



The Oil Market Context **2006 Out of Step with Past and Future**

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Key Oil Market Developments

- **Short Term Factors**

- ◆ **Geopolitics**
- ◆ **Weather, demand elasticities**
- ◆ **Non-Opec Recovery**
- ◆ **Opec holding action**

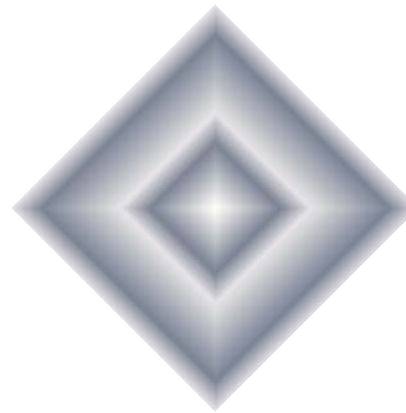
- **Medium Term Influences**

- ◆ **Non-OECD demand growth and mix**
- ◆ **Opec upstream capacity additions**
- ◆ **New and better refineries**

Oil Market Force Diamond

**Geopolitics, Weather
Past, Present and Future**

**“Demand Destruction”
vs. Price Elasticity**



**“Peak Oil”
vs. Non-Opec Plateau**

“China Thesis”

Q: What’s This Diamond Worth?

A: \$55-\$65 per barrel

Geopolitics Stay in the Forefront

- **Nigeria**
 - ◆ history is for sporadic, not major outages
 - ◆ this disruption better organized; conditions, political cycle ripe for generalized strife
 - ◆ Shell's Bonga helps
- **Iran**
 - ◆ leadership less pragmatic, threat could last
 - ◆ impact on oil market probably slow to come
- **Others**
 - ◆ Russia, Venezuela, Ecuador, West Africa

Weather: Past, Present & Future

- **Past**

- ◆ Recovering from Katrina and Rita
- ◆ Mild autumn, late winter

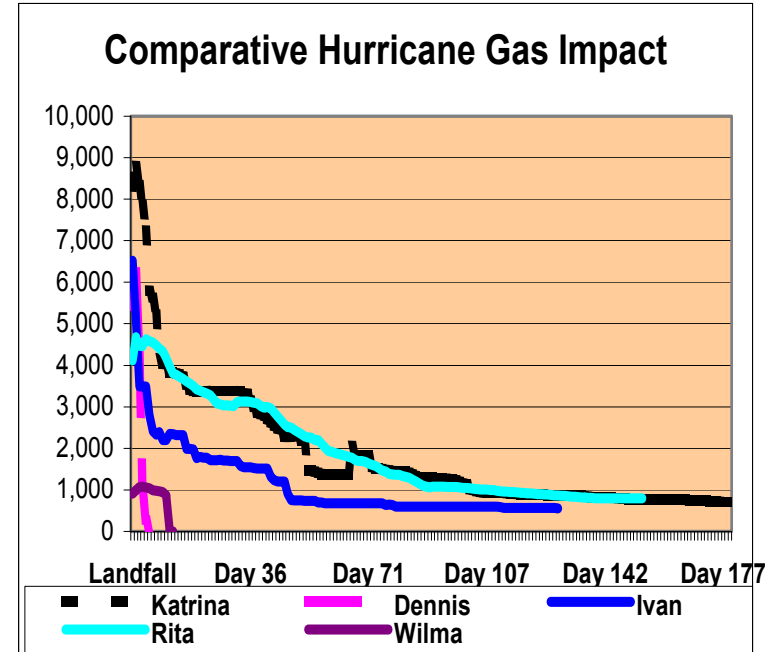
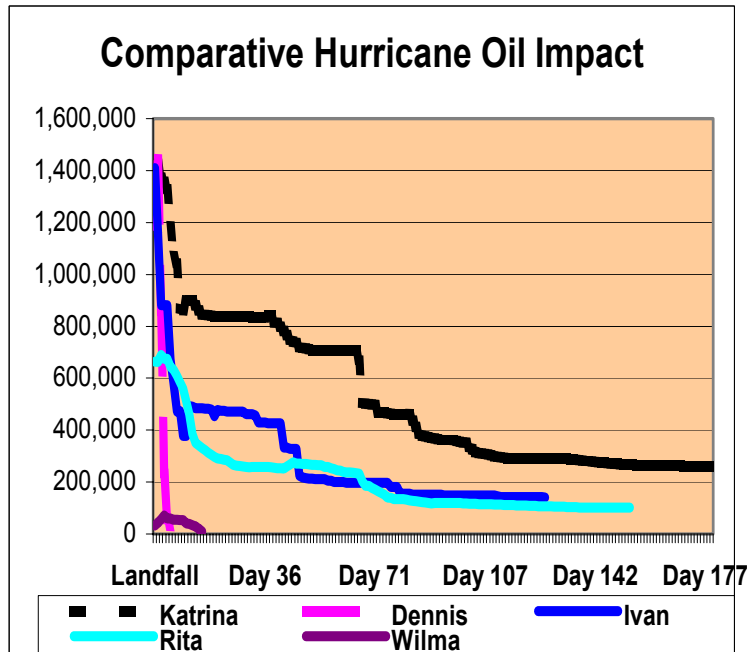
- **Present**

- ◆ Late harsh winter? (beyond Russia, Japan)
- ◆ North Sea storms

- **Future**

- ◆ Severe storms again this year?
- ◆ Global warming responses

Hurricane Impacts



- Easy part of recovery may be over
 - destroyed platforms, processing plants not coming back
 - delayed new field start-ups
 - potential for major rig retrofits

Short-Term Demand

- **“Demand destruction” argument over**
- **US Q4 demand rebound part downstream restocking**
 - ◆ hurricane impacts on pipes, plant = downstream stockdraws
- **Reconstruction boom likely in 2006, strong economy**
 - ◆ $GDP = C + I + G$; this year US big help from “G”
- **Price-related demand erosion softens non-OECD rise**
 - ◆ removal of price caps/subsidies in developing countries in Asia
 - ◆ less help from weak dollar
- **A few demand wild cards**
 - ◆ bird flu effects in Asia and elsewhere
 - ◆ Government demand-side intervention

OECD a Bit Better, Still Sluggish

2006 OECD Demand							Changes	
million b/d	Q1'06	Q2'06	Q3'06	Q4'06	2006	2006	2005	
North America	25.55	25.57	26.04	26.24	25.85	+0.37	+0.14	
US	20.83	20.87	21.37	21.48	21.14	+0.34	+0.07	
Canada	2.04	2.11	2.06	2.10	2.08	+0.03	+0.08	
Mexico	2.34	2.25	2.27	2.32	2.29	+0.01	-0.02	
US Terr.	0.35	0.34	0.34	0.34	0.34	-0.01	+0.01	
Europe	15.73	15.35	15.75	15.90	15.68	+0.10	-0.04	
Big Four	8.17	8.04	8.31	8.31	8.21	-0.01	-0.12	
Other Europe	7.57	7.31	7.44	7.59	7.48	+0.11	+0.08	
Asia-Pacific	9.59	8.15	8.16	8.94	8.71	+0.08	+0.10	
Japan	6.11	5.04	5.10	5.57	5.45	+0.05	+0.05	
Korea	2.41	2.04	2.02	2.25	2.18	+0.01	+0.02	
ANZ	1.07	1.07	1.04	1.12	1.07	+0.02	+0.03	
Total OECD	50.87	49.08	49.95	51.08	50.25	+0.56	+0.20	

Source, Oil Market Intelligence, March 2006 (forthcoming).

Non-OECD Back on the High Road?

2006 Non-OECD Demand							
<i>Non-OECD</i>						Changes	
million b/d	Q1'06	Q2'06	Q3'06	Q4'06	2006	2006	2005
Non-OECD Asia	14.33	14.28	14.21	14.66	14.37	+0.56	+0.50
China	6.81	6.70	6.85	7.05	6.85	+0.38	+0.25
India	2.70	2.60	2.47	2.56	2.58	+0.08	+0.09
Other Asia*	4.83	4.98	4.90	5.05	4.94	+0.11	+0.15
Opec	7.84	7.76	7.95	7.85	7.85	+0.21	+0.36
Other Non-OECD	12.31	12.53	12.33	12.27	12.36	+0.27	+0.10
Total Non-OECD	34.48	34.57	34.50	34.77	34.58	+1.05	+0.95
Global Demand	85.35	83.65	84.45	85.85	84.82	+1.61	+1.15

* excluding Indonesia.

Source, Oil Market Intelligence, March 2006 (forthcoming).

Short-Term Supply

- **2005 special factors inhibited supply**
 - ◆ Hurricanes Katrina & Rita plus 5 smaller others
 - ◆ leaks at offshore fields in No. Sea, Canada, Mars
 - ◆ fire at Suncor oil sands plant
- **2006 non-Opec supply spurt, last hurrah**
- **Opec capacity additions under way**
 - ◆ Saudi Arabia, Nigeria, Kuwait, Libya, Algeria

The 2006 Non-Opec Surge

● What it is not:

- ◆ not a price responses
- ◆ not policy driven – by governments or companies
- ◆ not the beginning of a trend

● What it is:

- ◆ primarily undoing 2004-05 impacts
 - hurricanes, North Sea problems & field delays
- ◆ bunching up of new field start-ups
 - US Gulf, Brazil, West Africa, Caspian (BTC line)
- ◆ limiting the Yukos damage in Russia

2006 Bounce, A Last, Last Hurrah

2006 Non-Opec Oil Production Outlook

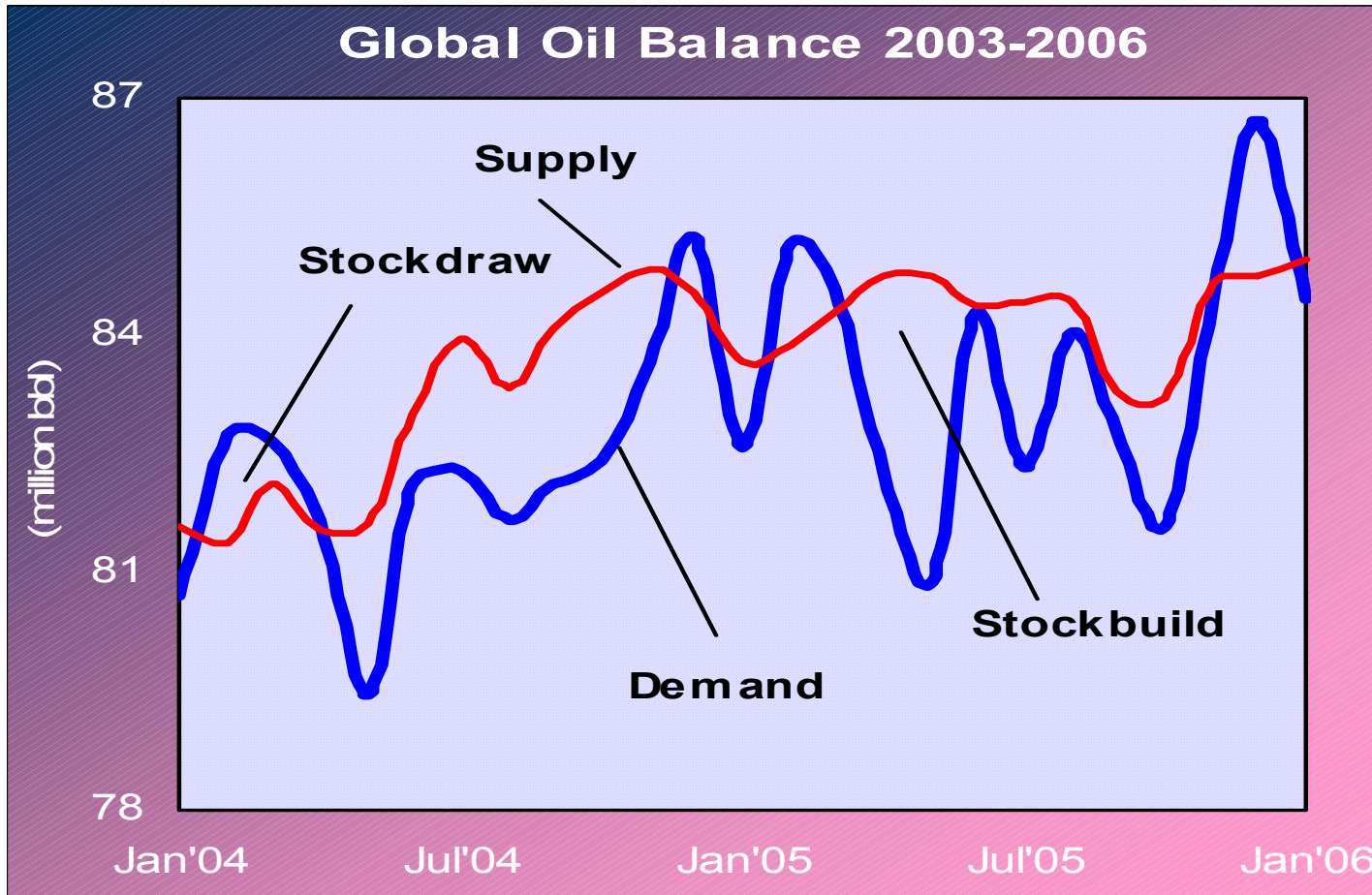
1,000 b/d						Changes	
	Q1'06	Q2'06	Q3'06	Q4'06	2006	2006	2005
FSU	11,684	11,993	12,177	12,450	12,078	+575	+359
Africa	4,041	4,171	4,364	4,445	4,257	+559	+286
So. & C. Amer.	4,369	4,570	4,612	4,643	4,549	+316	+212
North America	14,394	14,374	14,297	14,667	14,433	+324	-505
North Sea	5,355	5,218	4,766	5,375	5,177	-50	-469
Asia	6,901	6,761	6,769	6,850	6,820	-19	+146
Other Europe	570	566	561	557	563	-32	-7
Non-Opec ME	1,632	1,598	1,564	1,540	1,583	-68	-44
Processing Gains	1,920	1,890	1,875	1,920	1,901	+53	+14
Total Non-Opec	50,868	51,140	50,986	52,446	51,363	+1,657	-6

Source, Oil Market Intelligence, March 2006 (forthcoming).

Short Term Balances

- **Short-term, Q4 looks “oversupplied”**
 - ◆ **Oct., Nov. global supply > demand by 1.8 mil. b/d, 0.8 mil. b/d, respectively**
 - ◆ **Dec. demand still only 0.6 mil. b/d higher**
- **Still some concerns about Q1 cold snaps**
- **US market most susceptible, refinery storm outages, diesel standards, need for imports**
- **Europe structurally long gasoline but not diesel capacity**

2005 Supply-Demand Balances

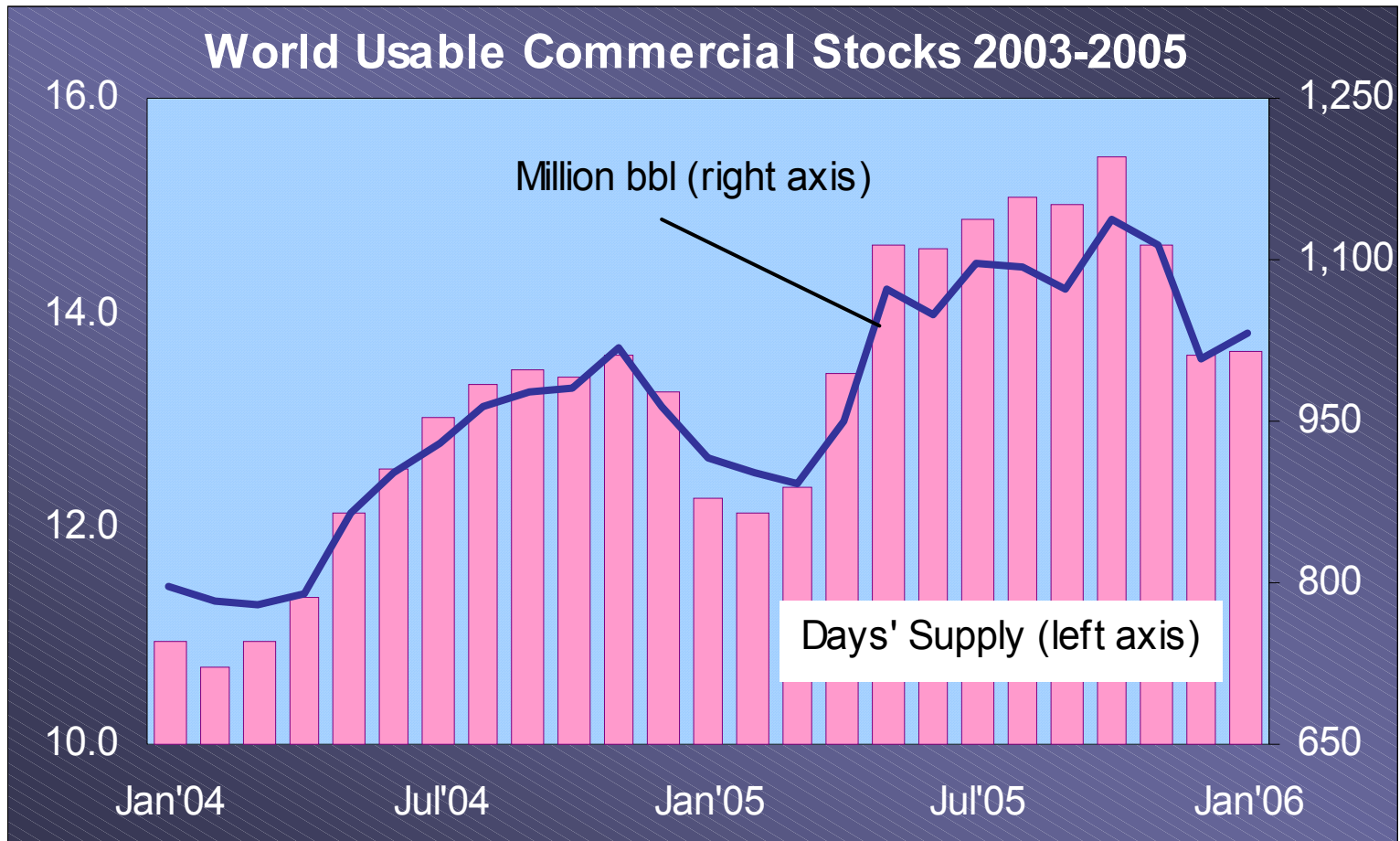


Source, Oil Market Intelligence, February 2006.

“Observed” Stock Changes

- **Out of step w/ Supply/Demand balances**
 - ◆ 4Q04 Supply 0.9 mb/d >Demand; no draw
 - ◆ 1Q05 Sup-Dem = -0.1 mb/d; -0.6 mb/d observed
 - ◆ closer in Q2; +2.3 mb/d difference; +2.1 mb/d obs.
 - ◆ but 3Q05 S>D by 1 mb/d, only 0.2 mb/d build
- **Worst last quarter with 1 mb/d discrepancy**
 - ◆ S>D by 0.2 mb/d, but +0.8 mb/d observed draw
 - ◆ large upward revision in October OECD
 - ◆ not reversed in Nov. build, or softer Dec. draw

2005 Global Stock Changes



Source, Oil Market Intelligence, February 2006.

Looser 2006 Sup-Dem Balances

2006 Call on Opec Crude

<i>Non-OECD</i>						<i>Changes</i>	
<i>million b/d</i>	<i>Q1'06</i>	<i>Q2'06</i>	<i>Q3'06</i>	<i>Q4'06</i>	<i>2006</i>	<i>2006</i>	<i>2005</i>
OECD Demand	50.87	49.08	49.95	51.08	50.25	+0.56	+0.20
Non-OECD Demand	34.48	34.57	34.50	34.77	34.58	+1.05	+0.95
Total Demand	85.35	83.65	84.45	85.85	84.82	+1.61	+1.15
Non-Opec supply	50.87	51.14	50.99	52.45	51.36	+1.66	-0.01
Opec NGLs & Other	4.50	4.50	4.50	4.50	4.68	+0.29	+0.24
Call on Opec Crude^a	29.99	28.01	28.96	28.90	28.78	-0.34	+0.91

** plus stock change.*

Source, Oil Market Intelligence, March 2006 (forthcoming).

Opec's Dilemma

- **Maintaining long term markets**
- **Adding sufficient capacity to handle chronic geopolitical risks**
- **Making reserve estimates credible**
- **Dealing with global quality issues**
- **“Counting the money”**

Impacts Oil Markets

- **Fickle market, high volatility**
- **Higher prices with bigger swings**
- **Likely overreactions both up & down**
- **Unusual demand-driven sellers' market**
- **Changing players, shifting geography**
- **Resetting priorities for countries and companies**

The New Sellers' Markets

- **Past dominated by buyers' markets**
- **Previous sellers' markets: '20s, '40s, '70s**
- **Tended to be brief, unstable**
- **Current demand-led, emerged gradually**
- **Looks more durable**
- **Supply surge not apt to come to the rescue**

Conclusions

- **“Peak oil” and “demand destruction” are more myth than reality**
- **Demand erosion and non-Opec plateau are real**
- **China thesis has legs**
- **Seller’s market looks durable**
- **Opec is likely to opt for slower capacity growth at higher prices**

Oil Markets Beyond 2006

- Demand growth accelerates led by Asia
- Plateau in Non-Opec Supply
 - ◆ declines in No. America, No. Sea, Asia eat-up much of gains in FSU, Africa, So. America
- Opec measured approach to capacity adds
- Prices stay high but costs also rise
- Investment grows with NOC's at the fore
- Non-conventional becomes conventional
 - ◆ more mined & *in-situ* bitumen, shale, CTL & CTG

SUPPLEMENT DETAILS

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2006 Non-Opec Oil Supply

2006 North American Oil Supply

North America 1,000 b/d					Annual Changes			
	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
US Gulf Crude	1,384	1,535	1,532	1,792	1,562	+278	-175	-45
Alaska Crude	850	850	766	797	816	-93	-48	-62
Other Lower 48*	5,083	5,059	5,024	5,088	5,063	-60	-157	-45
US	7,317	7,445	7,321	7,677	7,441	+125	-379	-152
Mined Synthetics	632	638	740	683	674	+148	-100	+125
<i>In Situ</i> Bitumen	502	490	501	523	504	+45	+93	+5
Eastern Offshore Crude	388	381	401	414	396	+78	-4	-24
Other Canada*	1,737	1,635	1,633	1,663	1,667	-62	-52	-4
Canada	3,259	3,144	3,276	3,283	3,240	+209	-63	+101
Offshore Crude	2,790	2,780	2,752	2,765	2,772	+14	-71	+15
Other*	1,027	1,005	948	942	980	-24	+9	+21
Mexico	3,818	3,785	3,700	3,707	3,752	-11	-62	+36
Total	14,394	14,374	14,297	14,667	14,433	+324	-505	-15

*including NGLs and Other

- recovery in US Gulf, return, delayed start-ups new fields
- Canada synthetics, East Coast and *in situ* bitumen growth
- Mexico's Cantarell struggling

2006 North Sea Oil Supply

North Sea 1,000 b/d	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	Annual Changes		
						2006	2005	2004
Brent-Ninian	225	226	195	220	212	-35	-28	-32
Forties	604	539	431	535	528	-64	-52	-70
Flotta	76	70	72	80	75	-14	-13	-8
West of Shetlands	172	182	176	185	179	+32	-27	-27
Other UK*	820	774	711	842	789	+25	-93	-91
UK	1,896	1,791	1,585	1,861	1,783	-56	-213	-228
Statfjord	314	653	577	532	261	-22	-26	-35
Troll	232	219	214	311	275	+5	+5	-5
Oseberg	271	567	446	420	181	-29	-36	-15
Ekofisk	331	195	236	241	330	-11	-7	+1
Gullfaks	401	487	483	438	244	-36	-31	-32
Other Norway*	1,492	887	830	1,162	1,694	+125	-141	+17
Norway	3,041	3,008	2,787	3,104	2,985	+32	-237	-69
Denmark	384	378	379	375	383	+2	+1	+5
Netherlands*	35	44	44	45	149	+6	+5	+7
Germany	20	20	20	20	20	+1	+0	-0
Total	5,376	5,242	4,815	5,405	5,320	-17	-444	-285

* including natural gas liquids.

- accelerating decline rates in older fields
- few, generally small satellite fields

2006 Other OECD Oil Supply

Other OECD 1,000 b/d	Annual Changes							
	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
Australia	520	510	546	573	537	-12	-1	-94
Italy	120	120	120	120	120	-5	+14	+20
Other OECD Europe	298	293	289	284	291	-22	-11	+18
Other OECD Asia	41	38	40	42	40	-1	-2	-3
Total	979	961	995	1,019	988	-40	+	-59

- Australia dominates “Other OECD”
- start-up of Australia’s Enfield late in the year, some new onshore
- not expected to be enough to stem Aussie decline
- Roc Oil’s Cliff Head just started, full year of Mutineer-Exeter helps

2006 FSU Oil Supply

FSU 1,000 b/d	Annual Changes							
	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
Russia	9,495	9,730	9,877	10,109	9,805	+374	+241	+702
Azerbaijan	600	635	665	685	646	+153	+94	-14
Kazakhstan	1,230	1,266	1,263	1,277	1,259	+27	+52	+149
Other Republics	1,588	1,628	1,635	1,656	1,627	+48	+24	+147
Total	11,684	11,993	12,177	12,450	12,078	+575	+359	+835

- increased Russian upstream spending; growth of Rosneft & Russneft
- filling the Azerbaijan's BTC pipeline
- better performance at Kazakh's Karachaganak, Tengiz
- end of gas flaring restriction in Kazakhstan, growing China presence
- undoing Yukos damage in Russia; Sakhalin 1 start; full-year Sakhalin 2

2006 Non-Opec Africa Oil Supply

Non-Opec Africa	Annual Changes							
1,000 b/d	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
Angola	1,463	1,478	1,508	1,513	1,491	+222	+231	+106
Sudan	339	418	503	582	461	+134	+28	+37
Equatorial Guinea	324	372	416	424	384	+73	-25	+77
Gabon	273	275	287	300	284	+38	+11	-38
Congo (Brazzaville)	261	201	242	221	231	+13	+3	-25
Chad	216	213	217	207	213	-0	+57	+132
Egypt	687	684	679	677	682	-14	-12	-32
Other Africa	479	529	514	521	511	+94	-6	+4
Total	4,041	4,171	4,364	4,445	4,257	+559	+286	+260

- **Angola adds BBLT to growth at Kizomba**
- **Sudan's delayed pipeline expansion to 600,000 b/d end-2006**
- **start of Mauritania's Chinguetti, expanding Baobab in Cote d'Ivoire**
- **small gains in Equatorial Guinea, Gabon, Congo (B); flat Chad**

2006 S. & C. America* Oil Supply

Non-Opec S.&C. America 1,000 b/d					Annual Changes			
	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
Brazil	2,097	2,231	2,237	2,282	2,212	+268	+184	+9
Ecuador	511	575	624	629	585	+51	+10	+111
Trinidad	211	215	215	215	214	+29	+29	+1
Argentina	692	685	683	656	679	-33	-34	-43
Colombia	520	507	496	494	504	-34	+1	-11
Other	858	865	853	860	859	+1	+23	+10
Total	4,369	4,570	4,612	4,643	4,549	+316	+212	+88

- Brazil belatedly growing Campos Basin, plus new Santos Basin
- Ecuador still dealing with protest to use of new pipeline capacity
- Trinidad's Angostura consolidating initial plateau
- Colombia, Argentina past their peaks

2006 Asian* Oil Supply

Non-Opec, Non-OECD Asia 1,000 b/d	Annual Changes							
	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
Thailand	230	223	225	242	230	+36	+33	-7
Vietnam	389	391	404	417	400	+35	-36	+35
Malaysia	893	891	898	894	894	+27	-9	+34
Brunei	208	212	217	220	214	+16	+7	-3
India	753	735	724	735	737	-23	-23	+8
China	3,591	3,491	3,444	3,460	3,496	-115	+125	+78
Other	277	270	271	267	271	+17	+52	+33
Total	6,341	6,213	6,183	6,236	6,243	-7	+149	+179

- small increases in Thailand, Vietnam, Brunei and Malaysia
- mostly offset by China drop after surprise offshore boost in 2005
- India declines continue

2006 Non-Opec Mideast Oil Supply

Non-Opec Mideast	Annual Changes							
1,000 b/d	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2006	2006	2005	2004
Oman	756	721	702	681	715	-61	-13	-55
Syria	392	386	380	374	383	-32	-31	-25
Yemen	462	468	458	462	463	+29	+7	-15
Other	23	23	23	23	23	-4	-6	-3
Total	1,632	1,598	1,564	1,540	1,583	-68	-44	-98

- Oman and Syria seeing accelerating declines
- some help from new fields in Yemen

SUPPLEMENT DETAILS

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2005-2015 Oil Outlook

OECD Demand Outlook 2000-2010

<i>OECD</i>	2000	2005	2010	2015	Average Ann. Growth		
					'00-'05	'05-'10	'10-'15
North America	24.06	25.48	27.16	28.50	1.2%	1.3%	1.0%
US	19.69	20.80	21.93	22.71	1.1%	1.1%	0.7%
Canada	2.03	2.28	2.45	2.59	2.4%	1.4%	1.1%
Mexico	2.04	2.05	2.40	2.78	0.1%	3.2%	3.0%
US Terr.	0.31	0.35	0.39	0.43	2.4%	2.2%	2.0%
Europe	15.16	15.58	16.43	17.03	0.5%	1.1%	0.7%
Big Four	8.38	8.21	8.22	8.05	-0.4%	0.0%	-0.4%
Other Europe	6.78	7.37	8.21	8.98	1.7%	2.2%	1.8%
Asia-Pacific	8.69	8.63	8.68	8.73	-0.2%	0.1%	0.1%
Japan	5.57	5.40	5.35	5.37	-0.6%	-0.2%	0.1%
Korea	2.14	2.17	2.31	2.38	0.3%	1.3%	0.6%
ANZ	0.99	1.05	1.02	0.98	1.3%	-0.6%	-0.9%
Total OECD	47.92	49.68	52.27	54.27	0.7%	1.0%	0.8%

Source: Energy Intelligence Research

Non-OECD Demand Outlook 2000-2010

Non-OECD	2000	2005	2010	2015	Average Ann. Growth		
					'00-'05	'05-'10	'10-'15
Non-OECD Asia	10.43	14.20	18.98	24.93	6.4%	6.0%	5.6%
China	4.35	6.48	9.39	12.86	8.3%	7.7%	6.5%
India	1.99	2.50	2.90	3.53	4.6%	3.0%	4.0%
Other Asia*	4.08	5.22	6.69	8.54	5.0%	5.1%	5.0%
Opec	6.32	7.64	9.48	11.52	3.9%	4.4%	4.0%
Other Non-OECD	11.12	12.17	13.77	15.36	1.8%	2.5%	2.2%
FSU	3.65	3.87	4.23	4.44	1.2%	1.8%	1.0%
Latin America†	4.18	4.45	4.90	5.41	1.3%	1.9%	2.0%
Non-Opec Africa	1.83	2.14	2.62	3.11	3.1%	4.1%	3.5%
Other Mideast	0.87	0.98	1.09	1.20	2.4%	2.1%	2.0%
East Europe	0.60	0.73	0.94	1.20	4.2%	5.1%	5.0%
Total Non-OECD	27.87	34.01	42.23	51.81	4.1%	4.4%	4.2%
Global Demand	75.80	83.69	94.50	106.08	2.0%	2.5%	2.3%

* excluding Indonesia. † excluding Venezuela.

Source: Energy Intelligence Research

Medium-Term Supply Outlook

Non-Opec Supply 1995-2015

1,000 b/d	2000	2005	2010	2015	Avg. Ann. Chg.		
					'00-'05	'05-'10	'10-'15
<i>Growth Areas</i>							
FSU	7,918	11,504	14,189	18,597	+7.8%	+4.3%	+5.6%
Africa	2,824	3,694	4,402	5,302	+5.5%	+3.6%	+3.8%
So. & C. Amer.	3,645	4,066	4,927	5,160	+2.2%	+3.9%	+0.9%
<i>Mature Areas</i>							
North Sea	6,309	5,203	4,569	3,128	-3.8%	-2.6%	-7.3%
Non-Opec Mideast	1,976	1,626	1,325	998	-3.8%	-4.0%	-5.5%
Asia	6,234	6,542	6,592	5,216	+1.0%	+0.2%	-4.6%
Onshore Europe	603	596	455	377	-0.3%	-5.2%	-3.7%
North America	14,131	13,887	14,986	13,689	-0.3%	+1.5%	-1.8%
Processing Gain	1,715	1,865	2,350	2,900	+1.7%	+4.7%	+4.3%
Total Non-Opec	45,354	48,982	53,796	55,367	+1.6%	+1.9%	+0.6%

- 1.6 million b/d of the 4.7 million b/d 2005-2010 growth in 2006