



International Monetary and Financial Committee

Twelfth Meeting
September 24, 2005

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**Statement on oil market stability
by the Organization of the Petroleum Exporting Countries**

to the
International Monetary and Financial Committee
Washington, D.C.

September 2005

OPEC reaffirms its longstanding commitment to oil market stability. Too high or too low oil prices are damaging to both producers and consumers. OPEC calls for all parties to contribute to such stability, with reasonable prices that are acceptable to producers and consumers alike, consistent with healthy economic growth, that provide steady revenue streams for petroleum-exporting countries as well as fair returns for investors, and that are conducive to the timely and appropriate expansion of upstream and downstream capacity to meet rising international demand for oil.

In 2004, oil prices rose sharply as a result of the convergence of a number of factors, in particular strong and synchronised global economic growth, leading to an exceptional rise in the demand for oil. In 2005, despite sufficient supply and growing oil inventories, prices continued to increase, mostly due to tightness in the downstream sector, especially the lack of appropriate refinery capacities, such as conversion units, compounded by concerns over availability of adequate future supplies. This has been exacerbated by increased activity in futures markets and, more recently, by severe weather-related events, such as Hurricane Katrina, with its tragic consequences.

Since 2003, there has been a significant increase in OPEC's production by more than 4.5 million barrels a day (mb/d), to help satisfy the increased demand for oil, ensure adequate inventory levels and compensate for the noticeable decline in non-OPEC output growth, while accelerating the expansion of crude oil production capacity to meet future rises in demand and maintain sufficient spare capacity.

In addition, this week, at the 137th Meeting of its Conference in Vienna, OPEC, to reassure the market, agreed to make immediately available to the market the spare capacity of around two million barrels a day in Member Countries, should it be called for. This decision has been made, despite there being ample crude oil supplies with inventory levels above their five-year average. Moreover, OPEC Member Countries have embarked on significant investments, both upstream and downstream, to ensure that the world economy is benefiting from regular and secure oil supplies. In this connection, they are implementing costly investment plans to expand crude oil production capacity from about 32.5 mb/d to at least 38 mb/d by 2010. Also, the progressive recovery of Iraq should significantly contribute to raising OPEC's overall production capacity.

It is clear, however, that the present tightness in the downstream sector, especially the lack of adequate refining capacity, will continue to put pressure on prices; consequently, volatility is likely to remain a feature of the oil market for some time, until the necessary investments are undertaken. The recent behaviour of the oil market, in the aftermath of Hurricane Katrina, provides a good illustration of the critical importance of the refining sector to market stability. In this regard, OPEC Member Countries have taken the initiative - on their own and in partnership with others, both inside and outside their countries - to pursue and invest in downstream projects. Nevertheless, the primary responsibility for refining capacity expansion remains with the major consuming countries. OPEC calls for these countries to create the appropriate environment and provide the necessary incentives to ensure timely and sufficient investments in this key sector. In this regard, the role of the international oil companies is also crucial. It is of note that recent increases in revenue have not been translated substantially into additional investments, despite the needs of, in particular, the downstream sector.

The world economy has so far shown remarkable resilience to high energy and commodity prices. Nevertheless, OPEC continues to express concern over the possible impact of further sustained price increases on the world economy, and especially on the economies of developing countries. Signs of such an impact appear to be emerging. OPEC will continue to help moderate crude oil prices by increasing production and capacity. At the same time, consuming countries should also do their part, including adopting measures to ease the burden of high fuel prices on the final consumer. OPEC is encouraged by recent actions that have been taken by some consuming countries in this direction.

Dialogue and cooperation between all parties is all the more important today. It has always been the cornerstone of OPEC policy, and will continue to be so in the future. OPEC welcomes all the initiatives that lead to strengthening such dialogue and cooperation, for the benefit of all.



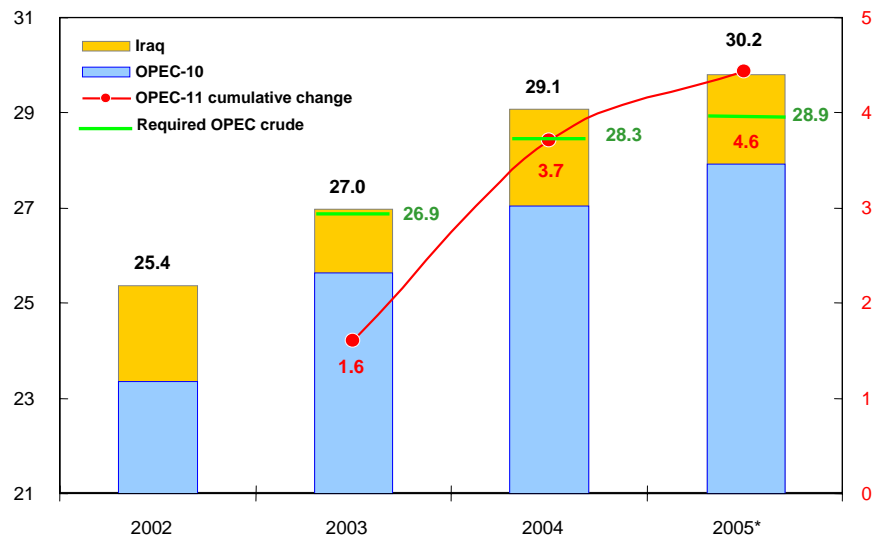
Oil market highlights

International Monetary and Financial Committee
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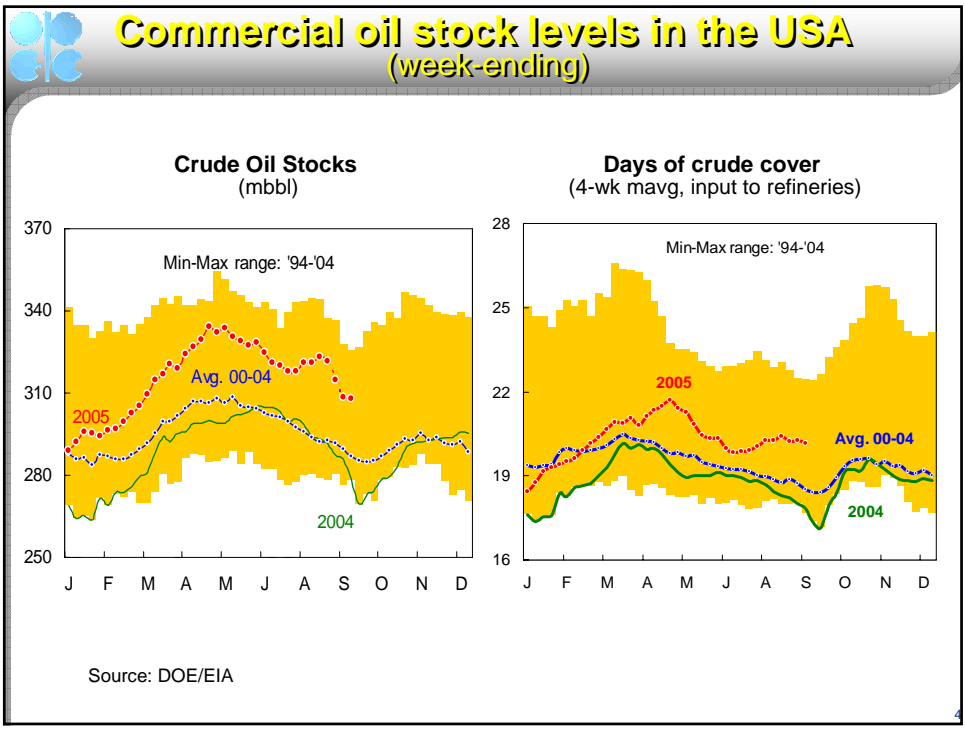
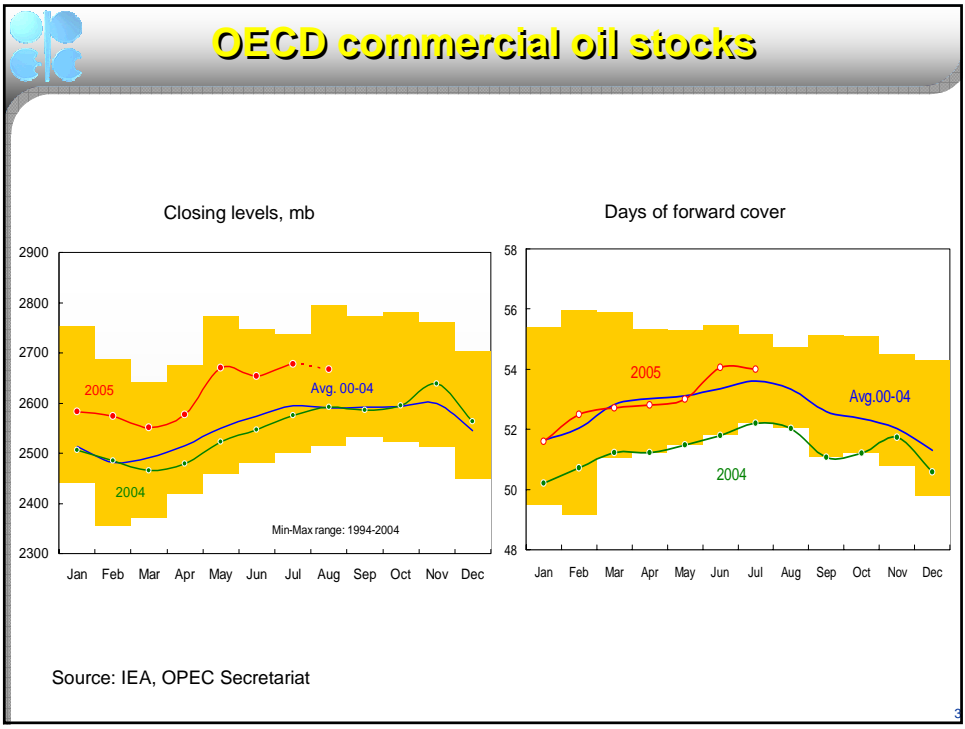
24 September 2005
Washington, DC
United States of America



OPEC crude oil production, 2002-2005 (mb/d)



Note: OPEC production excludes OPEC NGL & non-conventional oil (estimated to be 4.2 mb/d in 2005).
*/ It is based on the latest OPEC Monthly Oil Market Report (September, 2005).



World oil demand & supply balance (mb/d)

	1Q05	2Q05	3Q05	4Q05	2005	05/04	1Q06	2Q06	3Q06	4Q06	2006	06/05
Demand (a)	83.6	82.0	83.0	85.3	83.5	1.4	85.3	83.4	84.4	86.9	85.0	1.5
Supply	83.9	84.6	84.5									
Non-OPEC (b)	50.3	50.5	50.1	50.8	50.4	0.6	51.1	50.9	51.2	52.7	51.5	1.1
OPEC NGL (c)	4.1	4.2	4.2	4.3	4.2	0.2	4.4	4.5	4.6	4.7	4.5	0.3
OPEC Crude oil	29.5	29.9	30.2			0.9						
a-(b+c)	29.2	27.3	28.7	30.3	28.9	0.6	29.8	28.0	28.7	29.5	29.0	0.1
Balance (d)	0.3	2.6	1.5									
Seasonal stock change: ('00-'04)	-0.7	0.9	0.3	-0.6			-0.7	0.9	0.3	-0.6		
Stock change(e)	0.3	1.6										
OECD commercial	-0.1	1.1										
OECD SPR	0.1	0.1										
Oil in Water	0.3	0.4										
Remaining to Balance (d-e)	0.0	1.0										

Source: OPEC Secretariat.

