International Energy Agency – Medium-Term Oil & Gas Markets 2010

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Event Summary

On Wednesday, July 7, 2010 the CSIS Energy and National Security Program hosted a panel of experts from the International Energy Agency (IEA) to present their report Medium-Term Oil & Gas Markets (MTOGM) 2010. The report analyzes global oil and natural gas market trends for the next 5 years and is a new addition to the IEA's growing catalogue of publications. The MTOGM seeks to answer questions such as how long will current levels of OPEC spare capacity persist and will unconventional natural gas revolutionize gas markets outside of North America? The panelists and conference attendees were greeted by Guy F. Caruso, a senior adviser in the Energy and National Security Program at CSIS, who moderated the event. Mr. Caruso framed the presentation as an exploration of a time interval that has been previously under analyzed, noting that this report fills the gap between the monthly oil market report and the long-term energy outlook.

Ambassador Richard H. Jones, Deputy Executive Director of the International Energy Agency, began his remarks by explaining that the oil, natural gas and power generation markets continue to converge. He noted that there are many similarities between oil and gas markets upstream and downstream. Upstream investments are made in the same countries, by the same companies, and often in the same reservoir. Downstream, these two fuels compete against one another in the same power and industrial markets. Uncertainty about the pace of development, strategies around end-use efficiency and a lack of reliable market data are also shared concerns between these two energy sources. Despite these similarities, however, Ambassador Jones cited oil's position as a truly global commodity in contrast to the regional constraints of natural gas as a key difference between the two markets. With respect to market growth, Ambassador Jones stated that nearly all growth in oil and gas markets will occur in the non-OECD world while demand from the OECD will remain flat. Concerning supply, he cautioned that despite the current "breathing room" in the markets for oil and natural gas, more investment is needed to offset projected declines from aging fields in the coming years. Ambassador Jones stressed that "the best time to invest is when the market is low." He concluded his remarks by explaining the IEA did not believe that the Deepwater Horizon oil spill in the Gulf of Mexico would affect short term US oil supply, though restrictions on deep water drilling could threaten US medium and long term supply.

David F. Fyfe, Head of the Oil Industry and Markets Division of the International Energy Agency, outlined some of the macro trends in the global oil market including fuel efficiency and price subsidy policies that continue to drive non-OECD consumption. Mr. Fyfe noted that as oil demand in non-OECD countries continues to rise the need for improved data becomes greater. In the report's reference scenario he forecasted annual year on year oil demand growth of 1.1 mb/d from 2010 to 2015, assuming 4.4

percent GDP growth. Under a more conservative growth scenario, in which the world economy fails to quickly return to pre-crisis levels, he calculated annual oil demand growth of 0.7mb/d in the same time period, assuming 3.0 percent GDP growth. On the supply side, Mr. Fyfe projected a global growth in supply from 91 mb/d in 2009 to 96.5 mb/d in 2015, mainly due to increased OPEC crude and NGL capacity. On a more cautious note, he pointed out that uncertainty about changes to deepwater oil drilling policies could curb future supply in the medium and long term. Mr. Fyfe also highlighted the role that biofuels will play as an essential marginal source of supply- he anticipated a rise in production from 1.6 mb/d in 2009 to 2.4 mb/d in 2015. Mr. Fyfe concluded his presentation by explaining that an additional 9 mb/d of global refining capacity will be built by 2015, with the majority of this additional capacity being created outside the OECD.

Ian Cronshaw, Head of the Energy Diversification Division of the International Energy Agency, spoke on the gas market aspects of the report. Mr. Cronshaw began his presentation by noting ~~that gas~~that gas demand in OECD countries experienced a sharp fall in autumn 2008 but has experienced a recovery recently. When the unusually cold winter is adjusted for, however, demand is still down. Mr. Cronshaw projected next year's gas demand to be flat, although a recovery of the market is in sight. He forecasted that North American and the Asia Pacific will experience the fastest recovery in demand. European demand, which dropped in 2008 to 2004 levels, is not projected to return to 2008 levels within the forecast period to 2013. On the supply side, Mr. Cronshaw highlighted the changes in the market, saying "[Gas] is not a global market, but it is globalizing." The current market separation is apparent in the divergence of world gas prices, with Japanese prices double that of the OECD average in March of 2010. Liquefied natural gas (LNG) supply is projected to increase, despite slow initial growth. New investments in LNG facilities are suggestive of increasing investor confidence in an expanded LNG market. This confidence is reinforced in the OECD, where 80 percent of increased demand for power was met by gas. China, already the world's third largest non-OECD gas consumer, has begun to invest in new supplies of gas as demand continues to grow. Mr. Cronshaw cited the recent 25 percent rise in Chinese natural gas prices as an indicator that investment will continue. "Gas is very much a niche field, but a niche in China is a very big niche," Mr. Cronshaw stated. India, where gas demand grew 23 percent in 2009, will also be a significant growth market.