Launch of the Medium-Term Oil Market Report 2013

Maria van der Hoeven

London, 14 May 2012

Good morning, Ladies and Gentlemen. It is a pleasure to be here this morning, at this important conference. London is one of the oil capitals of the world. And there is a high concentration of expertise in this room. Whether you come from industry, government, consulting, the media or the City, you are all oil insiders in one way or another. So it is a fitting venue to present the IEA's *Medium-Term Oil Market Report 2013*, our oil market forecast for the next five years. We appreciate your being here today, and thanks to Platts for hosting this event.

Like the energy market itself, our medium-term market report series keeps changing – and it is a work in progress. We have now added a fifth report to the series. Starting this year, we cover not only each of the four main fuels – oil, natural gas, coal, and renewable energy – but also energy efficiency, the so-called "hidden fuel. "

Our 2012 *MTOMR* was published last October, just seven months ago. It was so successful that just could not wait another year to publish the next one! Jesting aside, there is a perfectly good reason why the two are so close to each other: We have decided to release the oil, gas and renewables reports in close succession, so that they can share the same GDP and other assumptions. Our goal is to make it easier for you to piece together the bigger story from these various reports. So you can expect the next medium term oil market report around May 2014.

Truth be told, much has happened in the oil market even since October, so this is a good time to take a fresh look at the medium-term outlook. Broadly speaking, our forecast is consistent with the last *MTOMR*. The global supply/demand figures haven't changed that much, and will not come as a shock to any of you.

Down in the weeds, however, things have shifted. On the supply side, the North American hydrocarbon revolution continues, but supply growth is even steeper than previously expected. At the same time, the opposite is true of OPEC production capacity, growth of which now looks to be stalled in some areas. The most important point is that some of the themes we had identified in the 2012 *MTOMR* now come across in even sharper relief. Before I turn this over to Antoine Halff, whose team put the *Report* together, let me outline a few of those themes.

First, **North American supply is an even bigger deal than we thought. A real "game changer" in every way – not just because of the volumetric growth involved, but for a host of compounding reasons.** Sure, North

9 rue de la Fédération, 75739 Paris Cedex 15, France
Tel +33 (0)1 40 57 65 00 Fax +33 (0)1 40 57 65 09
Website: www.iea.org

American supply growth now looks higher than expected in both absolute and relative terms. A country that 150 years ago served as the cradle of the oil industry, but which for decades seemed to face an irreversible production decline, now finds itself, all of the sudden, at the centre of an oil boom. That is remarkable in itself. But supply growth is only part of the story. There are many factors that will compound the impact of this new American supply: crude quality, infrastructure requirements, current regulations, and the potential for replication elsewhere, to name a few. And the technologies which drive the boom will increase production from more mature fields, shifting some investment from more risky "frontier" regions. Altogether, these factors are forcing a series of chain reactions that will leave very few links in the global oil supply chain unaffected. **That is my first point**.

Let me hasten to say that despite the growth in LTO, OPEC oil will still very much be needed. This new supply does not spell the end of OPEC. The latter will remain an essential part of oil mix for as long as we can tell. **But in the medium term, OPEC production growth faces new challenges.** Security risks are on the rise in North and sub-Saharan Africa, and political uncertainty in North Africa and the Middle East can carry heavy consequences for the oil market. Both are expected to negatively impact production growth in those areas. **That is my second point**.

My third point is that the next five years will consolidate the rise of the non-OECD in virtually every aspect of the oil market, and most of the growth (though by no means all of it) will come from East-of-Suez economies. The idea that the emerging market and developing economies would eventually overtake the OECD in oil demand is nothing new. Now this is actually happening, however. It is happening fast. Faster than expected. Since the last *MTOMR*, the two-speed economic recovery has become a three-speed recovery.

- Non-OECD economies continue to outperform the OECD, but within the latter, a bifurcation has appeared between a North America energised by cheap natural gas and a euro area plagued by debt issues.
- Oil demand growth, however, remains two-speed. Improvements in the US economy have yet to be matched with a corresponding rebound in oil demand. US efficiency is on the rise, and natural gas is making inroads into the oil market. There is a growing perception that the peak in OECD oil demand, including in the US, is behind us…
- …whereas non-OECD demand growth is spreading from China, which appears to be slowing down somewhat, to other Asian economies and even Africa, which is emerging as a new demand frontier.

This rise of non-OECD demand is pregnant with consequences for the market as a whole. The MTOMR singles out two related developments for particular scrutiny: the continued shift in global refining towards the non-OECD economies, and associated developments in global storage capacity. Non-OECD economies are looming large on both counts. Their rise has global consequences.

One of the consequences of those changes is that **the global product supply chain is transforming. That will be my last point**. New non-OECD mega-refineries are challenging OECD refining economics, at least beyond the US. Their expanding reach is accelerating the globalisation of the product market. With it come the benefit of greater market flexibility in the dispatch of product supply, but also longer supply chains, higher reliance on stocks to meet demand, diminished visibility in inventory levels, increased disruption risks, reduced market transparency and, possibly, greater price variation between key markets, and also between seasonal peak and troughs in demand.

So there you have it. North America has set off a supply shock that is sending ripples throughout the world. The good news is that this is helping to ease a market that was relatively tight for several years. The technology that unlocked the bonanza in places like North Dakota can and will be applied elsewhere, potentially leading to a broad reassessment of reserves. But as companies rethink their strategies, and as emerging economies become the leading players in the refining and demand sectors, not everyone will be a winner.

These are all developments of prime importance to the IEA, given its key mission of enhancing energy security and market transparency. We will continue to watch them and to work more and more closely with other key countries towards greater energy security, more informed energy policies and a better understanding of energy markets. The answers to those questions are still unclear. But the *MTOMR* lays out the framework without which they cannot be understood.

So with that, let me now turn to Antoine, the head of the IEA Oil Industry and Market Division, who will elaborate further on the *Report*.

9 rue de la Fédération, 75739 Paris Cedex 15, France
Tel +33 (0)1 40 57 65 00 Fax +33 (0)1 40 57 65 09
Website: www.iea.org