WORLD OIL MARKET
IN 2005
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EXTRAODINARY PRICE LEVELS

- LONGEST ‘BUBBLE’ WITHOUT MAJOR DISRUPTION
- UNUSUAL MARKET THIS YEAR
  - POST SARS, RECESSION
- PRODUCT MARKETS
  - ENVIRONMENTAL REQUIREMENTS
- SPECULATORS
US OIL PRICES (nominal)
REVISIONS TO OIL MARKET
CHANGES IN IEA FORECAST, DECEMBER 2003 TO MAY 2004
SECURITY PREMIUM

- THREATS UNUSUAL IN BREADTH AND DEPTH
  - MINOR: NIGERIA, VENEZUELA
  - MEDIUM: IRAQ
  - MAJOR: SAUDI ARABIA
- NO SURPLUS CAPACITY
- LOW PRIVATE INVENTORIES
- RELUCTANCE TO USE SPR
  - BUSH IN VENEZUELA STRIKE, CONTINUING FILL
OPEC SURPLUS CAPACITY

![Graph showing OPEC surplus capacity from Jan-70 to Jan-04.](image)

- X-axis: Months from Jan-70 to Jan-04
- Y-axis: TBO (likely representing barrels or another unit of measurement)
- The graph indicates fluctuations in OPEC surplus capacity over the years.
LOST PRODUCTION, 2003
IRAQI OUTLOOK

- VIOLENCE AGAINST OIL INFRASTRUCTURE SHOULD SUBSIDE
  - SPEED UNCERTAIN
- GRADUAL IMPROVEMENT IN EQUIPMENT
  - LESS DOWNTIME
- REHABILITATION OF FIELDS ONGOING
  - GRADUAL INCREASE IN CAPACITY
- MOVING TOWARDS NEW FIELD DEVELOPMENT
  - MAJOR CAPACITY INCREASES FROM 2005
## TRANSFER OF POWER AND FUTURE VIOLENCE

<table>
<thead>
<tr>
<th>Mode of attack</th>
<th>Baathists</th>
<th>Zarqawi</th>
<th>Nationalists</th>
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<tbody>
<tr>
<td>Guerilla:</td>
<td>Sabotage, ambush</td>
<td>Terrorism:</td>
<td>Random:</td>
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<td></td>
<td></td>
<td>Suicide bombings</td>
<td>RPG, IEDs</td>
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<tr>
<td>Target</td>
<td>Oil and other infrastructure, US forces, pro-regime civilians</td>
<td>Civilians; Kurdish and Shi'ite targets</td>
<td>US forces</td>
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<tr>
<td>Impact of Sovereignty Change</td>
<td>Unclear</td>
<td>None</td>
<td>Reduced activity</td>
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IRAQI PRODUCTION
AND SEER 9/03 FORECAST
THE BIG QUESTION: VULNERABILITY OF SAUDI OIL

- SECURITY AT OIL FACILITIES HIGH
  - BUT NEVER PERFECT
- BASRA SUICIDE SPEEDBOATS FIRST OIL FACILITY ATTACK
- FUNDAMENTALISTS STRONG IN SAUDI
  - BUT ATTACKS TARGET FOREIGNERS
- THREAT PROBABILITY: VERY LOW
- THREAT IMPACT: VERY HIGH
MARKET IN 2005

- DEMAND GROWTH LOWER
- NON-OPEC SUPPLY GROWTH HIGH
- IRAQI PRODUCTION UP 500 TB/D OR MORE
- CALL ON OTHER OPEC SHOULD BE LOWER BY AS MUCH AS 1.5 MB/D
- BUT: EASY TO ABSORB
- PRICES SLIGHTLY WEAKER
  - UNLESS OPEC MISCALCULATION
DEMAND CHANGE

![Graph showing demand change for different regions over the years 2003, 2004, and 2005. The graph includes categories such as OECD, FSU, China, Other Asia, and Rest of World.](image-url)
NON-OPEC SUPPLY CHANGE

The chart illustrates the supply change from 2003 to 2005 for different regions:

- **OECD**
- **NON-OECD**
- **FSU**
- **OPEC NGLS**

The bars represent the change in million barrels per day (MB/D) for each year.
CALL ON OPEC+ STOCKS
QUARTERLY CHANGE

Q2 03 3Q 03 4Q 03 1Q 04 2Q 04 3Q 04 4Q 04 1Q 05 2Q 05 3Q 05 4Q 05

MB/D
MARKET BALANCE

- ABOUT EVEN FOR OPEC
  - DEMAND AND NON-OPEC SUPPLY BOTH UP ABOUT 1.5 MB/D
- BUT INTERNAL PRESSURES
  - IRAQ UP 0.5 MB/D, OTHERS ABOUT 1 MB/D
  - SAUDI, KUWAIT CAN EASILY ABSORB
- BIG QUESTION
  - DO SAUDIS WANT 8.5 MB/D OR MARKET SHARE?
    - PREPARING FOR AN IRAQI BOOM???