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Briefing by Dr. Peter Davies, Chief Economist for BP Amoco

BP Amoco Chief Economist Peter Davies provided a detailed review of the 1999 world energy markets. Davies highlighted the significant effects of energy trends, the economy, and weather patterns on the world markets in 1999. According to the BP Amoco Statistical World Review in 1999, the world GDP grew by 2.8 percent due in large part to the rebound in the Asian and former Soviet Union economies. It was also the fifth warmest year in 140 years, and the twenty-first consecutive year with above average normal global surface temperature. Davies noted that world energy consumption was almost flat despite a healthy world economy rebound, and Asia's economic recovery. The drastic increase in oil and gas prices during 1999 occurred as natural gas's importance increased and as oil's dominance as the leading transportation fuel continued.

Strengthening demand and consumption, along with a decreasing oil supply, led to increasing prices in 1999. Oil prices more than doubled since 1999 from a low of \$10 per barrel in early February to a current price of approximately \$28 per barrel. During the 1999 OPEC production cuts, non-OPEC production failed to grow. Davies emphasized that in an OPEC-driven phase of oil market development, the trends in supply and demand, along with lags in supply response, continue to tighten markets and will likely be slow to change. Low oil prices of 1998 and early 1999 led to a major reduction in investment in gas and oil exploration and production by OPEC and non-OPEC countries. Several years of tight supply are expected as new projects are slow to come on line.

Natural gas prices followed the increasing price of oil in most of the world's countries. Gas captured an increasing share of the global energy market as world natural gas consumption expanded by 2.4 percent in 1999. It is the favored fuel for power generation projects due to its clean burning and efficiency when compared to other fuels.

Davies also noted developments in the coal, nuclear, and hydroelectric energy sectors:

- With its energy market share declining globally, total primary world coal consumption fell to 25 percent.
- Trends in coal consumption and production were abetted by the drop in world coal prices and a significant Chinese decline in coal consumption and production.
- Nuclear energy increased its share of world primary energy consumption to 7.6 percent, assisted by developments that included the first re-licensing of a U.S. nuclear plant.
- European nuclear growth remains stagnant and world growth is spotty at best.
- World hydroelectricity consumption is a minor source of world primary consumption at 2.5 percent.

Davies concluded by reinforcing the ideas that long-term trends endure regardless of the volatility and important events encountered in any one year. Decision-makers, whose fields range from policy to investment, need to understand this complex and dynamic environment in order to make sound and reasonable decisions.

For more information regarding the *BP Amoco Statistical Review of World Energy*, please visit <http://www.bpamoco.com/worldenergy>