The future of the Oil Market

By HE Mohammad Sanusi Barkindo
Secretary General, OPEC

The global oil industry has always been considered dynamic, demanding and, at times, complex. Over the recent past, new challenges have emerged, which have required more rigorous analysis, increased pro-active engagement, and broader cooperation among producers and consumers. In fact, over the last ten years, there have been episodes of extreme market volatility, which have posed significant challenges for all stakeholders.

During such episodes, OPEC has consistently risen to the challenge. It has done so by engaging in extensive dialogue and taking collaborative action. As the Organisation has often said, the only response to collective problems in an interdependent world is through collective response.

The most recent example of this was the landmark 'Declaration of Cooperation' of December 2016, which was agreed to by 24 (now 25) oil producing countries, both OPEC and non-OPEC. Preceded by the 'Algiers Accord' of September 2016, the Declaration reflected OPEC's steadfast commitment to its mission to strive for market stability by restoring balance to the market – particularly after a severe downturn. The achievement of such a broad coalition was historic and exhibited a renewed spirit of collaboration among all of the participating countries.

Based on the input of the Joint Ministerial Monitoring Committee – the body which was set up to monitor and ensure full and timely conformity with the Declaration – the focus of current and ongoing efforts is on the effective implementation of the decisions. The continuity of this cooperation now needs to be preserved for the good of sustainable oil market stability.

Various challenges, however, continue to underscore the fact that OPEC's work is never done. Patterns and trends in recent years have emerged which require that we re-think our paradigms – and which need to be assessed in terms of their potential impact on the market. In OPEC's Monthly Oil Market Report, our analysts regularly scour economic and market data for signs of what may lie in store for the market in the short- to medium-term, and what the impact might be on the world's producers and consumers.

More important are the findings of OPEC's annual World Oil Outlook (WOO), of which the 12th and most recent edition was launched in Algiers in September 2018. First published in 2007, the WOO highlights possible future challenges – and opportunities – for the oil industry, and explores the links between various factors affecting supply and demand, among others. It also considers the potential impacts that various worldwide trends may have on the market.

In terms of its longer term perspective, the 2018 WOO includes the following key takeaways:

- The global population is set to increase from 7.6 billion in 2017 to 9.2 billion in 2040.
- Strong recent economic growth will slow in the medium-term, with global GDP growth expected to average 3.4 per cent per annum in 2017-2040.
- Total primary energy demand will increase from 274 mboe/d in 2015 to 365 mboe/d in 2040, representing an increase of 91 mboe/d – or average annual growth of 1.2 per cent. Almost 95 per cent of this increase is accounted for by developing countries (including China and India).
- Overall, oil will retain the highest share in the global energy mix, with nearly 28 per cent in 2040 (higher than gas or coal), and will remain a major source to satisfy growing energy demand worldwide in the period to 2040.
- Medium-term global oil demand will grow to reach 104.5 mb/d by 2023 – and, in the long-term, is expected to increase by 14.5 mb/d to reach 111.7 mb/d by 2040.
- The largest demand for oil comes from the road transportation sector which, in 2017, represented 45 per cent of global demand or 43.6 mb/d. In the long-term, significant growth is expected, with an additional 4.1 mb/d to reach 47.8 mb/d by 2040.
- Beside road transportation, the forecast for demand growth in the petrochemical sector sees the largest increase, with demand expected to increase by 4.5 mb/d from 2017-2040.

Among the findings for the medium-term outlook, the 2018 WOO also foresees the following:

- Non-OPEC supply is set to experience robust growth, rising to 66.1 mb/d by 2023, representing growth of 1.4 mb/d per annum.
- The US is expected to remain the most important non-OPEC source of medium-term supply growth, contributing 5.6 mb/d (or two-thirds) of new non-OPEC supply on the back of surging tight oil output.
- However, US tight oil is seen peaking in the late 2020s with fewer sources of other growth.
- In the medium-term, other major sources of non-OPEC supply are Brazil, Canada and Kazakhstan, which collectively add another 2.6 mb/d by 2023.
- The demand for OPEC crude stands at 31.6 mb/d by 2023 and reaches current levels again by the late 2020s, when US tight oil peaks. Thereafter it is expected to rise steadily, reaching nearly 40 mb/d by 2040.

These are encouraging projections for an industry that has

The eighth meeting of the Joint Ministerial Monitoring Committee of OPEC

been labouring under stress for years. OPEC remains optimistic that with constant vigilance and the same spirit of collaboration that has characterised the past two years, any 'headwinds' that the industry may face will be manageable.

At the same time, we emphasise the need to ensure a timely and adequate level of investment in order to meet future demand for oil beyond maintaining the current production volumes. The recent market downturn of 2014-2016, which led to a significant contraction in investments by 25 per cent each year, underscored the critical value of collaborative efforts between OPEC and non-OPEC producers – in order to avoid such disruptions in the investment needed across the entire supply chain.

Other trends that warrant closer monitoring are the observed eastward shift in the axis of the world economy and energy demand growth; the emerging energy transition; rapidly changing regional demographic trends and consumer behaviour; and policy-oriented challenges, particularly related to climate change and the environment.

Such diverse factors can seem daunting, further complicating the assessment and predictability of the market and its future. But there are other factors that have, in the past, always served to provide us with the wherewithal to meet such challenges.

Chief among these is technology and innovation, which has increasingly played a role in the industry. It has been what some might call a 'positive disruptor', helping to change processes and techniques in E&P, with an important impact on both the upstream and downstream of the industry.

Additionally, technological advances and other innovations are not only helping the industry to keep up with required supply volumes but also to improve – through collaborative and joint action – the environmental credentials of oil, and reduce the 'carbon footprint' across the value chain.

OPEC has long played an important role in contributing to and supporting oil market stability. Our history is one of repeated efforts to ensure equity, fairness and stability for the benefit of consumers and producers, as well as the industry and the world at large. Since 2016, this has been extended to our non-OPEC partners in the Declaration. We are now looking at the potential of establishing a longer term and lasting framework for this cooperation – in order to ensure the sustainable oil market stability for which we all strive.

The closely linked and increasingly complex nature of the energy and oil markets calls for strengthened collaboration among the world's producers – so that they may continue to serve as reliable and dependable suppliers of oil to the world. As long as we are on this common path, we are confident that OPEC and non-OPEC producers will continue to make progress in their efforts to ensure sustainable market stability for the benefit of all.