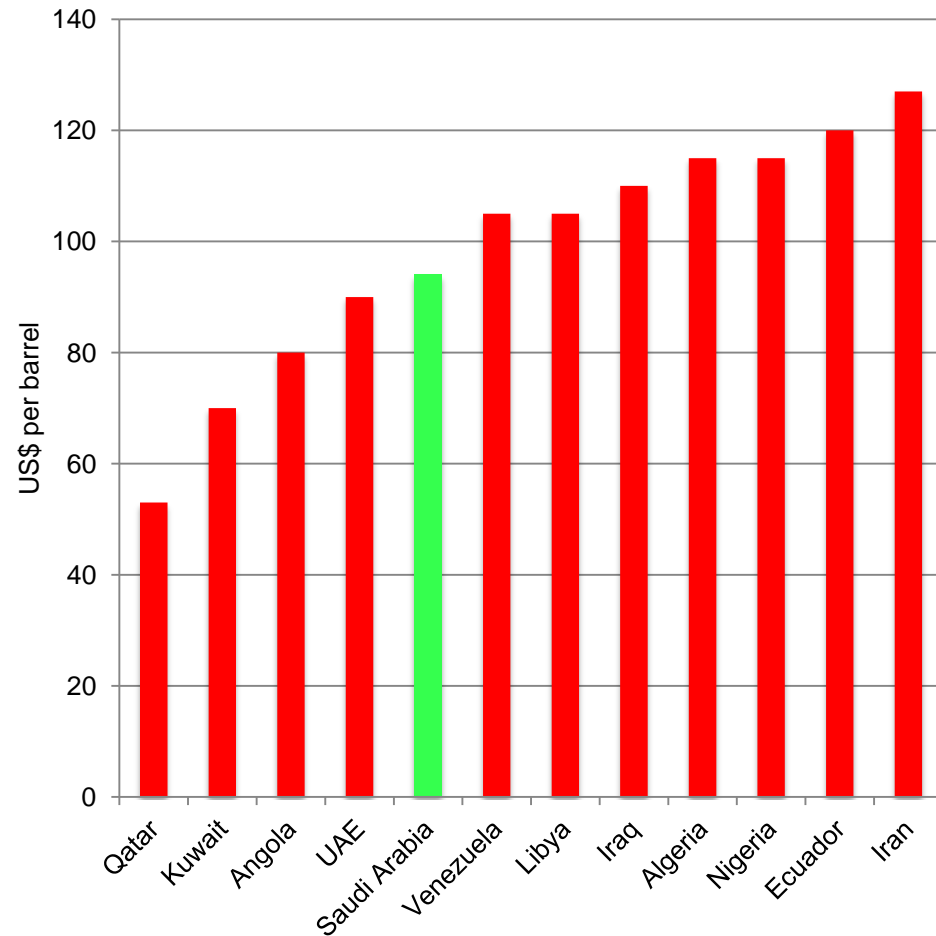
The legacy of the Arab Uprisings is the need for a higher “supply price”

- Need to pacify populations
- “Supply price” risen. Saudi Arabia 2008 = \$50 2012 = \$94

Saudi nationals employed by the government



OPEC Median Budgetary Break-Even Price

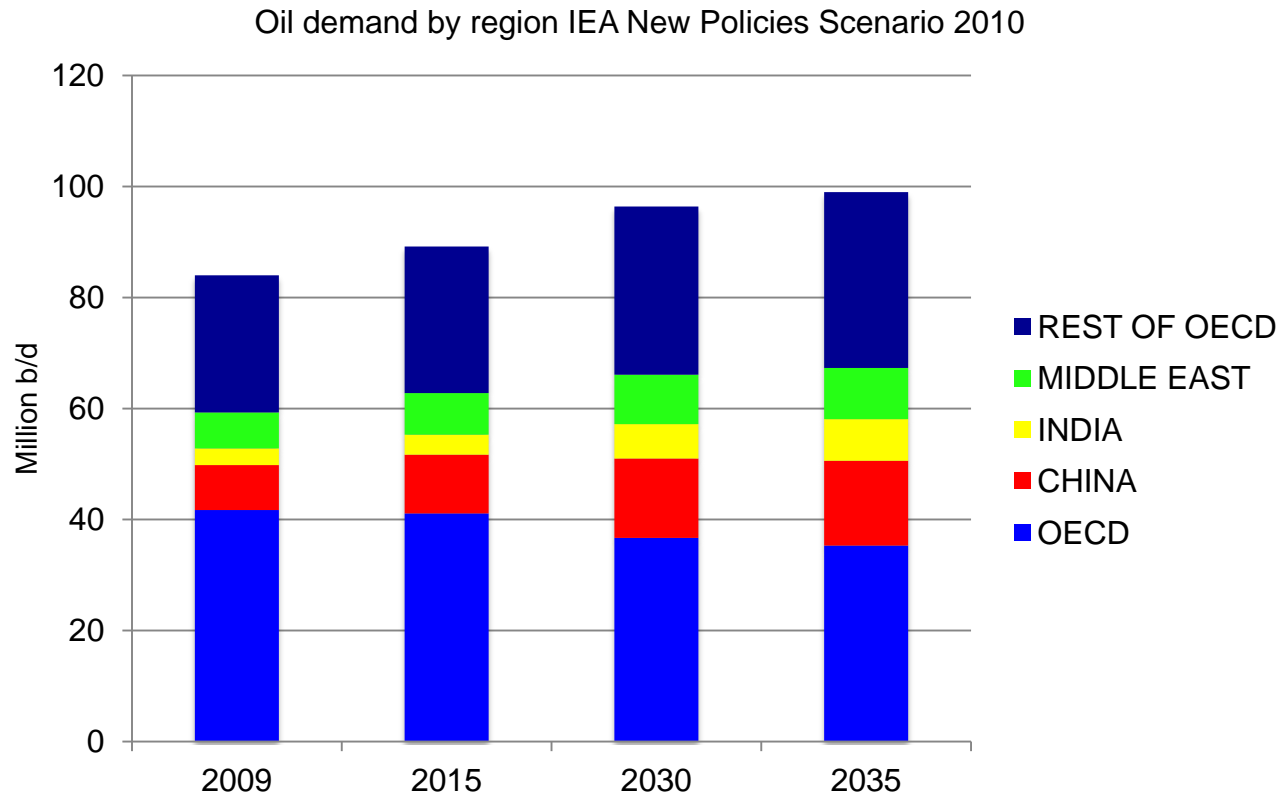


Source: Ali Aissaoui Apicorp Economic Commentary Vol 7 NO. 8-9 August-September 2012

But a higher supply price leads to “OPEC’s dilemma”

- They need higher prices to survive politically
- BUT Higher prices = more oil demand destruction
- AND Higher prices = increasing oil supply creation
- BOTH create self destruction

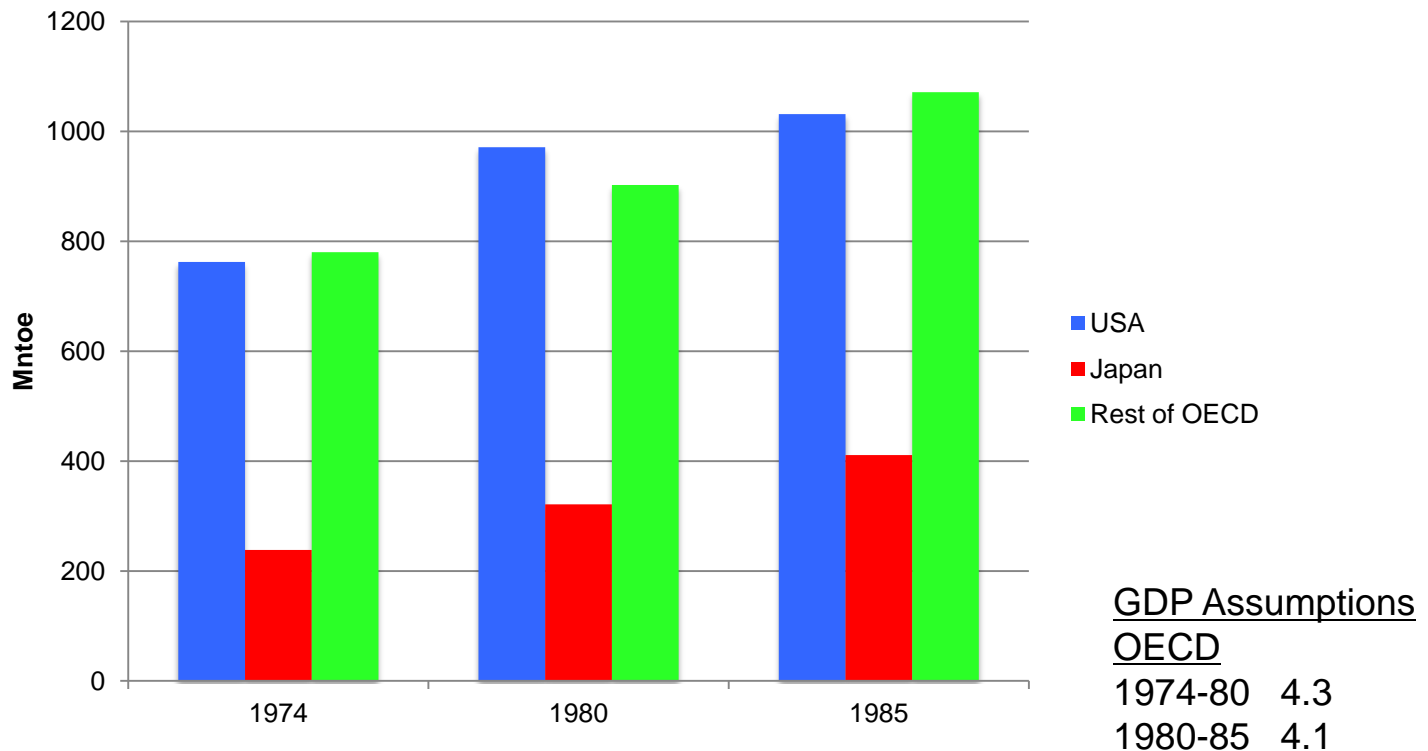
Demand destruction? Conventional views of future demand – meet the MICs



The key point: The MICs account for the bulk of the growth
= 68% in Non-OECD growth 2009-35

Demand destruction in the past? What were these conventional views of future demand missing?

OECD Oil Demand Forecast 1977



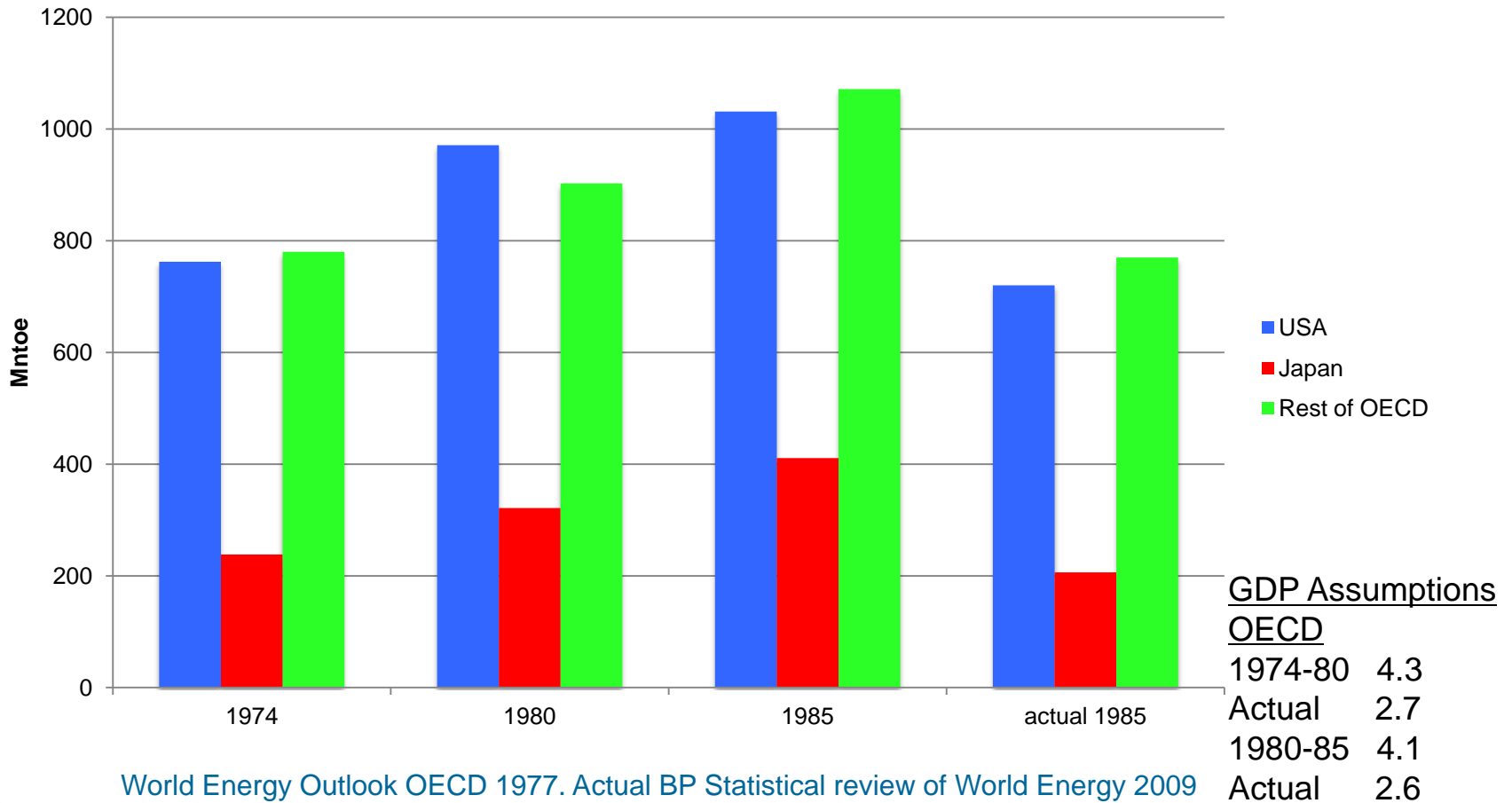
World Energy Outlook OECD 1977

Demand destruction?

What are the conventional views of future demand missing?

THE IMPACT OF PRICES

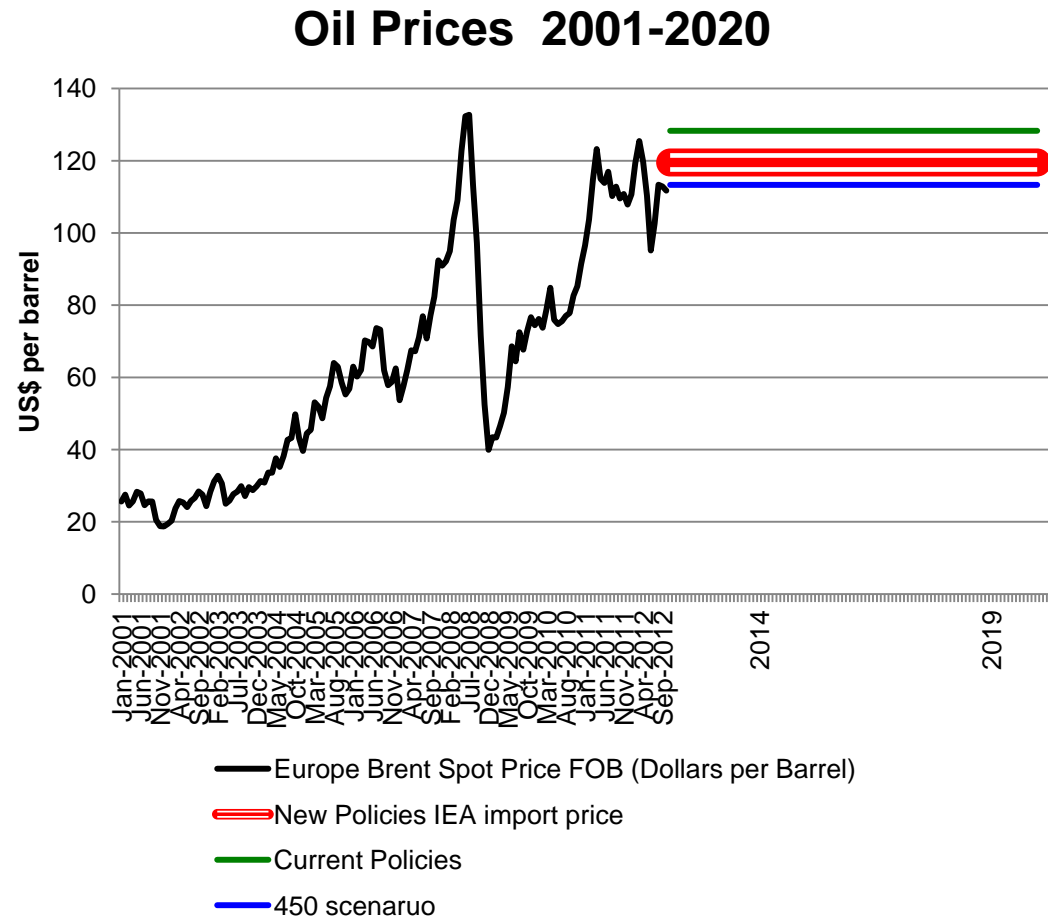
OECD Oil Demand Forecast 1977



World Energy Outlook OECD 1977. Actual BP Statistical review of World Energy 2009

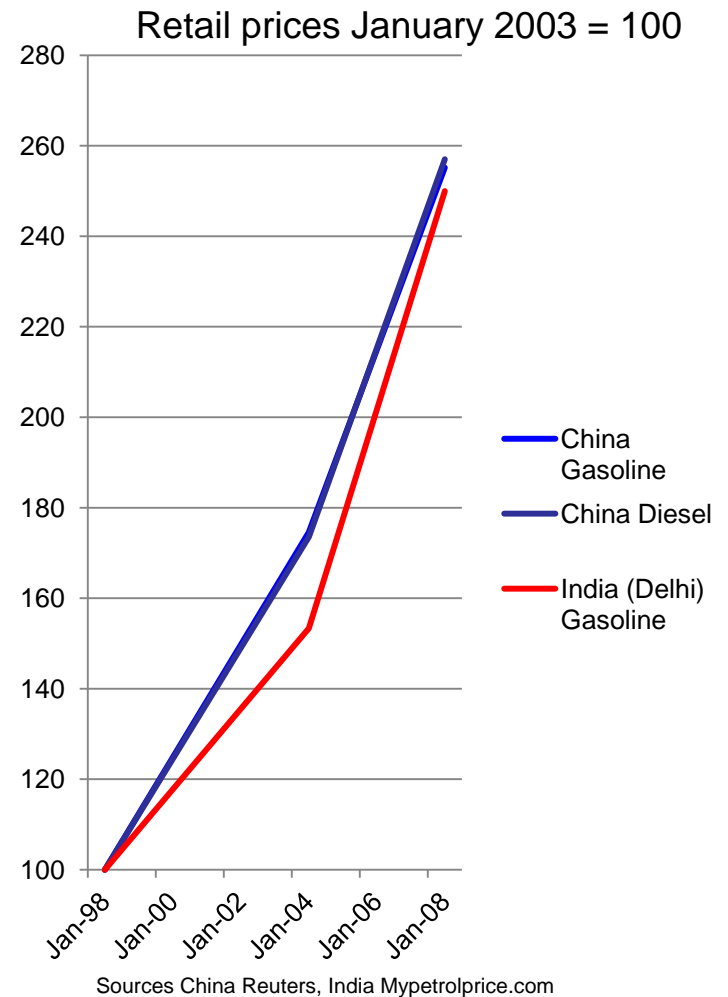
Is the IEA again neglecting price?

- WEO 2012 gives a very limited range of prices
- It also seems to neglect the rise in prices since 2002
- BUT it is more than just the price of crude oil...



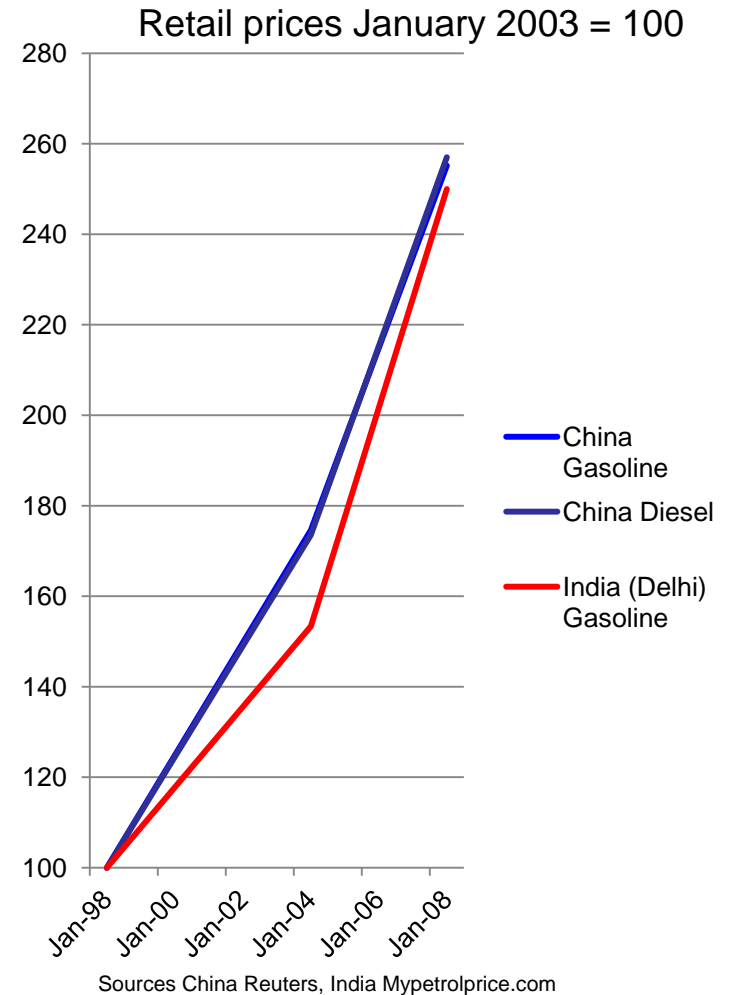
So what?

- Remember the MICs!! All did have very high levels of subsidy on final oil product prices
- But now signs of reform...
 - India
 - Begins in 2002. Deregulated gasoline prices in 2010
 - China
 - Begins 2009 constant changes including talk of sales taxes
 - Middle East
 - Moves to increase price given rapid consumption growth eating into export capacity although in the current political climate this is difficult



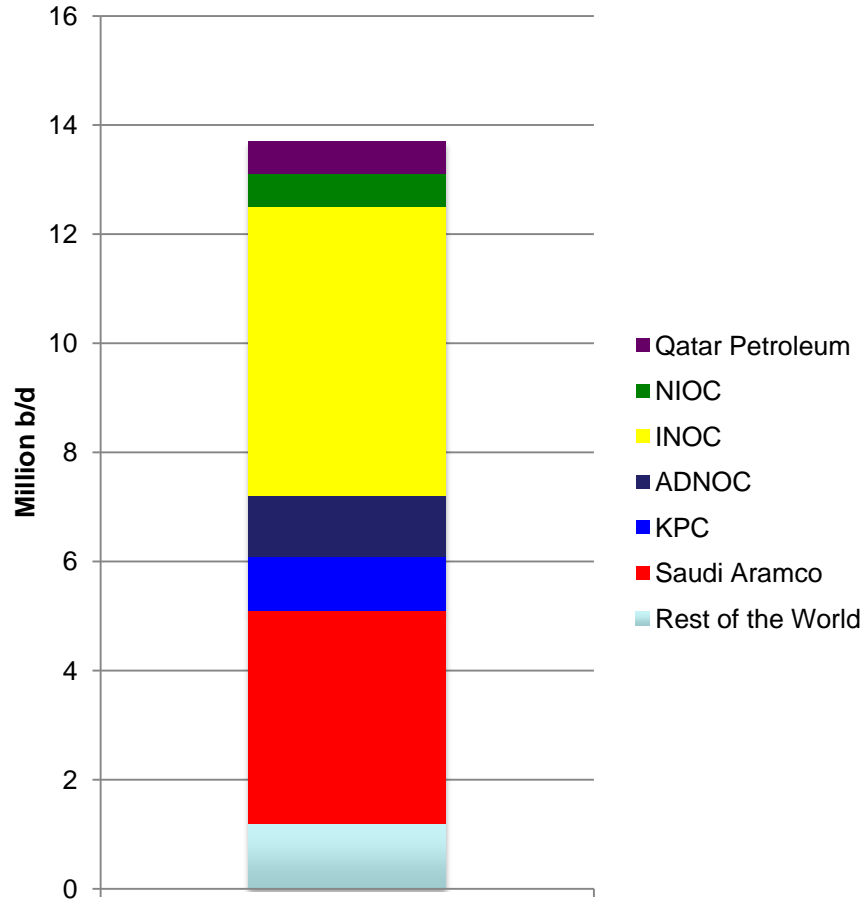
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Supply Creation? Meet the “six brothers”

Sources of growth in oil production* 2010-2035
IEA WEO 2011 New Policies Scenario



*Includes NGL's and unconventional oil

Supply creation? – The new technologies from shale gas operations in a high price world

- Liquids from shale gas operations = now the mainstay of the “shale gas revolution” in the USA
- Liquids from shale oil
- Liquids from “fallow oilfields”
- Liquids from other unconventional sources – oil shale, tar sands
- Aided by the imperative of energy independence

“Energy independence” and the USA

- The new technologies make it a serious possibility for North America although lower prices driven by export restrictions could inhibit this.
- Will reduced import dependence = loss of interest in policing sea lanes and seeking stability in the Middle East?
 - Assumes US foreign policy in MENA is driven by oil
 - Ignores the fact that the oil market is “one big pool”
 - BUT what of China’s perceptions and responses?

Conclusions

- “OPEC’s dilemma” is alive and well and threatening
- The result is likely to be significant price volatility
- This creates serious threats to the political stability of the MENA region and hence supply– remember the “six brothers”. This threatens even more volatility
- This price volatility will also create serious inhibitions to new investment in the oil (and gas) upstream compounded by geo-political uncertainties in MENA

Thank you for your attention

- Recent relevant publications from www.chathamhouse.org
 - Paul Stevens and Matthew Hulbert - Oil Prices: Energy Investment, Political Stability in the Exporting Countries and OPEC's Dilemma. Chatham house Programme Paper, October 2012
 - Paul Stevens - The “Shale Gas Revolution”: Developments and Changes. Chatham House Briefing Paper, August 2012
 - John Mitchell with Valérie Marcel and Beth Mitchell - What Next for the Oil and Gas Industry? Chatham House Programme Report, October 2012
 - Paul Stevens – The Arab Uprisings and the International Oil Markets. Chatham House Briefing Paper, February 2012