OPEC ; non-OPEC , Supply Challenges, Battle over the Incremental Demand (2004-2010)

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OPEC; Non-OPEC Supply challenges:
Battle over the Incremental Demand (2004-2010)

There is no doubt that oil will continue to play a major role in meeting the energy needs of the world in the years to come; nevertheless, demand security for OPEC as well as non-OPEC will be faced with certain challenges in the near future.

Additionally, as the fundamental of the market suggests, the price increases of 2003 and early 2004 has to do more with geopolitics of Middle East and unrest in Venezuela and Nigeria; than the traditional supply and demand fundamentals of the international oil market; that is to say that OPEC has been able to judge the supply-demand balance correctly and has wisely managed the oil market; resulting in the ample supply of oil in the market to meet the demand; as the levels of stocks by consuming nations and inventories by International oil companies suggest.

As for the future; based on OPEC’s world Energy Model and reports of IEA Energy forecast; the world oil demand will reach grosso-modo to level of 90MMbpd by 2010 from the present level of 80 MMbpd in 2004.

On the supply side, the planned increase in OPEC Capacity ranges 8-10 MMbpd; in addition to the present space capacity; which by itself will be enough to fulfill the increased demand; leaving little; if any; room for producing countries outside
OPEC; which led by Russia in turn plan their own capacity increase and look forward to enhancing their market penetrations around the world. As a result there will be a conflict of interest if not a battle over the increased demand.

As Figure[No 1] suggests; Russia alone will increase capacity by 2.4 million bpd between now and this decade’s end (2010) from 8.80 to 11.17 million bpd.

Increases will also be coming from other sources: mainly Azerbaijan and Kazakhstan in the Caspian Area by at least one million bpd and other less significant sources such as Sub-Saharan Africa: Chad and Angola; and to lesser degree from Latin America Zone.

Based on above; OPEC will be facing a real challenge in finding the optimal way to manage the market in a fashion not to lose market share; yet stabilize prices and supply smooth flow of oil to the International oil market.

Substantial increases in OPEC production due to demographic peculiarity of ME (less populated) translates into higher percentage of exports as composed to total production; in other word, the new production capacity will be that of export-driven output leading to what is called the OPEC multipliers’ effect which will result in a larger share of the International Oil Market and a better positioning for OPEC.

Nevertheless; the challenge by non-OPEC will be there and based on that, production management policies and quota