

OPEC at Fifty: an ongoing commitment to market stability



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Since its founding fifty years ago on September 14, 1960, OPEC has seen growing recognition of the positive role it plays in the international oil market. Through its ongoing commitment to ensuring market stability, OPEC has made enormous strides during its long history to cooperate with other international actors for the benefit of producers and consumers alike.

OPEC has gained this recognition by consistently trying to ensure a regular supply of petroleum to the market in a timely and efficient manner. This is the fulfilment of one of the Organisation's objectives as enshrined in its Statute. Much of this is a consequence of the emphasis OPEC has placed over the years on research and monitoring activities. Based on the work done at the Secretariat, OPEC has developed a sophisticated understanding of both the international oil industry and global markets. This has enhanced our ability to respond to events.

Growth Years

OPEC's 50th anniversary slogan, 'Supporting Stability, Fuelling Prosperity', summarises the path that OPEC has taken for five decades. If one considers the growth in reserves, the increased production and the ongoing investment commitments in Member Countries, then OPEC's role as a central actor in providing market stability is indisputable.

But in celebrating OPEC's Golden Jubilee, it is easy to forget the long road we have travelled. We have gone from an Organisation with five Founding Members – the Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela – to one with twelve Member Countries. On average, these countries supply more than a third of world oil production.

We have also seen joint reserves grow in the past fifty years from a total of around 200 billion barrels to one trillion barrels. More than three-quarters of the world's proven recoverable crude oil reserves are now found in OPEC Member Countries. Additionally, total daily production in this time has grown to around 29 million barrels per day (b/d), with overall production capacity reaching more than 35.2 million b/d in 2009.

Part of this growth is of course simply the result of increased membership (with the Organisation going from five to twelve members). But even if we limit ourselves to the five Founding Members, the growth in reserves and production from 1960 to 2010 has been nothing short of impressive. Increased collaboration between National Oil Companies and oil majors, enhanced cooperation between producers and consumers, and significant advances in technology have all helped towards the discovery of new oil fields, increased access to frontier fields and improved recovery rates. But in order to turn all these reserves into products for the market, significant

investments in both the upstream and the downstream are required. But such investments depend on certainty – and, more importantly, what OPEC likes to call energy security.

Energy Security is a Two-Way Street

If our history is to provide a guide to the future, then it is clear that OPEC will continue to play an essential role in supplying oil to the world – even as it faces ongoing challenges. Underlying many of these challenges is the constant need for energy security and, more specifically, security of demand. Without greater certainty in demand growth and future demand levels, investments in the development of future capacity are threatened. Without that confidence in additional demand for oil in the future, there will be few incentives to invest.

In the short term, one important source of uncertainty relates to economic conditions in the eurozone and the potential spill-over effects from the sovereign debt crisis. The recent global economic crisis has put a damper on economic growth around the world, negatively affecting oil demand levels.

But OPEC is also concerned about the possibility that the various economic stimulus packages that developed countries have put together may soon come to an end. This could negatively impact the overall recovery of the global economy. The potential negative impact of this on oil demand could be quite strong, especially if the expected economic growth doesn't materialise or if the pace of recovery efforts is limited.

In the meantime, while the recovery of the global economy appears to be continuing, OPEC remains cautiously optimistic. It will continue to closely monitor the market. But it recognises that a lot of uncertainty remains.

In the longer term, a significant source of uncertainty has to do with the consequence of the new policies in developed countries that effectively end up discriminating against oil and other fossil fuels. While OPEC continues to assess the emerging policies and analyse all the available information, it has consistently been urging concerned countries to stop discriminating against oil. Despite these uncertainties regarding demand growth, as well as other concerns regarding spiralling production costs and a lack of skilled human resources, investments to expand upstream capacity are currently underway in OPEC Member Countries.

Last year, about 30 projects came on-stream in Member Countries. This resulted in 1.5 million b/d of net crude and liquids capacity. OPEC data indicates that for the next five years, the completion of an additional 140 projects will add about 12 million b/d of gross crude and liquids capacity. Thus, OPEC believes that current investments should be enough to satisfy demand for OPEC crude, even though our current spare capacity is over 6 million b/d.



OPEC Member Countries are also investing in expanding downstream capacity, both inside and outside Member Countries. For example, cumulative investment in downstream capacity in Member Countries until 2015 has been estimated at around US\$40 billion.

This level of investment will help expand refining capacity to more than 10 million b/d. An additional US\$25 billion are being invested abroad to add further capacity to the global refining system.

All of this demonstrates OPEC's ongoing commitment to ensuring adequate production capacity. But the fact of the matter is that OPEC can only continue to play a role in supporting market stability if developed countries avoid subsidising coal and alternative forms of energy to the detriment of oil and petroleum products.

This is why OPEC encourages greater transparency between all stakeholders in the energy industry. It is especially supportive of the ongoing producer-consumer dialogue that takes place through the International Energy Forum. It is through such meetings that the Organisation strives for better dialogue with consumers in developed countries – in order to clearly assess the potential impact on oil demand of emerging energy policies. This is one of the surest ways to help improve oil demand forecasts, especially as they pertain to future demand levels.

The Importance of Dialogue

With all this in mind, it is important that OPEC continues participating in meetings and events where it can share insights and exchange views about energy market trends with other global energy stakeholders. Everyone needs to remember that energy is crucial for sustainable economic development, and human development, in each and every country of the world. For this, the world needs an energy market that is stable and predictable.

It is also important to remember that over the past fifty years, the world has been evolving towards greater interdependence and more integrated energy markets. If one considers the fact that the global economy lately has presented daunting challenges to everyone, then one cannot escape the conclusion that, perhaps more than ever before, people need to work together.

This theme was addressed at OPEC's Third Summit of Heads of State meeting in Riyadh in 2007, which explicitly called for expanding existing and new avenues of cooperation with energy stakeholders. It is precisely with this spirit that OPEC is now endeavouring to enhance dialogue with many producing and consuming countries. It is through such collaborative, joint efforts that international actors like OPEC will continue to lead the way to a more secure, more stable world. □

Heads of Delegations attending the first OPEC meeting: (clockwise) HE Fouad Rouhani, Iran; HE Dr Tala'at Al-Shaibani, Iraq; HE Dr Juan Pablo Pérez Alfonzo, Minister of Mines and Hydrocarbons, Venezuela; HE Ahmed Sayed Omar, Assistant to the Secretary of State, Ministry of Finance, Kuwait; HE Abdullah Al-Tariki, Minister of Petroleum, Saudi Arabia

