

The Outlook for Energy Markets

**Guy Caruso, Administrator
Energy Information Administration**

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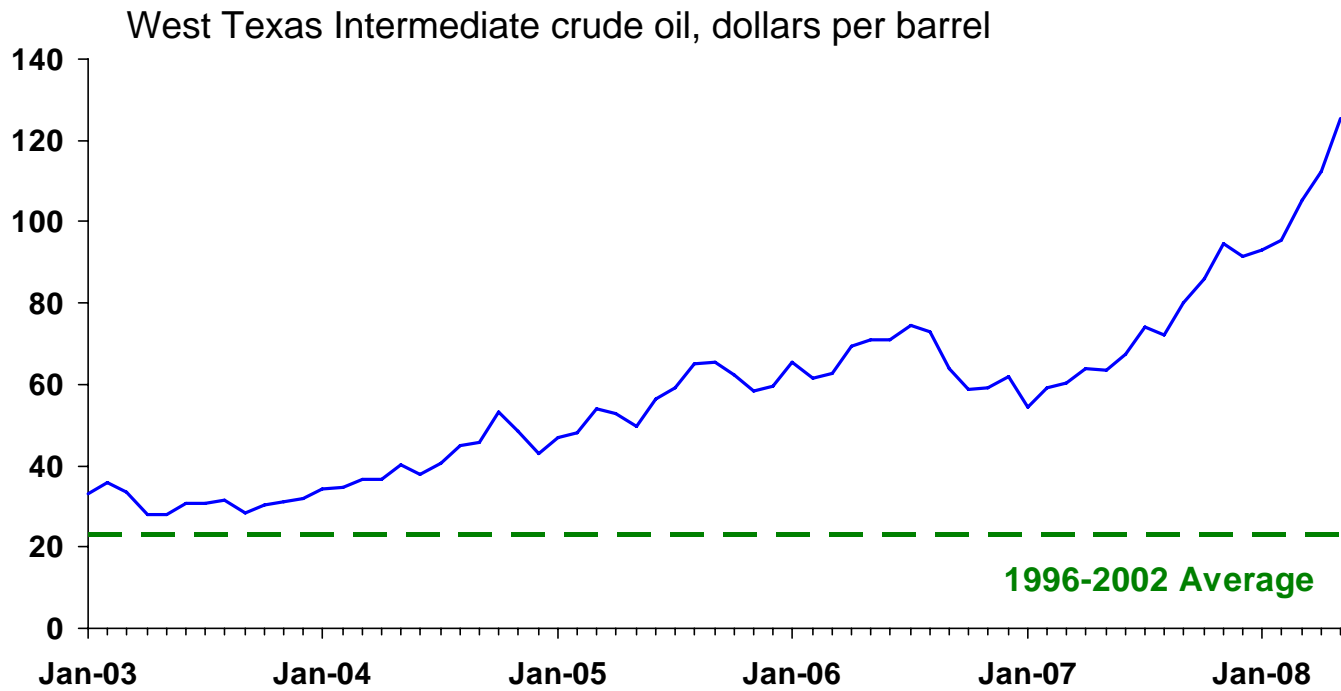
June 27, 2008

Oil market fundamentals are driving the 5-year run-up in prices

- World oil markets have become increasingly tight since 2003.
 - Global demand growth, fed by worldwide economic growth, has exceeded non-OPEC supply growth.
 - OPEC and inventories are relied upon to fill the gap, but OPEC production has only risen modestly.
 - Geopolitical uncertainty in oil producing countries contributes to risk of supply disruptions. Low levels of surplus production capacity heighten this risk.
 - Tight markets are more sensitive to non-fundamental factors.
- To balance the market, prices have risen sharply.
- Without a sustained increase in global production capacity, markets are expected to remain very tight.
 - Recent experience with non-OPEC supply suggests that OPEC and the NOCs, who together control the vast majority of currently proved reserves, must take the lead in this effort.

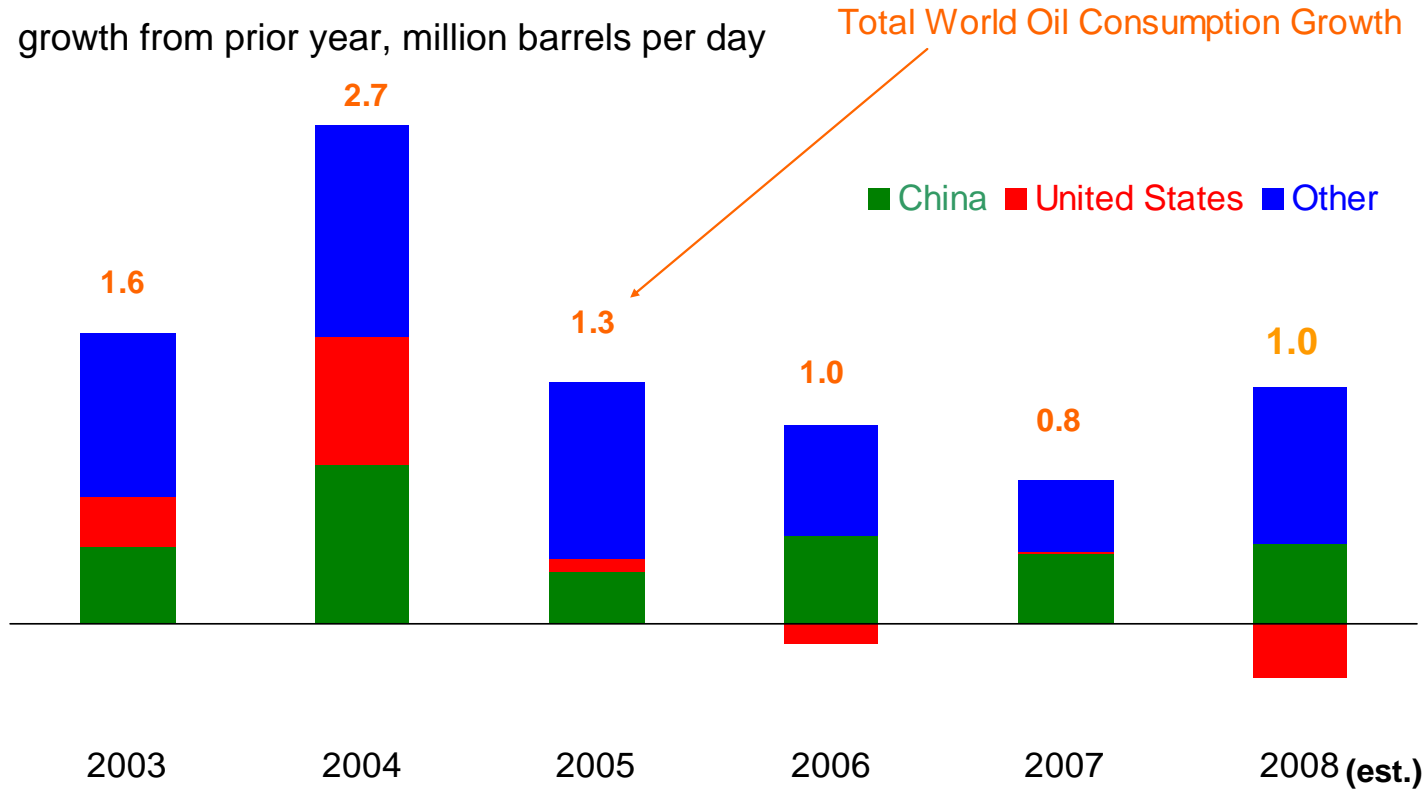
Oil prices have increase by almost 300 percent since January 2003

- Prior to 2000, oil prices were relatively stable and well below \$30 per barrel.
- Starting in 2003, oil prices began climbing due to inventory tightening, increasing world oil demand, and reduced surplus production capacity.



Despite higher prices, world oil demand growth is strong

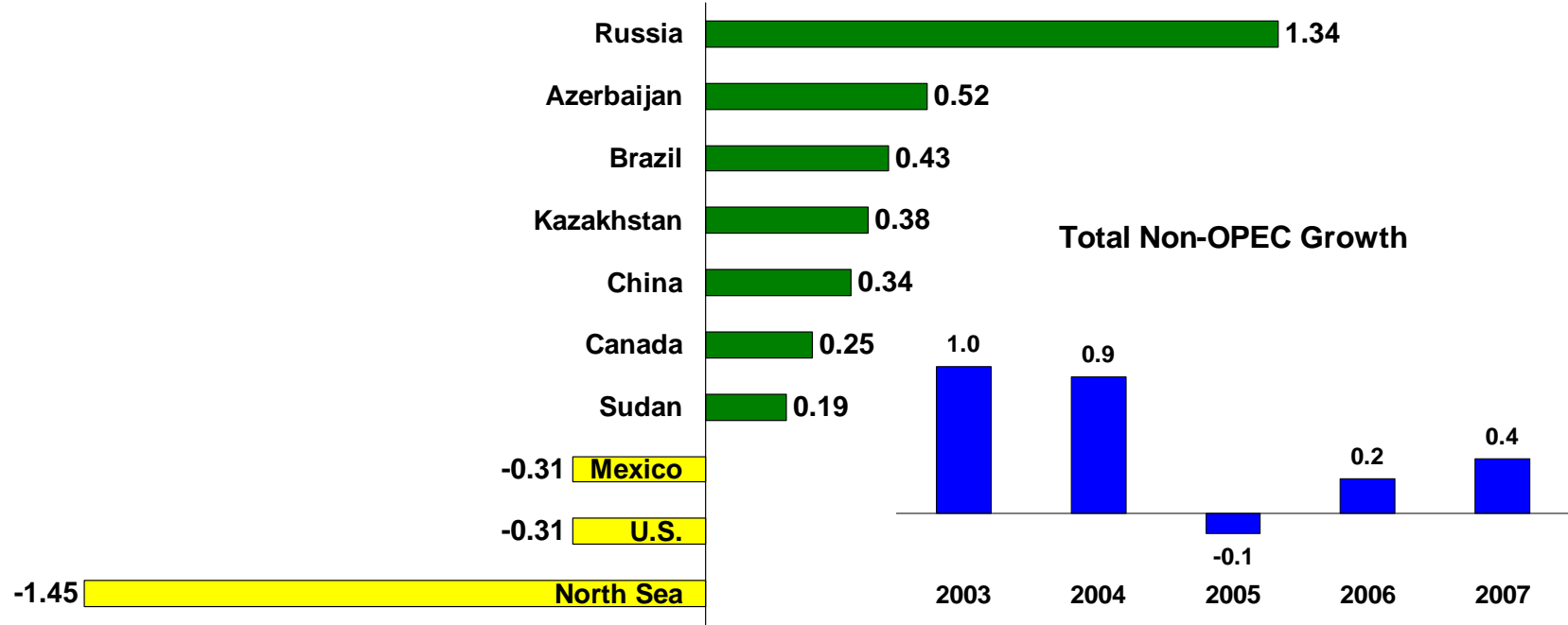
- Since 2003, world oil consumption has growth has averaged 1.8 percent per year.
- Non-OECD countries, especially China, India, and the Middle East, represent the largest part of this growth.



...while overall non-OPEC supply growth has slowed in recent years

- In the past 3 years, non-OPEC supply growth has been well below levels seen just 4 years ago.
- Russia drove non-OPEC supply growth during the first part of the decade; however, Russian oil production is down year-over-year in 2008.

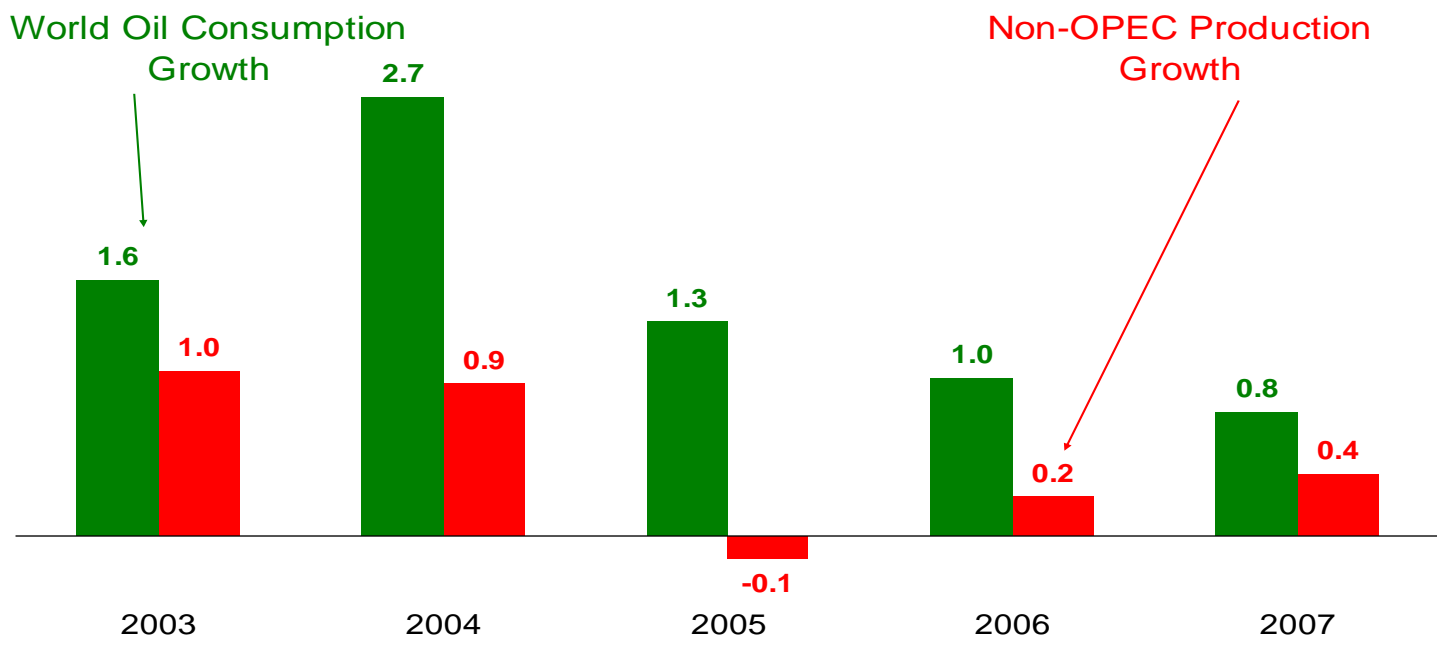
cumulative oil production change, 2003-2007, million barrels per day



As a result, the world oil market balance has tightened significantly

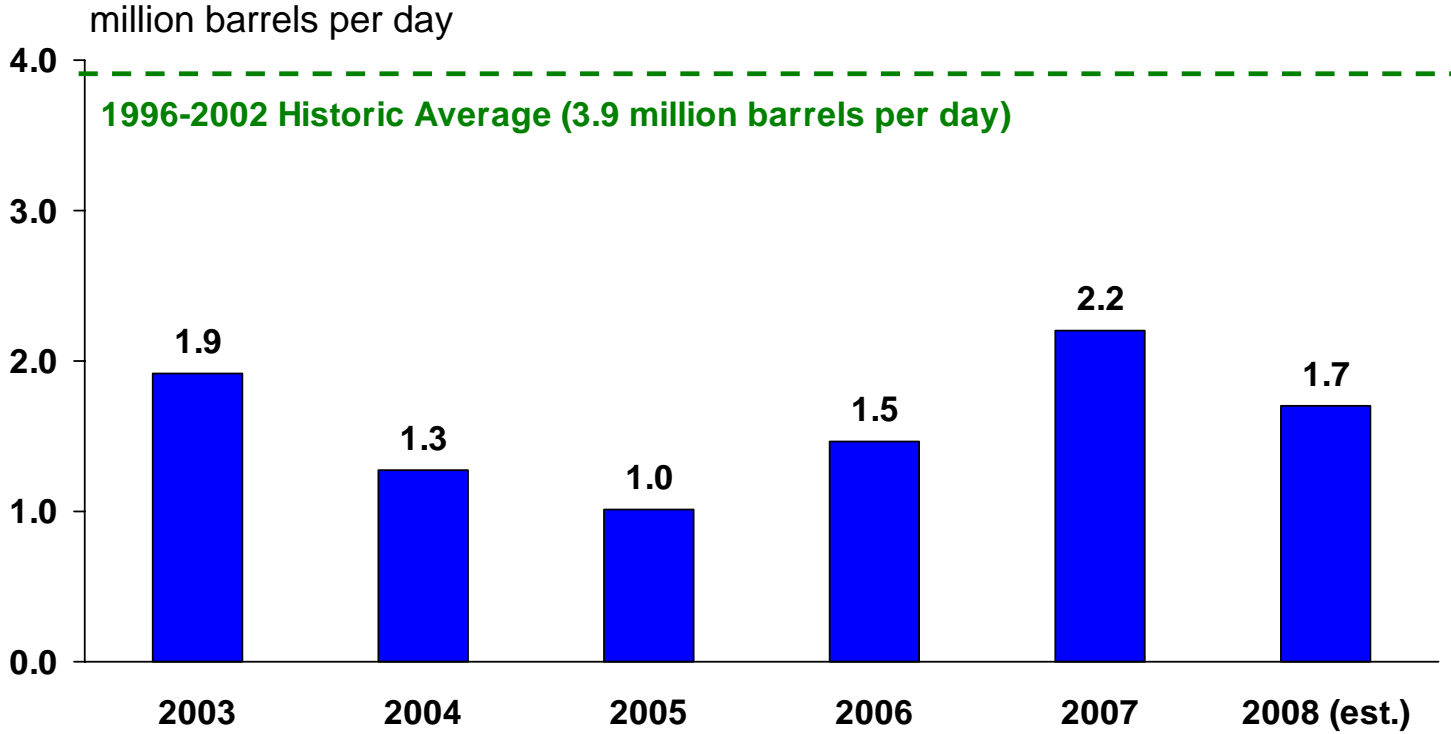
- World oil consumption growth has outpaced non-OPEC supply growth every year since 2003.
- This imbalance increases reliance upon OPEC production and/or inventories to fill the gap.

growth from prior year, million barrels per day

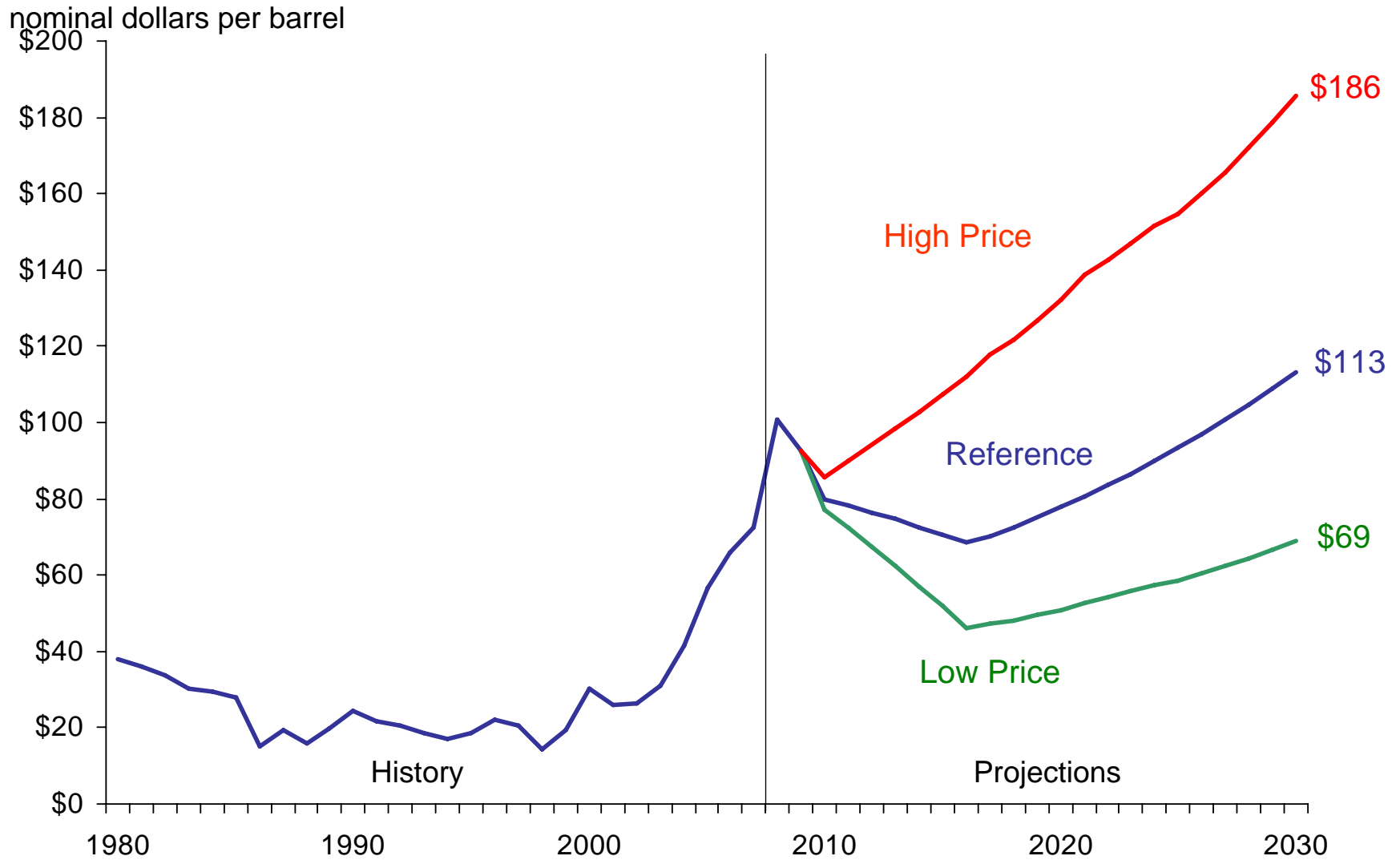


World surplus production capacity remains low, leaving world oil markets vulnerable to supply disruptions

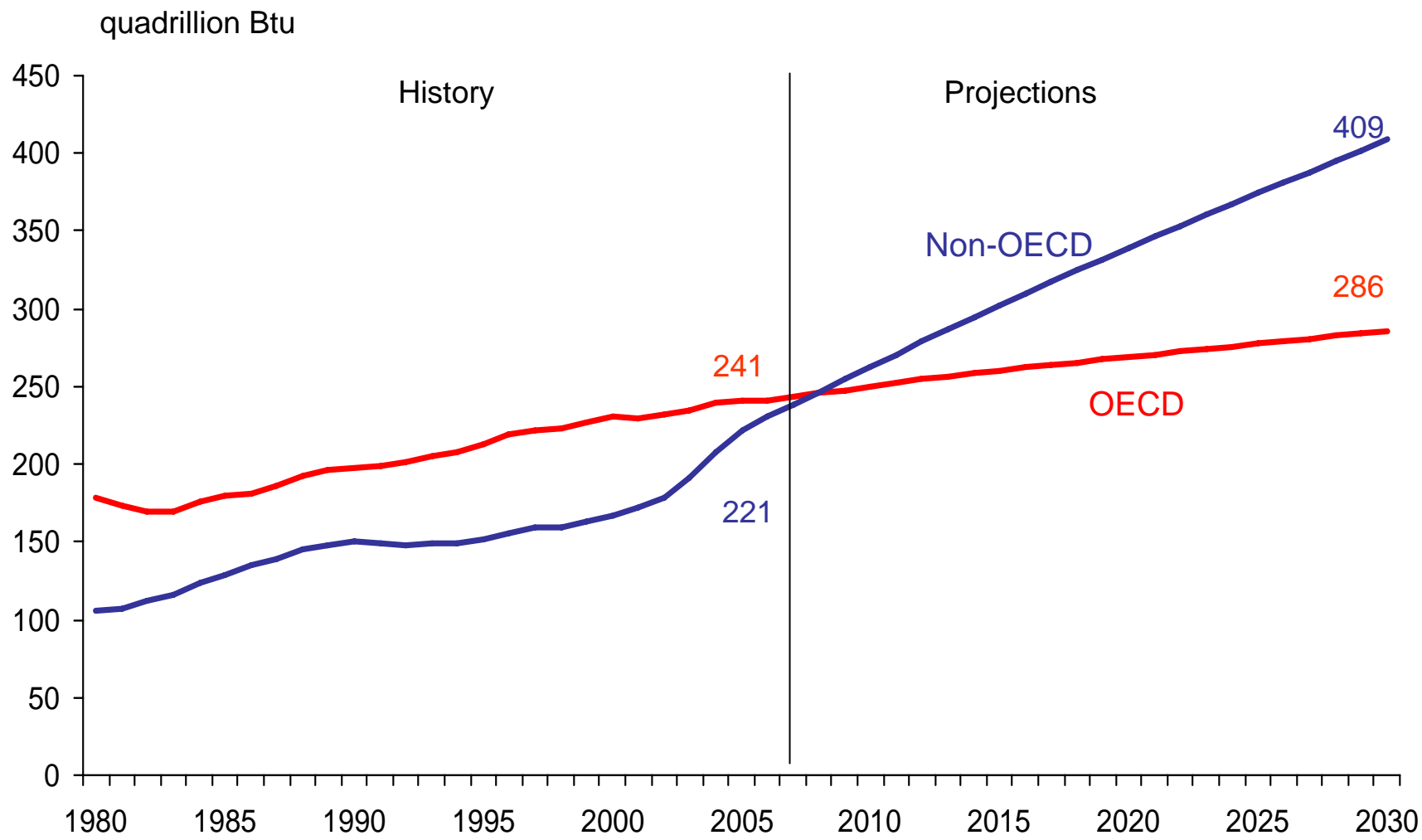
- Current world surplus production capacity is below historic levels.
- In addition, it is highly concentrated in a few countries, with Saudi Arabia holding almost all of this capacity.



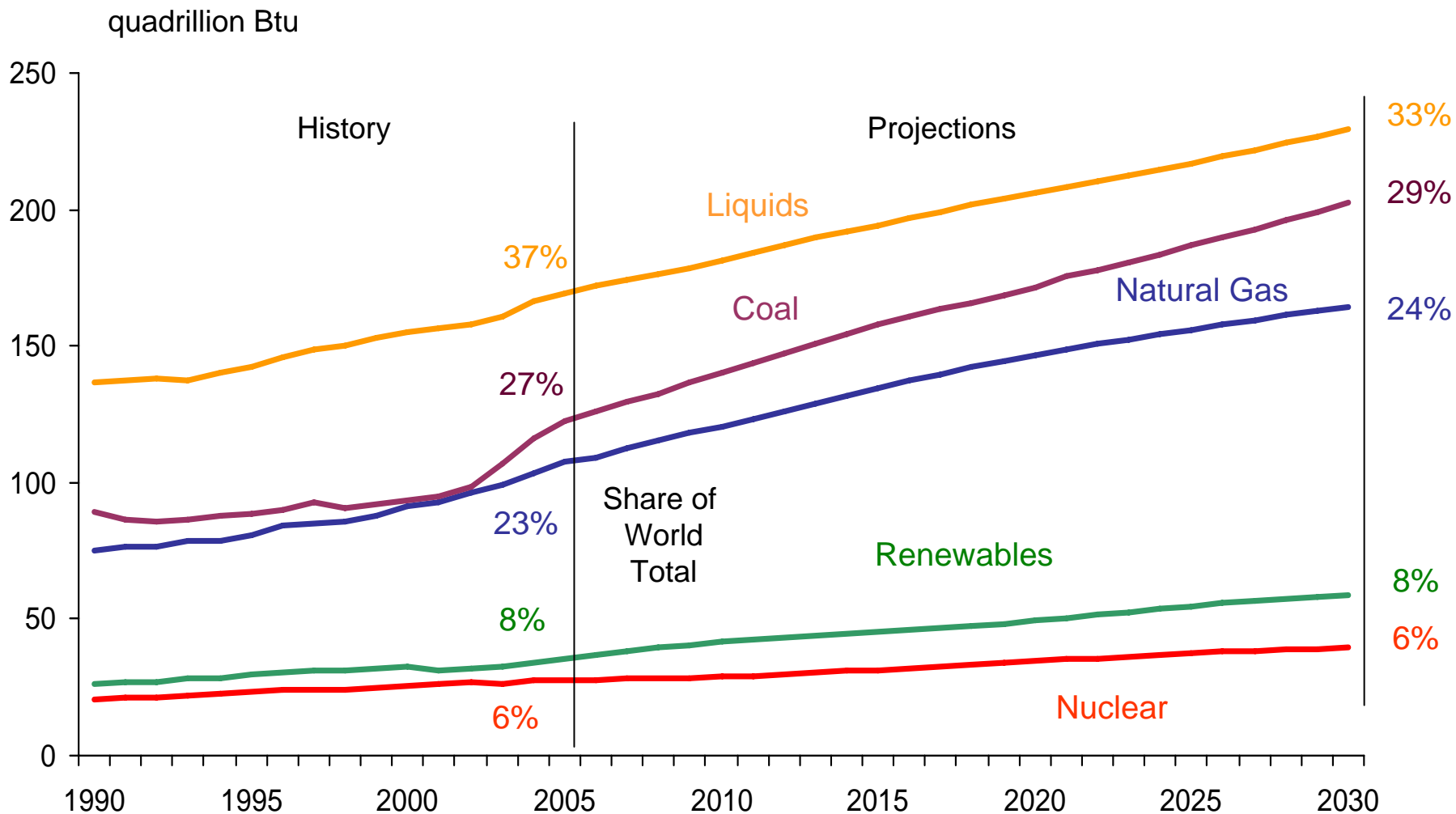
World oil prices are expected to decline before rising again



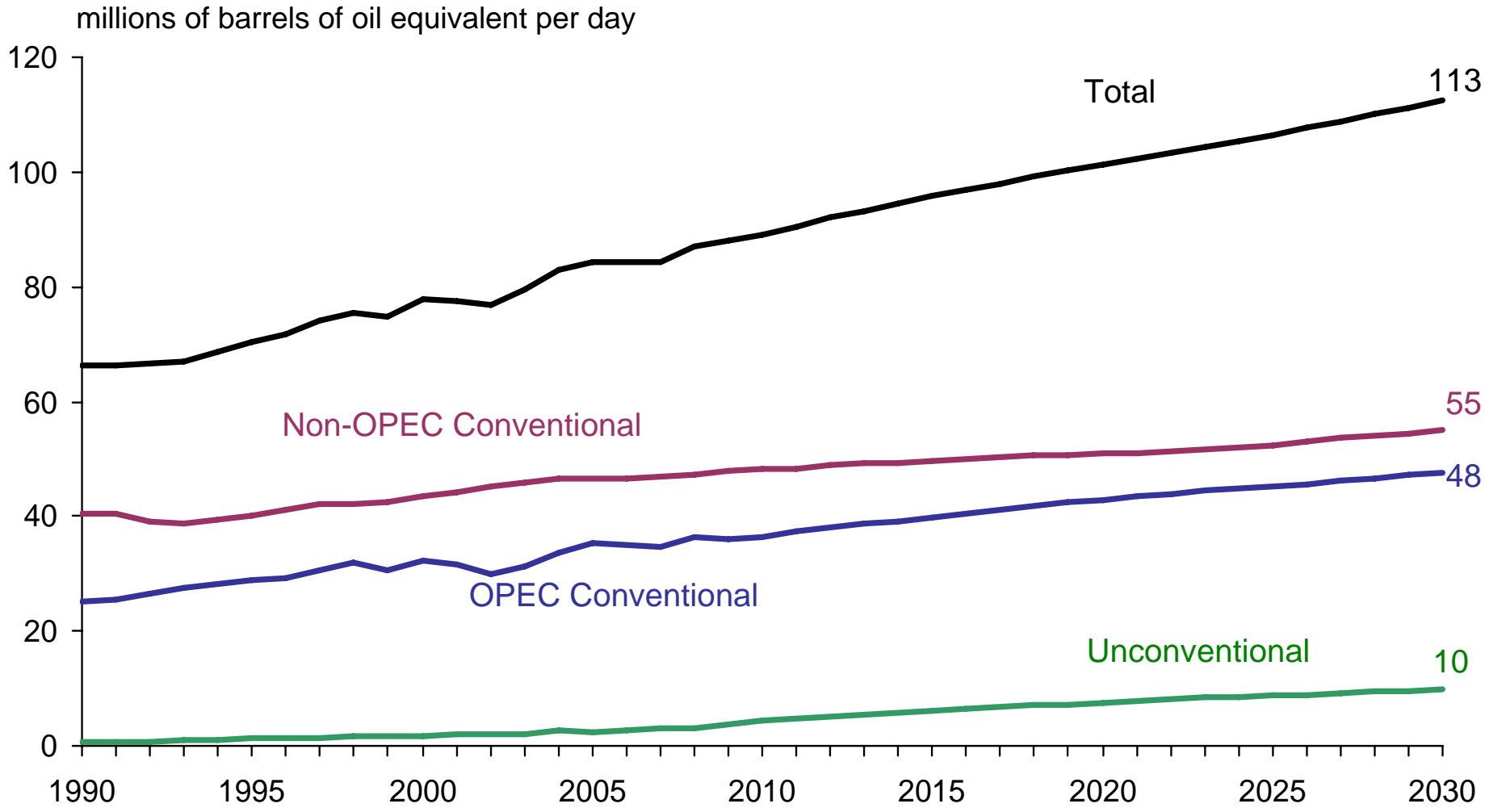
World marketed energy use in the non-OECD will soon surpass that of the OECD



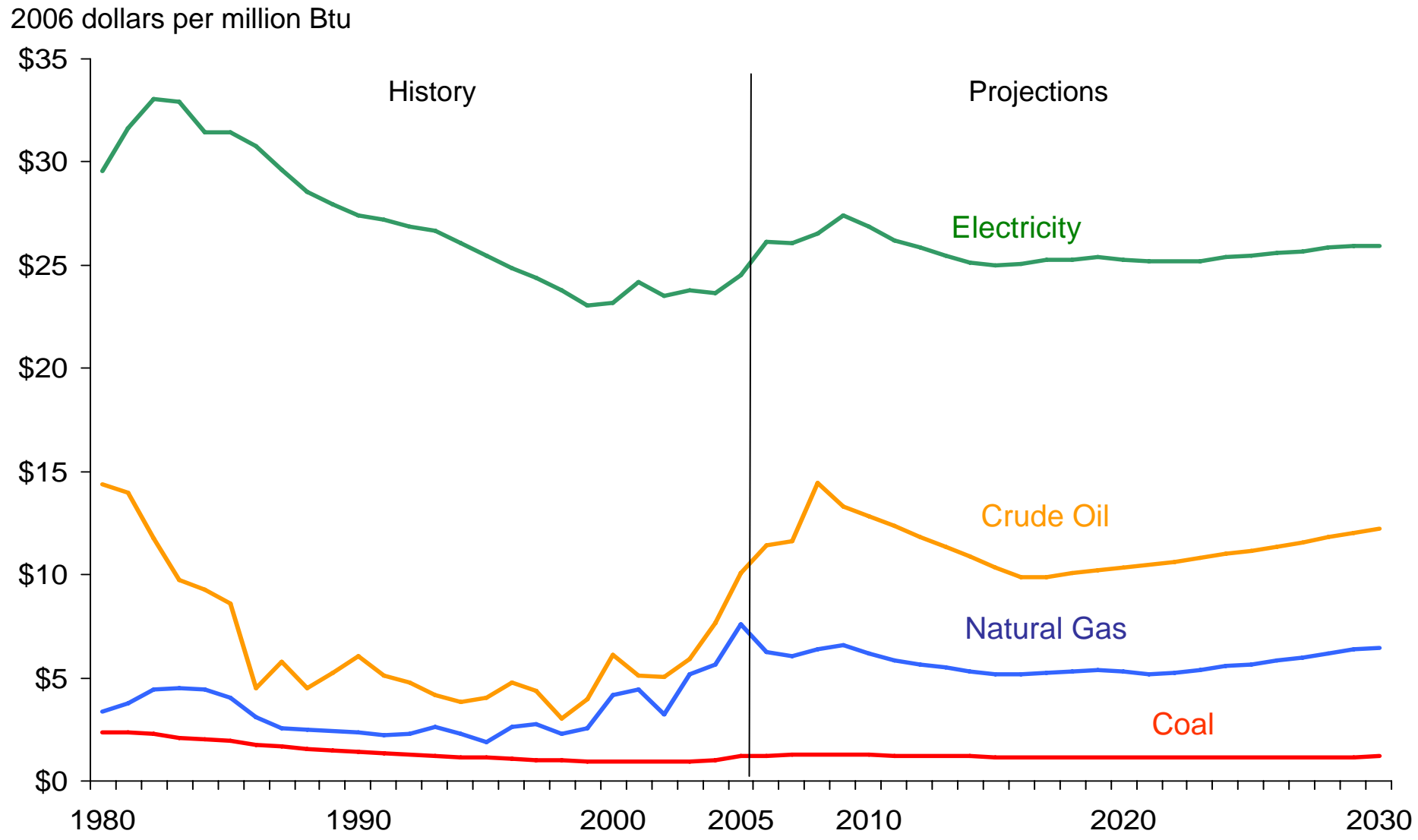
Fossil fuels will continue to dominate world energy use



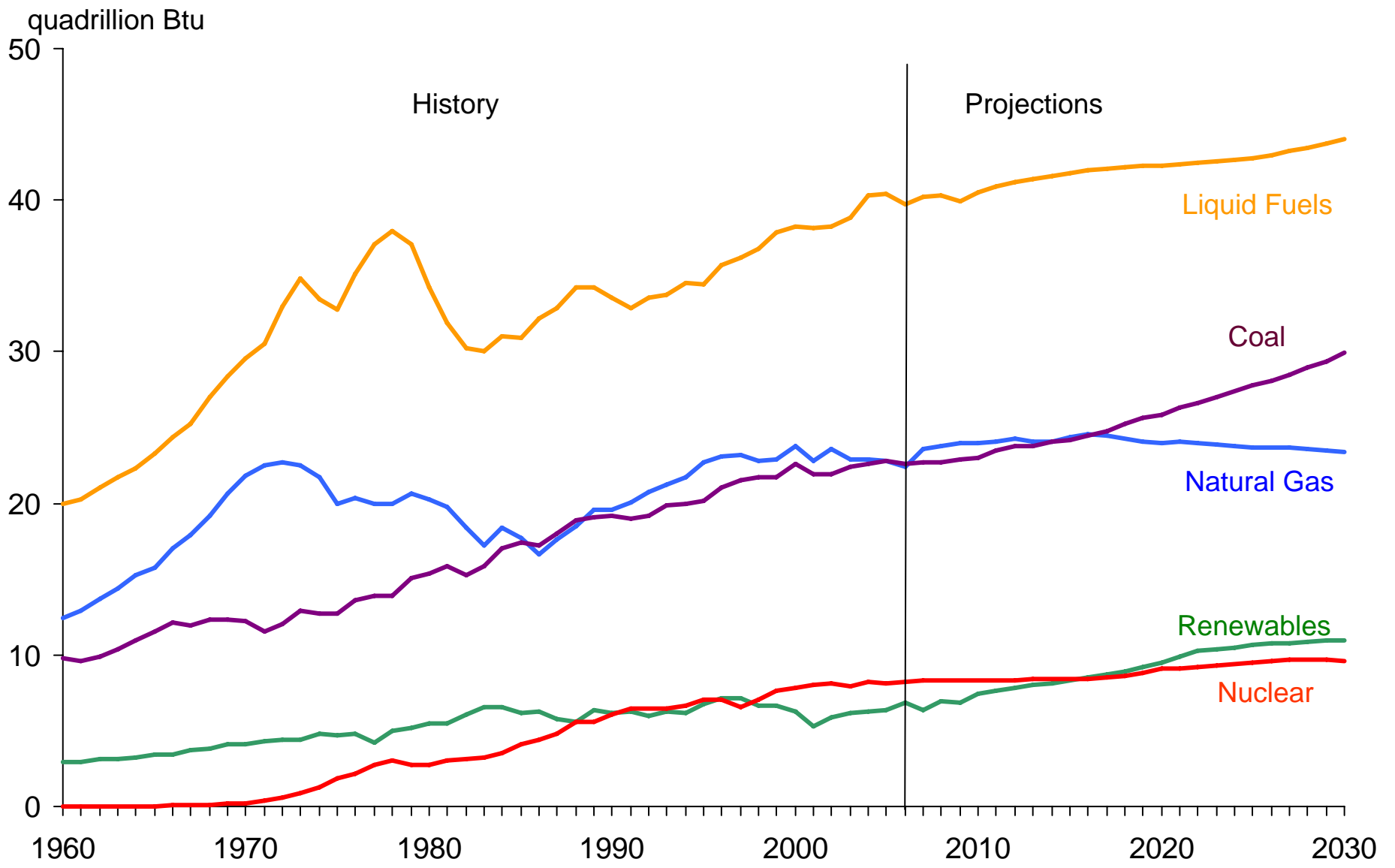
Unconventional liquids will increase as a share of world production



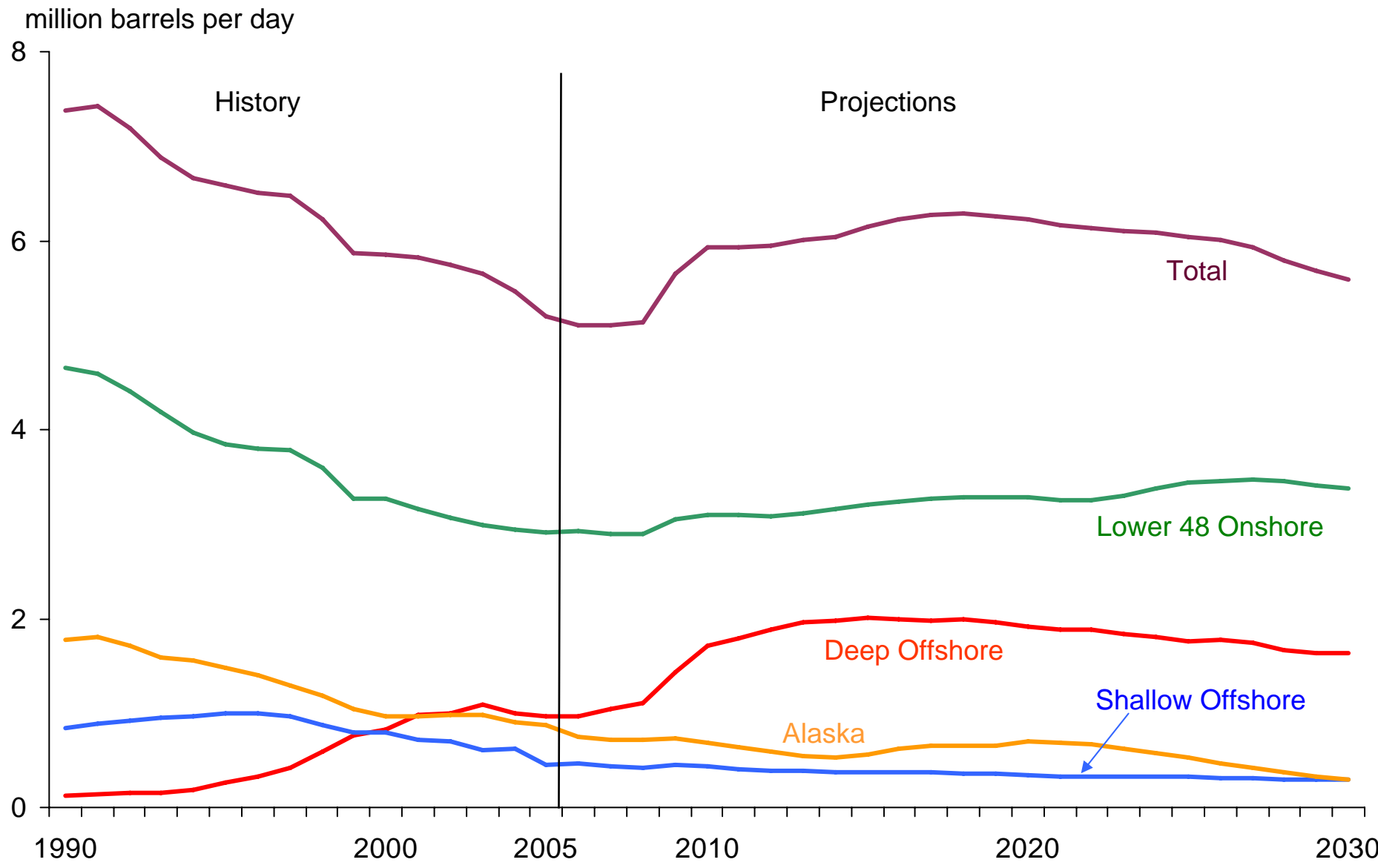
U.S. energy prices are expected to decline in the near term, then rise



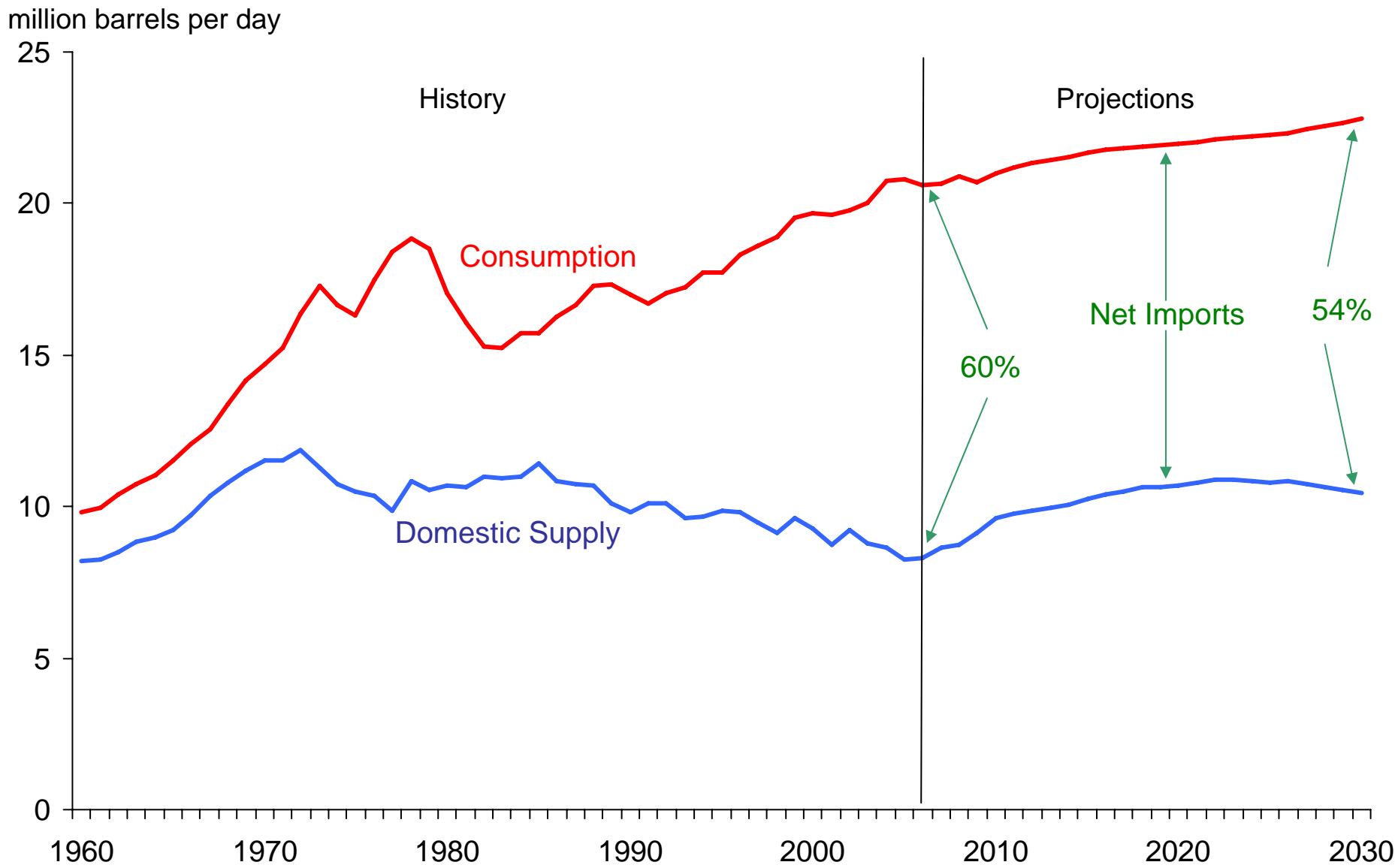
Liquid fuels continue to dominate primary energy consumption in the United States



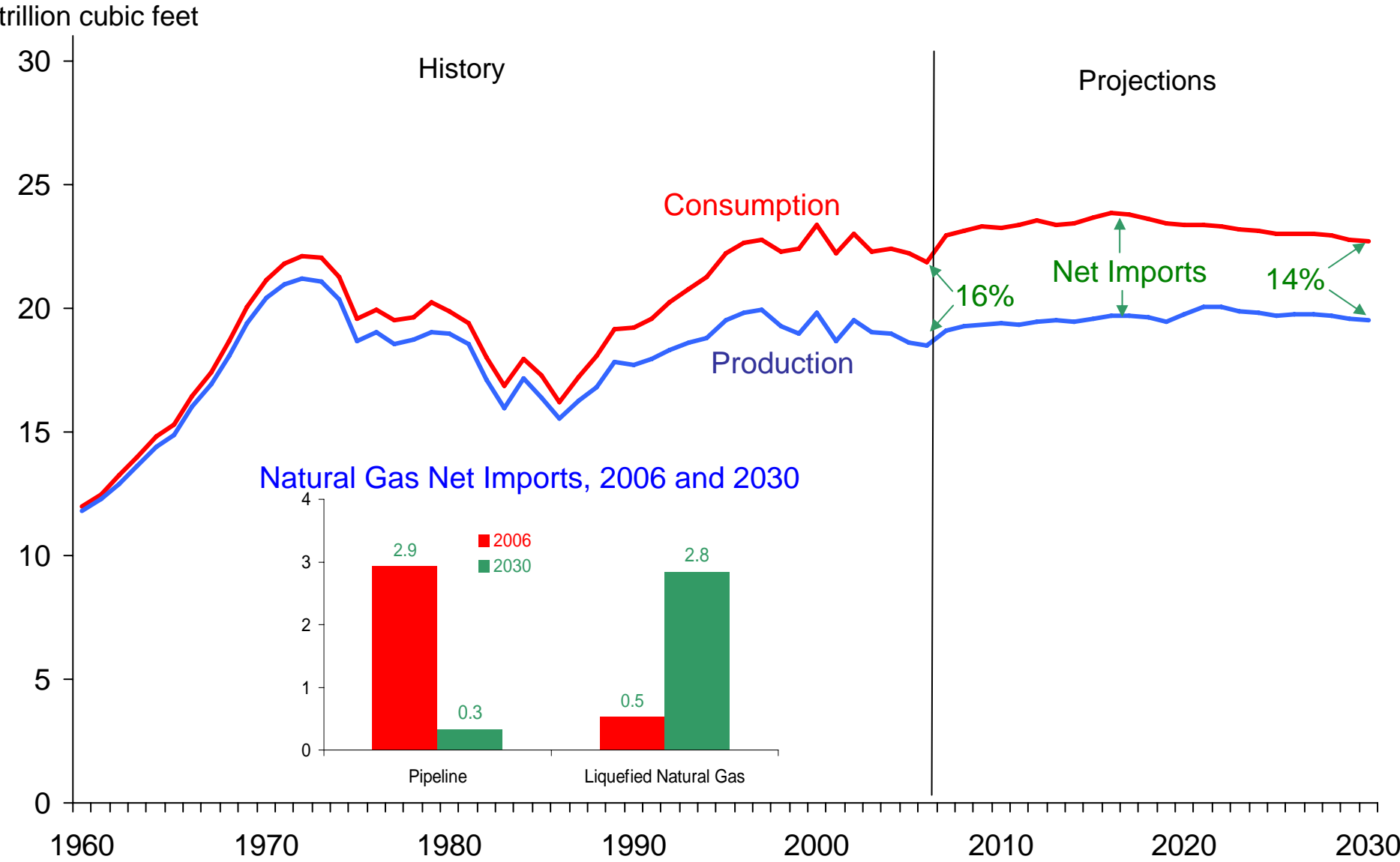
U.S. crude oil production is primarily from the onshore and deep offshore



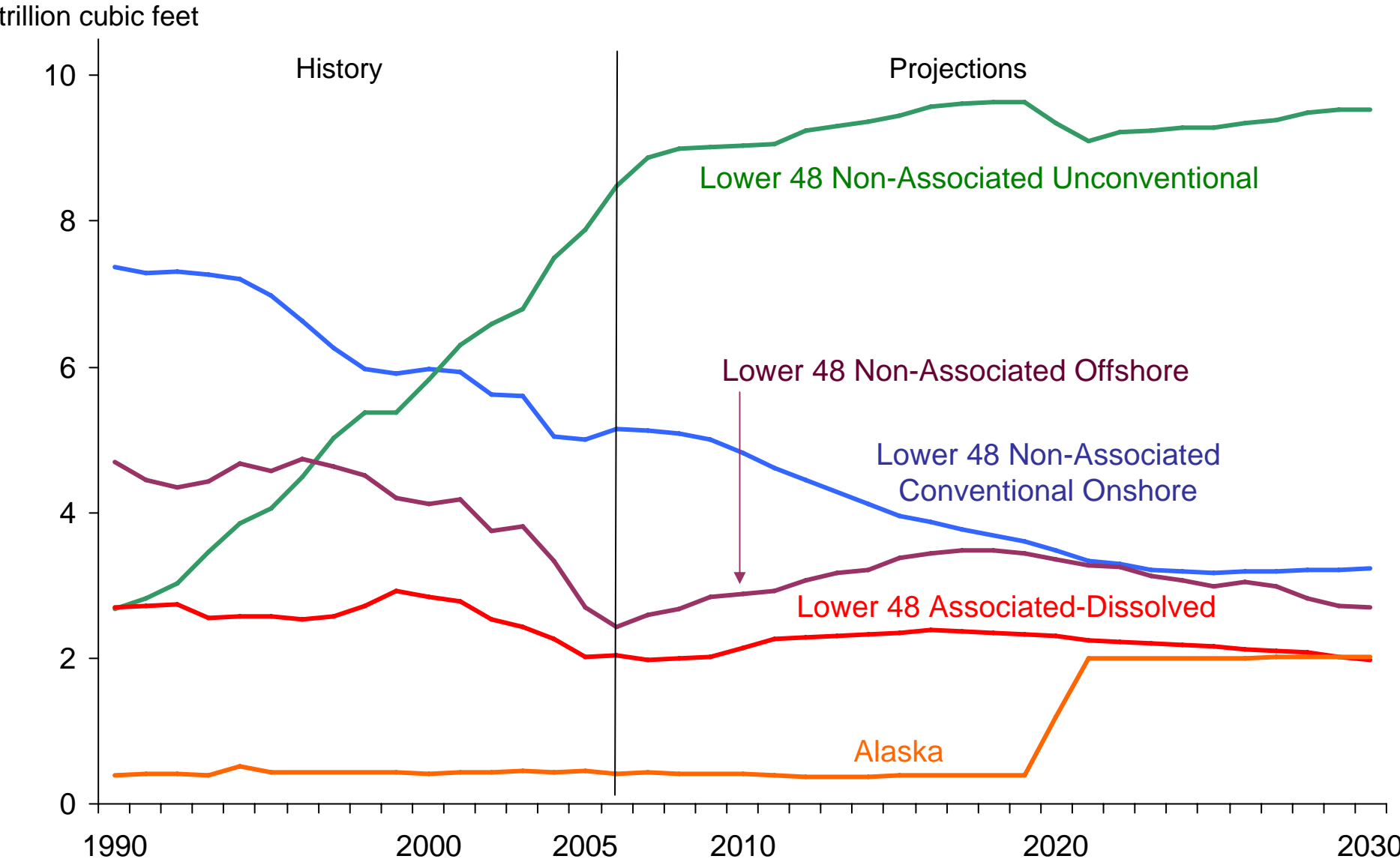
U.S. dependence on imports of liquid fuels and other petroleum declines by 2030



U.S. dependence on natural gas net imports declines slightly



Unconventional natural gas production will account for nearly half of U.S. supply



Periodic Reports

Petroleum Status and Natural Gas Storage Reports, weekly

Short-Term Energy Outlook, monthly

Annual Energy Outlook 2008, March 2008, full report, June 2008

International Energy Outlook 2008, June 2008, full report, July 2008

Examples of Special Analyses

Economic Effects of High Oil Prices,” *Annual Energy Outlook 2006*

Analysis of Crude Oil Production in the Arctic National Wildlife Refuge,

May 2008

The Global Liquefied Natural Gas Market: Status and Outlook, December 2003

“Impacts of Increased Access to Oil and Natural Gas Resources in the Lower 48 Federal Outer Continental Shelf,” *Annual Energy Outlook 2007*

Energy Market and Economic Impacts of S.2191, the Lieberman-Warner Climate Security Act of 2007, April 2008

Guy F. Caruso

www.eia.doe.gov

guy.caruso@eia.doe.gov

