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Organization of the Petroleum Exporting Countries (OPEC)**

delivered by

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OPEC would like to assure the distinguished delegates to the IMFC of the Organization's on-going commitment to oil market stability, ensuring a regular supply of petroleum to consumers at price levels which support world economic growth, a fair income for its Member Countries, as well as the necessary investments to provide sufficient future supply.

Since the start of this year, the **OPEC Reference Basket** has been volatile, rising to more than \$124/b in March. This has occurred despite the fact that the market remains very well-supplied, as evidenced by increased OPEC production, which reached a three-year record high, as well as comfortable OECD commercial inventories, particularly in terms of days of forward cover. This upward movement in prices has been primarily driven by geopolitical factors, amplified by excess speculation, which has pushed prices to levels not justified by fundamentals and boosted the risk premium in the market.

Another key factor behind the recent price volatility has been the uncertain outlook for the **world economy**, which has impacted market sentiment. The global economy has faced many challenges since the last meeting of the IMFC in September 2011. The Euro-zone has been facing serious doubts over its ability to solve the sovereign debt crisis, with mounting worries for Italy and Spain, representing more than a quarter of the Euro-zone's GDP, adding to the on-going problems in Greece. Moreover, a deceleration in the emerging economies also threatened to derail the fragile global economic recovery. However, the gravity of those issues appear to have been contained, to some extent, at least for now.

Still, despite exceptional efforts by policymakers to combat these challenges, real economic growth in the Euro-zone continues to decline. This, together with slowing emerging economies has led to a downward revision in the forecast for world economic growth in 2012, from 3.6% at

the end of last year, to now stand at 3.3%, with the second half of the year expected to compensate for the weaker performance of the first half. A positive development is that the current momentum is being driven by a much healthier consumer-led expansion, rather than the stimulus-induced growth seen over the past two years.

The US is experiencing better-than-expected growth, which, together with the rise in exports from China, Japan and the German-led Euro-zone, could provide some support to world economic growth, mainly in the second half of the year. The Secretariat's current growth forecast for the US stands at 2.2% for 2012, although persistently high levels of unemployment remain a concern.

Japan's economy has gained traction in the past months, supported by recent stimulus efforts as well as an improvement in foreign trade. However, uncertainties prevail about the magnitude of this year's growth with the current forecast at 1.8% for this year.

Developing and emerging economies continue growing at a much higher rate than the OECD economies – averaging 5.2% compared to 1.4% – but momentum is slowing, either deliberately, as in the case of China which is seeking to avoid overheating, or unintentionally, as in the case of India and Brazil. China's growth forecast now stands at 8.2% for 2012 and India is expected to grow by 6.9%. After the political unrest seen last year, the MENA region is expected to recover in 2012, which could further support global growth.

As a result of the uncertainties impacting the global economy, **world oil demand growth** in 2011 has experienced numerous revisions in both directions over the course of the year to now stand at 0.8 mb/d. Although the changes mainly stem from the OECD countries, China has also experienced some downward revisions amid the country's efforts to reduce energy use. In the case of Japan, the tragic events of March 2011 affected all aspects of the economy; however, despite a decline in manufacturing activity, the increased use of crude-burning pushed up Japan's oil demand by 0.6% y-o-y. This came about as a result of the shutting down of almost all of Japan's nuclear power plants and replacing them with natural gas, crude and fuel oil burning facilities.

In 2012, world oil demand growth is projected to increase slightly more than last year, by 0.9 mb/d. The bulk of the increase in oil demand will take place in non-OECD countries, mainly China, India, the Middle East and Latin America, while OECD demand is expected to contract

further with on-going energy policy implications. However, this forecast is associated with large uncertainties, including macroeconomic developments in both the advanced and the emerging economies, on-going rebuilding efforts in Japan, and tepid consumption in the transportation and industrial sectors. The recent consumption data for US and China confirm that risks are skewed downwards. Indeed, total US oil consumption is down by almost 1.0 mb/d in the first two months of the year compared to the same period the previous year, while China only rose by around 250,000 b/d in January and February 2012.

On the supply side, the initial forecast for non-OPEC supply growth for 2011 was also pushed higher, before being revised down to show slight growth over the previous year. The main reasons behind the downward revision were delays in project startups and ramp-ups, unfavourable weather conditions, larger decline rates, political turmoil in some producing countries, and extended maintenance and outages, particularly in the North Sea and Caspian region. As a result, non-OPEC supply witnessed the weakest annual growth since 2008.

In 2012, the forecast for non-OPEC supply shows an above-trend increase of 0.6 mb/d over the previous year, supported by output growth from Brazil, US, Canada, Colombia, and Russia. Booming production from shale basins such as the Bakken and Eagle Ford in the US will also give strong support to growth in non-OPEC supply. However, risks associated with the forecast remain high on both sides, given that growth is expected to be supported by the return to normal output in some countries from levels previously curtailed due to political and technical difficulties, as well as from unfavourable weather conditions.

There has been a steady rise in **OPEC crude oil production** over the recent months reaching 31.3 mb/d in March 2012. This is more than 1.4 mb/d since September last year and 2.3 mb/d a year ago. It also far exceeds the market requirements for OPEC crude oil this year.

This further demonstrates the commitment of OPEC to ensure sufficient supply to the market. Additionally, in the medium term, OPEC Member Countries continue efforts to promote oil market stability by expanding **production capacity**, which is expected to reach more than 6 mb/d by 2016.

OPEC NGLs in 2011 also show a steady gain of 0.4 mb/d over the previous year. This growth is supported mainly by projects in Iran, Nigeria, Qatar, Saudi Arabia, and the UAE. The year 2012 is forecast to see a

similar increase. This highlights the important role played by OPEC NGLs in the overall supply picture.

The **OECD commercial stocks**, although at comfortable levels, have been affected by the persistently below-average levels in Europe. The weak performance has been mainly attributed to the regional supply shortcomings and the backwardation in the ICE Brent price structure despite a lack of demand growth. In the coming months, crude oil stocks are expected to see an upward trend, in particular due to high crude oil supply. In terms of days of forward cover, OECD commercial stocks stood at more than 58 days at the end of February, higher than the historical norm. This level is not likely to fall significantly, as OECD consumption is expected to continue to decline in the current year. Moreover, non-OECD stocks have continued to show a steady increase, particularly in China and India.

In addition to comfortable levels of global oil stocks – especially in terms of days of forward cover – the continued increase in OPEC production and rising non-OPEC supply have contributed to a **well-supplied market**. Furthermore, the uncertainty surrounding the outlook for the global economy and its impact on oil demand highlights the increasing downward risks facing the oil market in coming quarters.

After taking these developments into consideration, it is clear that crude oil prices currently stand at levels which are not justified by fundamentals. Instead, it is the perception of a potential shortage of oil that has helped keep prices high, rather than evidence of any actual or impending unavailability. These fears, amplified by speculative activities, remain a key driver, pushing prices higher. In light of the challenges facing the world economy and efforts to keep the fragile recovery on track, producers and consumers share a clear interest in reducing excessive oil price volatility and enhancing **oil market stability**.