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OPEC would like to assure the distinguished delegates to the IMFC of the Organization's long-standing commitment to **oil market stability**. This has been reflected in recent and ongoing efforts to help reduce volatility and market imbalances.

The scope and depth of the global economic crisis, which began in 2007 and accelerated in 2008, has necessitated unprecedented actions by governments world-wide to prevent a collapse of the financial system and respond to the most severe economic crisis since the Great Depression. These immense and coordinated efforts have helped cushion the fall, and the downturn in the world economy appears to have bottomed out. The focus now has shifted to the pace of recovery. However, persistent uncertainties about the health of the global financial system and whether the growth in the real economy will be self-sustaining could pose a critical challenge to the outlook for the world oil market.

After reaching a peak in July 2008, **crude oil prices** plunged more than $100/b to stand just above $30/b in late December. This reflected the deepening of the financial crisis and the onset of the global recession resulting in sharp erosion in world oil consumption. The OPEC decision in Oran to reduce the supply overhang in the market by 4.2 mb/d helped halt the disorderly slide in prices. As a result, crude oil prices recovered steadily and received further support later in the year from improving economic sentiment, reflected in equity market rallies, as well as depreciation in the US dollar. However, since the beginning of July, prices have been volatile, trading around $70/b. Given the absence of any significant change in oil market fundamentals over this period, the volatility mainly indicates the increasing sensitivity of oil prices to conflicting economic signals and thus reflects the greater uncertainties.

Evidence of an impending upturn in the **world economy** appears to be gathering. Credit markets have stabilised and equity markets across the globe have rebounded strongly. Real economy indicators such as manufacturing and housing have also improved, and both consumer and business confidence have partly recovered from recent lows. Data for the second quarter already indicates that GDP in the OECD region has reached bottom and positive growth is expected starting from the third quarter. Equally important, positive growth in major emerging Asian economies has picked up further momentum. Taken together, these signals indicate that the world economy is moving towards recovery.

Despite these improvements, the rally in equity markets seems to be factoring in higher growth than the real economy can currently support. Indeed, the real economy continues to face several challenges. US housing problems, despite some stabilization in sales and prices, are far from resolved. Unemployment is expected to rise further and banks, businesses and consumers, at least in the developed world, will remain constrained as they struggle to repair damaged balance sheets. On the whole, given expectations for low growth in the OECD region, the world economy still remains fragile and the recovery is likely to be slow and gradual. Stronger growth in developing countries and China will support world growth but will not be sufficient to prevent below-trend growth in the coming year. Overall, a global contraction of around 1.2% can be expected this year which would be followed by positive growth of 2.5% in 2010. This moderate improvement is in contrast to the strong growth typically seen in the first year of a recovery in previous global downturns.

Moreover, public finances are also being strained by the massive fiscal, monetary and financial sector support that helped to cushion the economic downturn and prevent a financial system collapse. The G-20 has played an important role in reassuring the market, highlighting the need to develop cooperative and coordinated exit strategies in order to avoid undermining the nascent recovery. One year after the near collapse of the financial markets, systemic risks have been reduced through coordinated government-led efforts to stabilize the banking system. However, concrete results from efforts to enhance regulation in financial markets to avoid future crises are still to be seen. In this regard, the pledge by G-20 leaders following the summit in Pittsburgh to coordinate efforts to generate strong, sustainable and balanced growth; to enhance the regulatory system for banks and financial firms; and to reform the global architecture to meet the needs of the 21st century are strongly welcome.

World oil demand has been considerably impacted by the contraction in the world economy. The forecast for global demand growth this year has been subject to continuous downward revisions and is now expected to contract for the second consecutive year by 1.6 mb/d, compared to a drop of 0.4 mb/d in 2008. The first quarter of 2009 alone saw a drop of 3 mb/d, the sharpest decline in almost 30 years, with OECD contributing 2.4 mb/d. In the coming year, world oil demand is anticipated to halt its decline and return to growth of 0.5 mb/d. This is still well below the average increase of 1.6 mb/d in the five-year period prior to the global recession. Most of the increase will come from non-OECD, mainly China, India, the Middle East and Latin America. However, there is a potential for higher demand growth if the US economic recovery materializes at a faster-than-expected pace. Additionally, US gasoline consumption represents a key uncertainty facing the growth in world oil demand.

Following poor performance last year, **non-OPEC supply** is expected to return to positive growth with an increase of 0.3 mb/d in 2009. In 2010, non-OPEC supply is projected to increase further by 0.4 mb/d. The main contributors are expected to be Brazil, US, Azerbaijan and Kazakhstan, while the North Sea and Mexico are seen continuing to decline. Risks to the forecast remain, especially from Russia and US as well as due to the uncertainty about the degree of the decline in mature regions. **OPEC Natural Gas Liquids** (NGLs) are expected to represent an increasing share of overall oil supply with growth of 0.4 mb/d and 0.5 mb/d in 2009 and 2010 respectively.

Together, the growth in non-OPEC supply and OPEC NGLs are expected to outpace the rise in world oil demand, resulting in a further decline of 0.5 mb/d in the demand for OPEC crude. This follows the sharp contraction of 2.3 mb/d seen in 2009 and represents the third consecutive year of decline in the demand for OPEC crude.

The erosion in demand over the first half of this year has pushed OECD **commercial inventories** to excessively high levels, to now stand around 128 mb over the five-year average. While OPEC production adjustments have helped to reduce the overhang in crude inventories, a massive decline in end-user demand has led to a considerable accumulation of product stocks, particularly for middle distillates. As a result of this shift, products now represent more than 60% of the total inventory overhang compared with around 20% in January. Since the start of the year, floating storage for both crude and products has also surged to more than 115 mb. Although crude has begun to decline, products in floating storage have been increasing, reaching an unprecedented level of 70 mb and could move even higher if the expected demand does not materialize.

Moreover, since July 2008, the market structure has been in contango encouraging the accumulation of a high level of crude oil inventories. In recent months, however, the contango between the WTI first and 12th month has narrowed. In light of continued weak demand and growing supply, the contango structure is likely to persist.

In term of **days of forward cover**, OECD stocks have stood well above the upper end of the five-year range, corresponding to around 61 days since February 2009, well above the five-year average of 53 days. As OECD demand is not expected to return to positive growth in the first half of next year, days of forward cover are very likely to remain high.

OPEC spare capacity has been increasing and is now estimated at around 6 mb/d or 18%, much higher than what is considered the normal level of 10%. This should cushion the market against any unexpected shortfall in production or sudden surge in demand.

Due to slowing **product** demand and weak refining margins, refiners have cut throughputs across the globe in recent months. With the end of driving season and the start of refinery maintenance, this trend is likely to continue, leading to a further weakening in crude oil demand over the coming months. This could result in a contra-seasonal build in crude inventories, thus adding to the supply overhang. Moreover, a colder winter would not be sufficient to remove the massive accumulation in distillate stocks, especially as part of this demand may be met by inexpensive natural gas. This could lead to an additional build in total OECD commercial stocks, which currently stand just below the highest level reached in the third quarter of 1998, presenting a potential challenge for storage capacity. Moreover, weak margins in recent months have forced downstream investors to re-assess planned projects. This has led to the cancellation of many previously-announced projects as well as the delay of some projects already under construction.

There is a widespread recognition of the collective interest in maintaining stable prices around at least the current levels to enable adequate investment as most new production facilities need much higher costs. However, given the persistently weak oil market fundamentals, the sustainability of current prices will mainly depend on clear signs of improvement in the global economy. If market expectations for economic recovery are not fully realized, current price levels could face increasing downward pressure.

Moreover, in light of the wild swings in oil prices seen in 2008, the success of efforts to enhance **regulation and oversight in the financial oil markets** are essential to ensuring oil market stability. Although speculative demand for paper-oil is not currently seen to be a key driver in the market, this does not mean that the issue has been resolved. With the world economy emerging from the recession, circumstances could change and the oil market could be hit again by another strong wave of excessive speculation. Last year's massive oil price volatility provides ample evidence that such a development would not be healthy for the oil market or the world economy as a whole. Measures to enhance regulation will need to be carried out by governing and regulatory bodies in consuming countries, primarily in the US and Europe. While oil producing countries will not be able to contribute directly to these efforts, they are certainly following developments with interest. OPEC welcomes recent initiatives to enhance regulation and oversight on the paper oil markets.

In this very turbulent time, continuing **institutional dialogue** and **cooperation** among producers, consumers and international organizations is crucial to fostering better understanding and ensuring the effectiveness of efforts to promote greater stability in the world oil markets as well as to support the recovery in the global economy. A recent example of these efforts is the 6th Meeting of the EU-OPEC Energy Dialogue, which was held between OPEC and EU Ministers. This was preceded by the second high-level technical workshop with the EU on the impact of financial markets on the price of oil, which included a presentation of a joint study on this important and timely issue. Later this year, OPEC will participate in the upcoming COP 15 meeting in Copenhagen, annual meeting of representatives of the countries that have ratified the UN climate convention. In this regard, the emerging consensus among Annex-1 Parties for the need to more fully implement the existing commitments on climate change is a positive development. However, the cost of adaptation and mitigation should not be passed on to developing countries, as this would hinder their development process and run against the Millennium Development goals. Next year, OPEC is actively involved in preparations for the 12th International Energy Forum in Cancun, Mexico. The IEF is the world's largest recurring gathering of Energy Ministers, whose countries represent more than 90% of the world's oil supply and demand. The issues to be discuss can be broadly categorized to cover energy security as well as development and environment issues.

Finally, in light of the fragile state of the global economic recovery and despite persistent challenges from weak fundamentals, OPEC recently agreed at its **Ministerial Meeting** on 9 September to keep production levels unchanged for the time being. In the meantime, the Organization will continue to closely monitor supply/demand fundamentals and will reassess the market situation at its 155th Extraordinary Meeting in Luanda, Angola, on 22 December 2009.