



## SEE-SAWING OIL PRICES ARE BAD FOR CONSUMERS AND PRODUCERS ALIKE

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**T**he value of dialogue between all stakeholders has never been greater in our increasingly interdependent world. And the heartbeat of this world is the global energy system. It is a complex and ever expanding system; one that is finely balanced and where stability must be the mantra over all timeframes. It is essential to appreciate that the short, medium- and long-term are all interlinked.

The importance of this can be viewed in the constant flux oil markets have found themselves in since the summer of 2014. It has been a period of significant instability. Oil prices now are considerably lower than mid-2014, many investments have been deferred and some cancelled, manpower has been laid off, oil supply has been greater than demand and stocks have risen considerably.

The market has been searching for balance. While we see some signs that supply and demand fundamentals may balance themselves this year, there remains a significant stock overhang that needs to be reduced. This is now a central element to the return of a more balanced market.

It is vital to appreciate where the additional supply has come from. Between 2008 and 2015, non-OPEC liquids supply growth was almost 8 million barrels a day (mb/d), while OPEC liquids production grew by 1.5 mb/d during this period.

Given these numbers, the stock overhang should be viewed as something both OPEC and non-OPEC producers, as well as consumers, must tackle together. The market needs to see a continued draw down in inventories that help prices to further recover and investments to return.

What these recent developments also highlight are issues related to oil market outlooks, particularly in the short- to medium-term. We are currently seeing changes to numbers, and shifts in sentiment, on a regular basis. It underscores the need to continually share and analyse our energy outlooks to better understand the data and the key trends, as well as look at areas where we might see both convergent and divergent opinions.

The importance of this understanding is not only important for the short-term; it translates to the long-term given the industry's anticipated expansion. For oil, OPEC sees global demand increasing by around 17 mb/d by 2040 to reach close to 110 million barrels a day. And in terms of oil-related investment requirements, these are estimated to be around US\$10 trillion over this period.

However, given the recent low price environment, it is clear that some of the necessary future investment is at risk. In

the current oil market environment we are already witnessing significant investment cuts due to low oil prices. For example, global exploration and production spending fell by around 20 per cent in 2015, and a further 27 per cent drop is anticipated this year. This is a major concern for an industry that needs regular and predictable investments. New barrels are needed not only to increase production, but to accommodate decline rates from existing fields.

We need to remember that low oil prices are bad for producers today and lead to situations that are bad for consumers tomorrow. And high oil prices are bad for consumers today and lead to situations that are bad for producers tomorrow.

Of course, there are also many other ongoing and related challenges for oil markets, such as the uncertain prospects for the global economy; excessive speculation and the role of financial markets; the impact of geopolitics; advances in technology and their impacts on exploration and production; and environmental concerns.

It all points to the need to continually strive to develop and enhance dialogue and cooperation. There is evidently much for producers and consumers to talk about and cooperate on. The International Energy Forum's (IEF) informal producer-consumer dialogue is an essential ingredient in this as we look to advance market stability, improve transparency and provide greater predictability in a sustainable manner.

In conjunction with the IEF and the International Energy Agency (IEA), OPEC has been actively involved in the development of various annual symposia, workshops, roundtables and meetings over the past five years or so. The Joint Symposium on Energy Outlooks has become an established, internationally acknowledged event, bringing together stakeholders and experts from around the world. The meeting on the Interactions between Physical and Financial Energy markets has created a platform to better understand the relationship between these two elements of the industry, and to evolve ideas on how to best manage the relationship. And the Symposium on Gas and Coal Market Outlooks has allowed the three organisations to further broaden their discussion of all sources of energy.

At OPEC, we always welcome continuous dialogue between all parties. The focus should be on better appreciating each other's viewpoints, finding common ground, looking for shared solutions, where and when appropriate and developing an environment that is conducive to reaching constructive end results. ■