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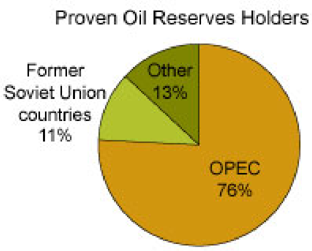
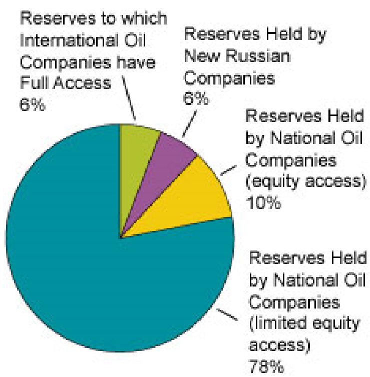
Who are the major players supplying the world oil market?

Governments of oil-rich countries have a major influence on the world supply of oil through ownership of national oil companies and, for some governments, their membership in OPEC.

OPEC member countries held over three-quarters of the world's proven oil reserves at the end of 2006.



Source: BP Statistical Review of World Energy (2007)



Source: PFC Energy, 2008

There are three simple ways of approaching this question. One is by comparing the basic differences between investor-owned companies and government-controlled companies. Another is to examine the role that governments play in general. The third is by comparing the differences between Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC member countries, specifically.

Did You Know?

The United States has no national oil company. The largest three U.S.-based international oil companies (ExxonMobil, Chevron, and ConocoPhillips) are accountable to their shareholders, not the United States government.

Although investor-owned oil companies are often thought of as those most responsible for world oil production, government-controlled companies actually control the majority of both current production (more than 52% in 2007) and proven reserves (88% in 2007), one indicator of future production potential.

Investor-owned and government-controlled oil companies often operate differently

Let's first examine the differences in the three types of companies that currently supply essentially all crude oil to the world. The distinction between these three types of companies is important because each has different general operational strategies and production-related goals.

1. Investor-owned oil companies, including ExxonMobil, Royal Dutch Shell, and BP (formerly known as British Petroleum), are primarily concerned with maximizing shareholder return. These companies, often referred to as international oil companies (IOCs), typically move quickly to develop and produce the oil resources to which they have obtained access and sell their output in competitive markets.
2. National oil companies with strategic and operational autonomy that function as corporate entities, including Petrobras (Brazil) and Statoil (Norway), often balance profit-oriented concerns and the objectives of their country into the development of their corporate strategy. While these companies may support their country's goals, they are primarily commercially-driven entities.
3. National oil companies that operate as an extension of the government or a government agency, including Saudi Aramco (Saudi Arabia), Pemex (Mexico), and PDVSA (Venezuela), support their government's programs either financially or strategically. They also provide fuels to domestic consumers at prices lower than world customers pay. These companies do not always have the incentive, means, or intention to develop their proven reserves at the same pace as commercial companies. Due to the diverse situations and objectives of the governments of their countries, these national oil companies pursue a wide variety of objectives that are not necessarily market-oriented, such as employing their citizens, furthering a government's domestic or foreign policy objectives, generating long-term revenue, and supplying inexpensive domestic energy.

Countries are also major players in the world oil market

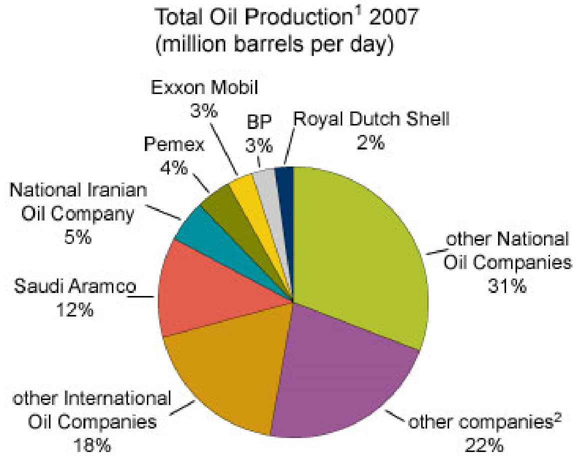
In addition to influencing the operation of national oil companies, governments of oil-rich countries can directly impact world oil supplies by changing financial regulations, e.g., tax structures. Such a change would force commercially-oriented companies to change production plans or form strategic alliances with other major producing nations, such as OPEC members). As the majority of reserves becomes increasingly concentrated in fewer countries, changes in leadership or strategic alliances of individual countries have more substantial effects on world oil supply and energy markets than in past years.

OPEC countries work together to influence world oil supplies

OPEC is a group of some of the world's most oil-rich countries that coordinate their oil production policies. As of January 2009, there are twelve member countries in OPEC: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. Together, they controlled approximately three-quarters of the world's total oil proven reserves in 2007.

OPEC attempts to influence the amount of oil available to the world by assigning a production quota to each member except Iraq, for which no quota is presently set. The track record of compliance with OPEC quotas is mixed, as production decisions are ultimately in the hands of the individual member countries. All OPEC member countries have a national oil company and most also allow international oil companies to operate within their borders. An OPEC member country wishing to reduce output in response to a cut in its quota implements its decision by restricting the production of the oil companies operating within its borders. Taken together, the decisions made by OPEC members influence the overall oil market by determining how much of the gap between world demand and non-OPEC supply is filled by their production.

In 2007, roughly 78% of total world oil was produced by 50 companies, and of that production, about 70% was produced by national oil companies.



Source: Petroleum Intelligence Weekly, (Vol XLVII, No. 48). December 1, 2008.

[1] Total oil production includes crude oil, natural gas liquids, and condensates.
[2] Includes smaller companies outside of the top 50 producers.

Oil reserves are increasingly concentrated in OPEC countries and national oil companies

OPEC countries and national oil companies already hold the majority of proven oil reserves, and the percentage of reserves they hold is increasing. This concentration further establishes their future importance as major players in the world oil market and could potentially increase market tension and upward pressure on prices as world oil demand rises.

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