

OPEC bulletin ^{6/09}

**Ecuador
hosts
R&D Meeting**

Mixed signals remain about market outlook

The 153rd (Extraordinary) Meeting of the OPEC Conference came and went on May 28.

It produced no surprises, instead consolidating the production agreement reached in Algeria in December and reaffirmed in Vienna three months later, on March 15.

It took place at a time of mixed signals about the outlook for the oil market in the coming weeks and months, with a widely perceived imbalance between strengthening spot prices and weakening fundamentals.

Nevertheless, compared with the March meeting, there had been a positive shift in the nuances of the language used to describe the oil outlook. This was well summed up by the changing tone of the feature article in our *Monthly Oil Market Report*. In May, its heading of 'Economic downturn slowing, but real recovery to come' was decidedly more upbeat than 'Economic uncertainties still overshadowing the oil market' two months earlier.

In other words, while there was still much gloom in the global financial community and real economy — key drivers of the energy sector — there was, albeit, less pessimism around than ten weeks earlier. Indeed, some recent positive indicators were pointing towards the possibility of the recession bottoming out before the end of the year.

However, at the same time, with weak industrial production, shrinking world trade and high unemployment, optimism was in short supply too, and oil producers, like everyone else, were sensitive to this.

By the start of the May meeting, oil prices had risen steadily to \$61/barrel for OPEC's Reference Basket, compared with a more settled \$44/b at the start of the previous meeting.

While this had brought prices closer to levels that could support sound investment plans for future production capacity — around \$70–80/b — it had also distanced them further from supply and demand fundamentals.

This was — and remains — a matter of concern to OPEC, as we made clear at the Conference.

We do not want a repetition of the chaotic volatility of 2008, with its unsustainable peaks and troughs, brought on by unfettered speculation on a massive scale by non-commercial interests.

Furthermore, prices have continued to rise since

the Conference, passing the \$70/b mark, even though the crude oil volumes entering the market continue to be higher than demand and OECD commercial oil stocks are still well above their five-year averages.

On the demand side, there has now been a ten-month period of almost unbroken downward revisions to our world oil demand forecast for 2009, with a total fall of four million barrels/day from 87.8m b/d last August.

This combination of events defies simple market logic and highlights a profound dilemma.

On the one hand, higher prices are needed to help foster stability, by supporting investment in production capacity to meet the forecast, post-recession rising demand.

On the other hand, they are being driven, at the moment, by the very phenomenon they are trying to counter, namely volatility — that is, the volatile behaviour of speculative forces that are once again prominent in the market.

Stability and volatility are opposites. They cannot coexist in a well-functioning market. This is not sustainable. Prices driven up by speculation can just as easily fall through speculation, as we saw last year, to our cost. They can also soar to untenable levels, as again witnessed in 2008.

As a result of all this, the oil market is now in a delicate and precarious state, and a comparatively minor impulse could tip it one way or the other.

OPEC, like other players in the industry, is adopting a cautious, wait-and-see attitude over the market outlook. There are still many risks and uncertainties at large in the global economy, in the face of the ongoing recession, as was noted by the Group of Eight's finance ministers in Italy in mid-June — although they did point out, at the same time, that the world's largest economies were beginning to stabilize.

We are prepared to act — at short notice, if necessary — by adjusting our production agreement in a pragmatic, calculated manner, if our constant monitoring of developments suggests that this will be in the best interests of market order and stability.

Otherwise, we shall continue to wait and see how things develop in the world economy and especially the financial sector.



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Cover

This month's cover shows the Heliconia plant in the Ecuadorean rainforest. Ecuador's capital, Quito, recently hosted the 4th OPEC R&D Meeting, see pp44–49.

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OPEC Membership and aims

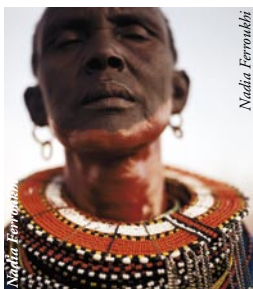
OPEC is a permanent, intergovernmental Organization, established in Baghdad, on September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective — to coordinate and unify petroleum policies among its Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry. The Organization comprises 12 Members: Qatar joined in 1961; SP Libyan AJ (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); Nigeria (1971); Angola (2007). Ecuador joined OPEC in 1973, suspended its Membership in 1992, and rejoined in 2007. Gabon joined in 1975 and left in 1995. Indonesia joined in 1962 and suspended its Membership on December 31, 2008.

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The OPEC Bulletin welcomes original contributions on the technical, financial and environmental aspects of all stages of the energy industry, research reports and project descriptions with supporting illustrations and photographs.

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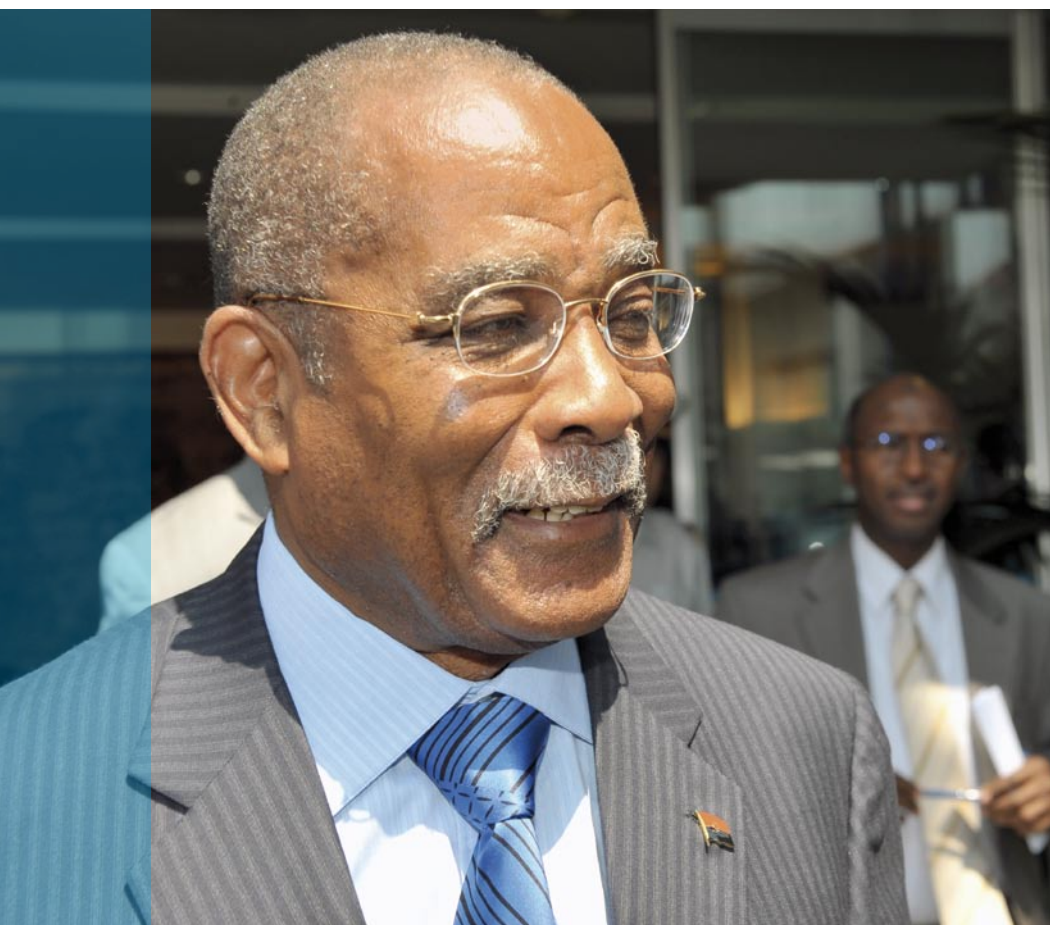
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153rd (Extraordinary) Ministerial Conference maintains status quo on ceiling

OPEC Ministers' market optimism is coupled with realism — President

By Jerry Haylins



Eng José Maria Botelho de Vasconcelos, President of the OPEC Conference and Minister of Petroleum, Angola.

OPEC is optimistic that the production policies its Member Countries signed up to in September 2008 to counteract the effects of the global financial crisis will continue to fuel a positive reaction in the international oil market.

The 153rd (Extraordinary) Meeting of the OPEC Conference, which met in Vienna, Austria, on May 28, noted that encouraging signs were being seen in the restoration of oil market and price stability, a development that was a direct result of the Organization's decision to cut production and remove excess supply from the market.

In response to the credit crunch and accompanying sudden slump in global oil demand, OPEC has been working with impressive results to remove a total of 4.2 million barrels/day of crude oil from the market.

Compliance by Member Countries to the output cut, involving 11 of the Organization's 12 Members (Iraq is exempt), has been hovering at 79–80 per cent since February, a figure deemed unprecedented in OPEC's history.



OPEC Ministers discuss the oil market situation in their closed session meeting during the 153rd (Extraordinary) Conference.

“The international oil market has been reacting slowly ... but positively,” commented OPEC Conference President, Eng José Maria Botelho de Vasconcelos.

“The spirit of our final communiqué sends a signal of optimism to OPEC Member Countries,” de Vasconcelos, who is Angola’s Minister of Petroleum, told a press briefing after the one day Conference.

Indeed, the Ministers, who met for three hours in closed session at the Organization’s Secretariat, came out of their meeting looking pleased and optimistic. When they last met in March this year, the price of the OPEC Reference Basket stood at around \$43/barrel. This had improved to over \$61/b on the day of the latest talks.

“Our optimism is coupled with realism — but it is



Above: Ali I Naimi (l), Minister of Petroleum & Mineral Resources, Saudi Arabia; with Abdullah bin Hamad Al Attiyah, Deputy Premier, Minister of Energy & Industry, Qatar.



Above: Dr Shokri M Ghanem, Chairman of the Management Committee of the National Oil Corporation, SP Libyan AJ.

a signal that OPEC will keep sending to the market,” stressed the Conference President. “The Organization will continue to work towards attaining a fairer and more balanced crude oil price.”

Such a price, he added, was essential for the success and well-being of the petroleum industry, so that it could make regular investment to ensure that sufficient supplies were available to cover market demand in the future.

The Ministers, in reviewing the reports of the Ministerial Monitoring Sub-Committee and the Secretary General, discussed the oil market situation and supply and demand projections for 2009, in particular the third and fourth quarters.



Above: Dr Chakib Khelil, Minister of Energy & Mines, Algeria.

Right: Rafael Ramírez (l), Minister of Energy & Petroleum, Venezuela; with Abdalla Salem El-Badri, OPEC Secretary General.

They agreed that the weakness in global oil demand, caused as a result of the “severe and broad” impact of the ongoing global economic downturn, precipitated by the financial crisis, was still likely to remain for some time.

“Indeed, since the second half of 2008, world oil demand growth has witnessed its first decline since the early 1980s,” observed the communiqué.

It said the Ministers were pleased to observe the positive effect that OPEC’s production decisions, aimed at redressing the supply/demand balance, were having on restoring some degree of stability to oil prices.

However, the Conference noted that crude volumes entering the market were still in excess of actual demand.





Eng José Maria Botelho de Vasconcelos (l), President of the OPEC Conference and Minister of Petroleum, Angola; with Abdalla Salem El-Badri, OPEC Secretary General.



Mohamed Bin Dhaen Al Hamli, Minister of Energy, United Arab Emirates.



Dr Diego Stacey, Ecuadorean Governor for OPEC and Head of the Ecuadorean Delegation to the 153rd (Extraordinary) Conference.



Gholamhossein Nozari, Minister of Petroleum, IR Iran.

Although crude inventories had fallen over the preceding two months, inventories still remained high.

For example, at the end of April, OECD commercial oil stocks were said to have been standing close to the record high witnessed in February 1998.

The communiqué noted that although recent positive economic indicators pointed towards the possibility of the recession bottoming out before the end of 2009, the world was nevertheless still faced with weak industrial production, shrinking world trade and high unemployment.

“For this reason, the Conference decided to maintain current production levels unchanged for the time being,” it said.

“Very importantly, it was considered inadvisable to ignore the impact of the fall in crude oil prices witnessed over the preceding 12 months, coupled with the abiding price volatility, on the ability of oil producers to



Right: Siham Abdulrazzak Razzouqi, Kuwaiti Governor for OPEC, Chairperson of the Board of Governors, and Head of the Kuwaiti Delegation to the 153rd (Extraordinary) Conference.

Dr Hussain Al-Shahristani (l), Minister of Oil, Iraq; with Dr Rilwanu Lukman, Minister of Petroleum Resources, Nigeria.



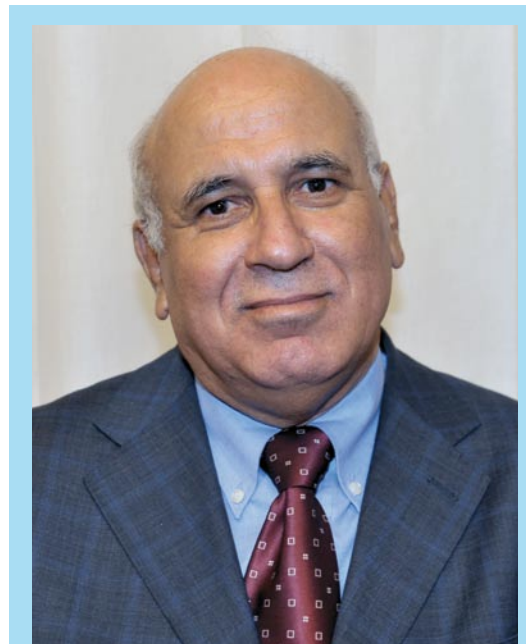
continue to make the investments required to guarantee adequate energy supplies in the medium-to-long term, given the cost of adding new capacity,” it added.

The communiqué observed that, in taking the decision to maintain the status quo, Member Countries reiterated their firm commitment to the individually agreed production allocations, as well as their readiness to respond swiftly to any developments that might place oil market stability and their interests in jeopardy.

“The Secretariat will continue to closely monitor the market, keeping Member Countries abreast of developments as they occur.”

“The Heads of Delegation reiterated OPEC’s statutory commitment to providing an economic and regular supply of petroleum to consuming nations, while, at the same time, stabilizing the market and realizing the Organization’s objective of maintaining crude oil prices at fair and equitable levels, for the future well-being of the market and the good of producers and consumers alike,” added the communiqué.

Hamid Dahmani (l), Algerian Governor for OPEC; with Abdullah Ammar Ballut, (then) Libyan Governor for OPEC.



Ahmed Mohamed Elghaber, Executive Adviser to the National Oil Corporation (NOC), is the newly appointed Libyan Governor for OPEC.





Ali Mohammed Al-Hammadi, Qatari Governor for OPEC.



Félix Manuel Ferreira, Angolan Governor for OPEC.

Seyed Mohammad Ali Khatibi Tabatabai (l), Iranian Governor for OPEC; with Mohammed Sanusi Barkindo, Nigerian Governor for OPEC.





Ali Obaid Al Yabhouni (l), United Arab Emirates OPEC Governor and National Representative; with Dr Majid A Al-Moneef, Saudi Arabian Governor for OPEC.

Rafael Ramírez (r), Minister of Energy & Petroleum, Venezuela; with Dr Bernard Mommer, Venezuelan Governor for OPEC.



It said the oil market situation would be reviewed at the next Ordinary Meeting of the OPEC Conference, scheduled to take place in Vienna on September 9, 2009.

“At the moment in OPEC, we are seeing a light at the end of the tunnel regarding the financial crisis,” OPEC Secretary General, Abdalla Salem El-Badri, told newsmen at the press conference.

Market still oversupplied

“Slowly, a small recovery is taking place ... and we in OPEC did not want to give a wrong signal to the global economy as it recovers,” he said when questioned about the Ministers’ decision not to tamper with the Organization’s current output ceiling.

He said it was true the market was still oversupplied, with OECD crude and product stocks standing at around 200m b, which represented 61 days of supply, while floating storage was estimated at another 130m b.

But despite the oversupply, stressed El-Badri, at the same time crude prices were improving bit by bit “and through our actions today we did not want to rock the boat.”



At the press conference: Eng José Maria Botelho de Vasconcelos (c), President of the OPEC Conference and Minister of Petroleum, Angola; Abdalla Salem El-Badri (second r), OPEC Secretary General; Dr Hasan M Qabazard (l), Head of OPEC's Research Division; Dr Omar Farouk Ibrahim (r), Head of OPEC's PR & Information Department; and the interpreter.

He said the Ministers were very happy with the overall compliance with the Organization's current production allocations which currently stood at about 79 per cent.

"In March, the level was around 81 per cent — now it is at 79 per cent, but this is the first time that OPEC Member Countries have been able to achieve this kind of percentage and it is positive that Members are adhering to their quotas.

"But, as Secretary General, I will always be asking for better compliance and if, by next month, we see 85 per cent or 90 per cent, then that would be an excellent achievement," he added.

Asked about the fall in crude oil prices since the summer of 2008, the OPEC Secretary General said that since late last year, the Organization's Members had lost around \$370bn in revenue.

"This loss, one could say, with the lower price of crude, could be viewed as being OPEC's stimulus package for the consumers," he said.

El-Badri noted that OPEC had been expressing concern about an oil price of \$40–50/b because it knew that this level of price could not support the investment that was needed to ensure orderly future supply.

"Without this investment, it means we have no additional supply and if the world economy picks up in the future, there is the danger we will have a shortage," he said.

"So what we are aiming at is a reasonable price that will be comfortable for the producers and the consumers," he said.

El-Badri said the Organization did not really have a target oil price — the Ministers were just saying that at \$70/b, they could invest and still have a reasonable income for Member Countries.

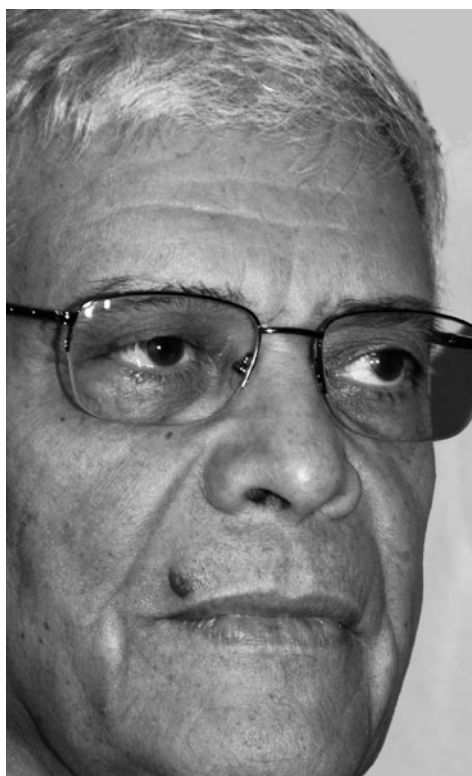
Turning to OPEC's cooperation efforts, and specifically a proposal by the G-8 countries to establish a new producer/consumer energy agency, El-Badri said the Organization did not have any problem cooperating with any new body or entity, as long as it was in the interests of OPEC.

It had entered into several dialogues with agencies and governments, including the EU, Russia and China.

"At the moment, we do not know much about this proposed agency by the G-8 — what its purpose is and what its goal will be ... we will have to study that," he added.



Breakfast with the Secretary General



OPEC Secretary General, **Abdalla Salem El-Badri**, met with a group of foreign correspondents the morning after the 153rd (Extraordinary) Meeting of the Conference. The informal gathering, which has become something of a tradition, is designed to give journalists an opportunity to gain a better insight into the workings of the Organization and its Ministerial Meetings. In this article, the *OPEC Bulletin's* **Alvino-Mario Fantini** gives a short summary of the latest gathering, which encompassed many topics — from compliance levels, to the state of the global economy, to future expectations of global oil demand and OPEC production.

Journalists from the United Kingdom, Japan, Germany, Austria, France, the United Arab Emirates (UAE) and the United States joined OPEC Secretary General, Abdalla Salem El-Badri, for a breakfast conversation. Some of the correspondents represented wire-services; others came from traditional print publications; but all were focused on OPEC, its latest production decisions and its up-to-date analysis of the state of the global economy.

The mood was friendly. After the Secretary General warmly welcomed everyone, their questions began. These were wide-ranging and covered a variety of topics. One of the first things that some of them wanted to hear about was the Organization's compliance level to agreed output cuts, which was recently put at around 80 per cent. El-Badri considered this a good level of compliance. He noted, in response to several follow-up questions, that what was most important from the point of view of the Organization was

overall (or aggregate) compliance — not the individual compliance levels of Member Countries.

Lack of balance

There was also an initial attempt from journalists to try to get a sense of how relations were between the Organization and non-Members, some of whom had failed to support OPEC actions during the past two Meetings of the Conference. While not singling any of them out, El-Badri pointed out that there were consequences to having such a lack of balance in the market. He expressed mild disappointment that some non-OPEC countries had not tried to balance the market in any way. As for the countries that belonged to OPEC, recent coordination and collaboration had been laudable, he said.

The majority of the questions from the foreign correspondents stemmed, of course, from the decision of the Organization announced the previous day. The Conference had announced no change in the production levels of its Member Countries. The continuing global economic downturn and weakened global demand for oil simply made any further cuts unnecessary. But the journalists endeavoured to find out more about the factors that played into the Conference's decision.

The Secretary General, explaining that the specific data that was considered by the Conference before making a decision was solely for internal use, said current prices were still not supported by fundamentals. He did, however, suggest that continuing demand in Japan, India and China was lending some partial support to prices.

Some journalists attempted several times to get the Secretary General to say where he thought prices might be in a few months — or by the end of the year. Though it was hard to predict anything — much less the price of crude during turbulent times like the present — El-Badri suggested that if current trends continued, then perhaps by the end of 2009 “we may see something around \$70–75/b.”

In response to a question from a Japanese correspondent, the Secretary General further noted that if there was a sustained and vibrant recovery in the global economy,


there was the possibility that an increase in OPEC production would be considered. But this would be feasible only if the forward cover of supply came down to around 52 days, he added.

There were then several attempts to get a sense of what decision might be taken by the Organization at the next Meeting of the Conference. But that, too, was impossible to predict since it depended on conditions at that time, and on the data and information which would be studied by the Conference. The reality was that whether a decision was taken to increase or decrease production, it was never easy nor was it simplistic. Many factors had to be considered, in combination with others, and large amounts of data were required in order for the Conference to carry out a proper analysis of the situation. Only then could the Ministers arrive at a consensus decision.

Projects delayed

The Secretary General took great care to point out that given the current price environment, in combination with the global economic crisis, the financial viability of many exploration and production projects had come to a standstill. Of 150 projects, he said, 35 had been delayed or shelved. Nevertheless, there were many reasons to remain optimistic, the Secretary General noted, an attitude which was reflected in the current findings of the Secretariat's studies.

Finally, with regard to OPEC's relations with other countries (such as the United States), or international actors (such as the G-20), the Secretary General noted that there seemed to be good signals coming from all of them. Asked what he thought about them, he responded that the Organization did not have criticisms to make of anybody. And, in fact, he added that to tackle the ongoing problems currently facing economies and industries around the world, more studies — and greater communication and collaboration among all actors — were needed.

With this, questions came to an end, the Secretary General thanked everyone in attendance and the meeting was adjourned. 

OPEC Ministers see signs of global economy improving



The following interviews were conducted during the 153rd (Extraordinary) Meeting of the OPEC Conference in Vienna, Austria, by the OPEC Secretariat's webcast team.

Eng José Maria Botelho de Vasconcelos

**OPEC Conference President
Minister of Petroleum of Angola**

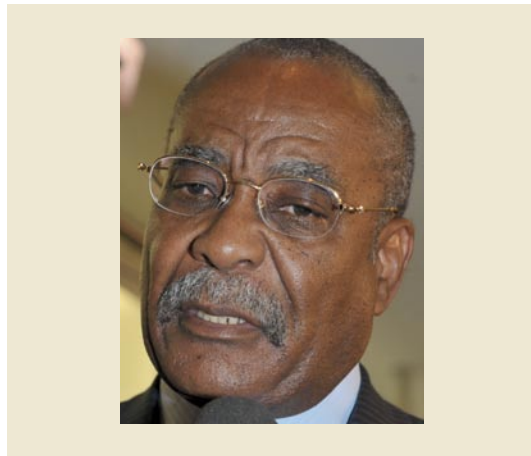
Asked after the Meeting about the OPEC decision not to alter the current production ceiling, Eng José Maria Botelho de Vasconcelos, Minister of Petroleum of Angola and OPEC Conference President, said the move was aimed at sending a positive signal to the international oil market.

working towards trying to achieve 100 per cent compliance," he said.

With the current compliance level gauged at around 79 per cent, de Vasconcelos stressed that, for the time being and with the price of crude moving up a little higher, "this current compliance level is very good."

Abdalla Salem El-Badri

OPEC Secretary General



"We are all partners in the financial crisis we are currently seeing in the world and we are all working towards balancing the situation," he said, in support of OPEC's actions.

He said all OPEC Ministers were satisfied with the level of compliance being shown by the Organization as a whole to the total 4.2 million barrels/day production cut agreed from September 2008. "We are now

Also questioned about OPEC's decision to maintain the status quo, Abdalla Salem El-Badri, OPEC Secretary General, said the rollover was the right decision to take considering the environment the industry was in.

"Of course, we will review the situation in September (at the next OPEC Conference), but I hope it will be different to what it is now. Maybe by then we will see some

real growth in demand. If so, OPEC might take a different course,” he stated.

“We see this decision as sending a positive message to the market and to the world economy,” he added.

El-Badri pointed out that because the price of crude had fallen considerably from the highs seen in the summer of 2008, OPEC considered that this lower price was the Organization’s contribution to helping the global economy.

“I am happy with the level of compliance to the production cuts, but I still urge Member Countries to comply even more,” he said.

Asked about OPEC’s cooperation efforts within the industry, El-Badri said the Organization was busy preparing for the annual European Union-OPEC Energy Dialogue meeting, scheduled for the end of June.

“They are very good partners and are contributing, along with OPEC, to the stability of the oil market and to the stability of energy as a whole,” he affirmed.

Concerning oil investment, the OPEC Secretary General said that if the producers saw a stable price of \$70/b for crude then that would support new investment being made. It would mean that projects that had been postponed, delayed or shelved would again be reconsidered. “This is very important to ensure that when the economy picks up, there will be no supply shortages,” he stressed.

Gholamhossein Nozari **Minister of Petroleum, Iran**

Speaking about the current state of the oil market just before the Meeting, Gholamhossein Nozari, Minister of Petroleum of Iran, said that at the present moment there were some signs that things were improving. However,

he maintained that the fundamentals of the market had not really changed.

“But we are hoping that demand will improve and that the market will become increasingly stable,” he said.

Concerning the level of oil prices, the Minister said that if the producers wanted to develop their oil fields and think about having sufficient supplies for the future, “we definitely need a better price than what we are seeing today.”

Asked about the long-term outlook concerning investment, he said this was a concern of every country, including the consumers, who had to realize that an adequate level of price for the supplier was very important, so that they could invest in future production.



“If the producers want to develop their oil fields and think about having sufficient supplies for the future, we definitely need a better price than what we are seeing today.”

— Gholamhossein Nozari

OPEC, he added, remained committed to bringing about stability in the oil market.

Turning to Iran’s domestic oil operations, Nozari noted that the country’s present output capacity stood at 4.3m b/d, a figure that was planned to be increased to as much

as 5.3m b/d through the development of the nation's oil fields. Extra oil was needed for domestic consumption and for increasing exports.

"We have started this year to decrease domestic consumption through reduced subsidization and other ways. It is all designed to change the way the consumer uses energy," he said.

"We are looking to have a dramatic change, which will be good for the environment, for the country's overall petroleum capacity and for our exports," he added.

Iran, he continued, had the second largest gas reserves in the world and possessed a good capacity for exporting gas, a fuel that was ideal for power generation and was environmentally friendly.

"Many countries have expressed an interest in taking supplies of Iranian gas," he said.

One major agreement entailed exporting gas to Pakistan and then India via pipeline. Another accord involved supplying gas to Armenia, he said.

Dr Rilwanu Lukman
Minister of Petroleum Resources, Nigeria

Asked about the current level of oil prices, Dr Rilwanu Lukman, Minister of Petroleum Resources of Nigeria, said there was hope the "financial tsunami" that had hit the world would soon abate and that the OECD economies, especially the United States, would start to pick up. This would then mean that demand for petroleum would increase, which should lead to a firmer price for crude in the marketplace.

"We need to have spare capacity in case demand suddenly rises. If the supply is not there when it is needed, prices will inevitably shoot up."

— Dr Rilwanu Lukman



"Stock levels are still on the high side and we would like to see these lowered further to give better stability in the market. We are now entering the summer season when demand is usually higher," he said.

"If the economy in the world improves, then we will see more people driving. That will boost demand for gasoline. Hopefully, this development will help strengthen the market," he added.

Asked about future investment in the oil sector, Lukman said that, ultimately, this was the key to the future.

"If we get carried away by the present problems associated with lower demand and do not invest in exploration and development now, then a time will come when supply will fail to meet demand, which would result in prices spiking upwards," he professed.

"We need to try and secure a balance between new investment and the likely additional supply," he said.

Unfortunately, said the Minister, OPEC had suffered the burden of carrying spare production capacity for the whole world and adding to the capacity was a very expensive undertaking.

"But we need to have spare capacity in case demand suddenly rises. If the supply is not there when it is needed, prices will inevitably shoot up," he warned.

Turning to domestic issues, Lukman said Nigeria was experiencing quite a challenging time in the Niger Delta at the moment, which had compromised some of the production facilities there.

This had led to some of the country's potential capacity being shut in. The authorities were trying to correct the matter and he hoped the situation would be resolved soon.

"We are happy with the reforms that the government is trying to institute in the petroleum industry, particularly with the re-engineering of the Nigerian National Petroleum Corporation (NNPC) to make it more responsible to commercial considerations, more accountable and more transparent in its operations," he said.

Lukman said the plan was to put the national oil company on a par with other national oil concerns and "to do a lot better than we are doing now and have done in the past."

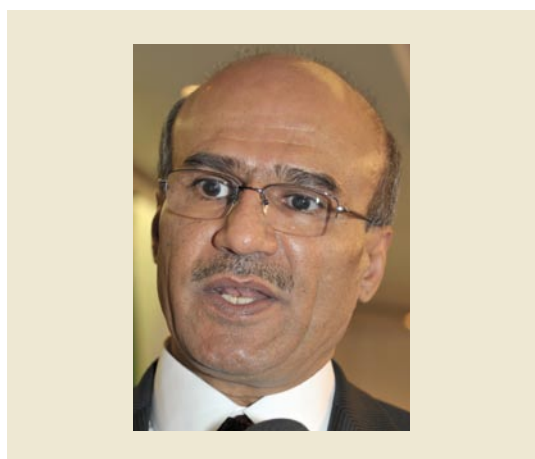
Dr Hasan M Qabazard
Director, Research Division, OPEC Secretariat

Questioned after the talks about OPEC's decision to leave Members' current production allocations unchanged,

Dr Hasan M Qabazard, Research Division Director at the OPEC Secretariat, said there had not really been too much to discuss at the latest meeting.

“We knew the situation in the market — demand has collapsed, it has fallen by around 1.6m b/d compared with last year and with current production levels it has led to a stock overhang.

“But we are seeing some positive signs now that the world economy is recovering and we might see a rebound in the second half of 2009. This positive sentiment in the marketplace is the reason prices are going up at the



moment. It is not because of the fundamentals, which are still weak,” he said.

Qabazard said that, in the OECD region alone, petroleum stocks stood at over 200 million barrels.

“But we see demand in China improving, while consumer confidence has improved drastically over the past couple of months,” he affirmed.

Exports in countries like Japan and Germany were also rebounding, “so we see the oil market fundamentals also improving and a balance being restored.”

Dr Mehdi M Ali
Mehdi Ali Associates, International Advisory & Consultancy

Concerning the current oil market situation, Dr Mehdi M Ali Mehdi, of Ali Associates International Advisory and Consultancy, said it was high time there was greater

cooperation between the oil producers and consumers, especially in the light of the recession.

“Prices have been just too low to give any incentive for investment — the OPEC Countries have already sacrificed a lot in lost income, but, at the same time, investment in future oil supply has also become a victim,” he said.

“We need prices to be at a level that offers an incentive to the investors for upstream and downstream operations and, at the same time, to ensure stability in the market so that when the world economy picks up there will be no further hiccups and complications,” he added.

Ali said that, based on his own analysis, a crude oil price of \$75/b would be a very fair price.

“Such a level gives an incentive to the producers to invest, yet, at the same time, gives stability to the market,” he maintained.

He said he was amazed at the mixed signals coming out of the OECD countries. “OPEC Countries have become a victim of confusion from the consumer side because the signals have been mixed.”

Ali noted that oil prices had been under pressure from investment in supplementary energy sources, as well as from energy savings and protection of the environment.

“These are all dampening factors. It is about time that the consumers worked more closely with the producers to ensure stability in the market,” he stressed.

As far as the recession was concerned, he said, the banks were being supported, as were the car firms, “but I am surprised just how little attention has been paid to oil during the crisis. It is an important commodity for reviving the economy.

“I am also surprised that the OECD economies have not heeded the warning over future investment failing if oil prices are too low. I would not be surprised further down the road to see another big jump in prices,” he said.

Ali said that, for OPEC, planning the future was not going to be easy. The Organization needed assurances now of an adequate price.

“OPEC is doing its bit in bringing about closer cooperation, but there is indifference from the consuming side. They are showing a relaxed attitude to the level of oil prices and I feel it is time for an extraordinary meeting of the OECD countries to look at closer cooperation between producers and consumers,” he said.

Ali said the other area for closer cooperation would be between the national oil companies and the international oil companies.

“Unfortunately, the governments of the OECD

economies are not doing very much and this is putting OPEC in a very difficult situation. It is in their interests to bite the bullet and say let us have real dialogue and a fairer price for the producers and the consumers,” he said.

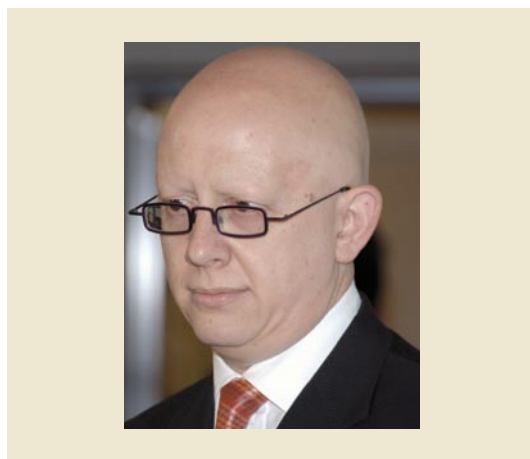
“OPEC is meeting here today, putting its cards on the table and being transparent. It is trying to ensure there is an enabling environment to secure a stable price for oil and I appeal to the OECD countries to do the same and not to be so complacent,” he added.

Raad Alkadiri *Senior Director, PFC Energy*

Commenting on the outcome of the latest OPEC talks, Raad Alkadiri, Senior Director of PFC Energy, said it was a meeting where calm seemed to be prevailing.

“There is certainly a more optimistic mood among the delegates. Perhaps, after looking at the economic indicators, they feel the recession has hit the bottom,” he said.

The fact was, crude oil prices were \$20/b higher



than when OPEC last met in March and this was accompanied by a feeling the current level of prices could be sustainable.

“They are not overly confident and they know that market management still remains very important ... but it is easier to deal with the current challenges when the price is at \$60/b, than when it is at \$40/b,” he affirmed.

Alkadiri said there were small signs of a pick-up in demand — albeit slowly.

“Prices are moving in the right direction after the precipitous fall seen last year, but OPEC Members will be concerned that the price does not go too high again and have a detrimental effect on the economic recovery. But it is certainly a more comfortable time for them than it was in March,” he stated.

But having gone through the worst recession in 30 or even 60 years and putting things into perspective now in looking at a longer historical trend, it was a relatively comfortable position to be in, he maintained.

“There is still some downturn risk and a piece of economic news could put everything back into reverse, but I generally think the Members of OPEC feel that we have got through most of the worst,” he added.

Alkadiri said that concerning the high level of petroleum stocks and with non-OPEC production failing to make any impression, the onus was on OPEC Members to bring the level of inventories down — and that could be achieved through sticking rigidly to their production allocations.

“They will be determined not to let what has been a very good compliance level unravel. They feel that if the discipline is there going into next year, they will be able to tighten the market,” he said.

Javier Blas *Correspondent, Financial Times*

Javier Blas, a correspondent with the Financial Times who commented on the current oil market situation, said it was clear OPEC was seeing signs of improvement in the market with demand in China increasing and with the driving season in the United States imminent.

He said that with their decision, they had sent a positive message to the market.

“We have had a rough year, what with the spike in prices to almost \$150/b in July 2008, then the crash to \$30/b. Now we have \$60/b, which is okay and good for the consumers also. I think the message OPEC is trying to put across is that things are getting better.” he said.

Blas noted that, compared with previous periods of price volatility seen over the past three years, the increase in prices over the last few weeks had been quite slow — nothing spectacular, which was not threatening for the global economic recovery.

“If the price moves above \$75/b, then we might have consuming countries starting to worry because that would bring inflation. So far, everyone is happy.”

Blas said the message from the G-8 meeting, which was held over the weekend, was that some countries were concerned that prices were too low, which meant investment would not be made in future oil supply.

they had little idea what investments they could make right now. They were also in danger of losing valuable expertise.

“The oil price drop has hit non-conventional oil and



“That could bring another price spike, which no one is interested in seeing,” he professed.

Blas said it was interesting how OPEC, with the lower prices prevailing, had actually supported the consumers with a kind of stimulus package. As the OPEC Secretariat had announced, OPEC Member Countries had lost some \$370 billion in revenue from the drop in prices.

“OPEC really has won one battle — but the war is not over ... there are still many things in the market that the Organization is going to have to manage. We really need to see some improvement in demand in Europe,” he added.

Dr Karin Kneissl ***Freelance Journalist***

Also speaking about the current oil market situation, Dr Karin Kneissl, a freelance journalist, said there were still big question marks for all concerned, including the national oil companies and the international oil firms.

Nobody knew at what level demand would eventually arrive at and at what level the crude oil price would be. A lot of tough decisions were having to be made. Oil companies were having to restructure their corporate make-up to streamline their operations and

the alternative energy industry, such as solar, with governments already cutting subsidies. Renewables are also suffering,” she said.

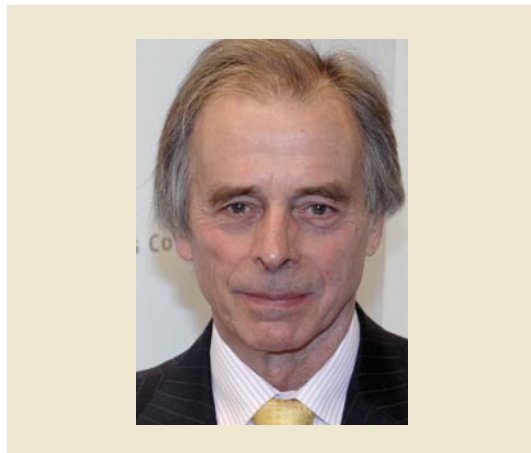
Kneissl said the level of the oil price had an impact on all energy sources, whether natural gas, solar, or wind power.

“There is a lot of floating storage out there at the moment and I do not share the optimism of some that there will be a boom in demand from the Asian side,” she added.

John Hall ***Managing Director, John Hall Associates***

Regarding the oil market situation, John Hall, Managing Director of John Hall Associates, said the demand might not be in the oil market yet, but prices were hovering around the \$60/b level, which was much better than in March when OPEC last met.

“What OPEC needs to do is reinforce the quotas in place and try and get 90 per cent compliance. In the meantime, there is nothing further the Organization can do. There are signs that the recession is going to end sooner rather than later and that the recovery is on the way,” he said.



Hall said he felt demand for OPEC oil would pick up towards the end of 2009. For the moment, all depended on how Member Countries could manage their compliance to the allocations in place.

He said OPEC needed to be disciplined because if some Member Countries started to increase production when the price went up, it would be like a double-edged sword and could result in prices falling again.

“There is also a lot of confidence in investor markets now, which is why investors are returning. But there is also a lot of nervousness, because no one knows for sure what is going to happen over the next six to nine months,” he stated.

“The reality is that oil prices will turn around in the next year or so ... it is just a question of having to sit back and wait for that to happen,” he added.

Johannes Benigni **Managing Director, JBC Energy**

Asked about the recent rise in crude oil prices, Johannes Benigni, Managing Director of JBC Energy, said that, at the moment, it was market sentiment that was driving prices higher. “And this makes me nervous because we all know how sentiment can get out of control.”

He explained that, of course, sentiment was present

in the market at all times “so we have to make sure that the fundamentals are in balance.”

Benigni said he felt OPEC should cut production by some 1m b/d for six months. “When you consider that the target is to reduce stocks to 52 or 53 days of forward cover and they are currently standing at 62–63 days, one has to ask one self, has enough been done?”

“The only real glimmer of hope is that OPEC compliance to the production allocations is brilliant.”

Benigni said a lot of people were saying demand would come back and they were pinning their hopes on the summer driving season, “but this alone will not be enough.”

He continued: “I think it would have been better to cut production further now to push prices higher, rather than just wait on the sentiment.”



He said the governments of the consuming countries were not really against higher oil prices. “They need to balance their budgets and they cannot get good tax revenue from a low oil price.”

Even in the US the feeling was that prices needed to be higher so that they could push renewables.

“I think that even if OPEC does not cut output again today, it will have to reduce production some time later. The Organization will need to do something,” he added.



Sheikh Ahmad reappointed Oil Minister of Kuwait

Sheikh Ahmad Al-Abdullah Al-Ahmad Al-Sabah has been reappointed Kuwait's Minister of Oil.

Sheikh Ahmad, who is also Chairman of the Kuwait Petroleum Corporation's Board of Directors, was first appointed to the position in February this year, but then saw the country's cabinet dissolved. His reappointment was made following the establishment of a new government.

Sheikh Ahmad, an economist, who attended the 152nd Meeting of the OPEC Conference in Vienna in March, has held several ministerial portfolios.

He was appointed Minister of Finance and Minister of Communication in July 1989 and in July 2003 became Minister of Communication and Minister of Planning, as well as Minister of State for Administrative Development. In June 2005, Sheikh Ahmad was Minister of Communication and Minister of Health.

Married, with three children, Sheikh Ahmad has a BA in Economics, Business Administration, Finance (Banking and Investment), from the University of Illinois.

In his early working career, he was Financial Analyst with the Kuwait Financial Centre between April 1977 and March 1978, at which time he joined the Central Bank of Kuwait, where he held a number of positions as Financial Researcher, Head of the Research Section, Acting Manager of the Banking Supervision Department, and Manager of the Banking Supervision Department.

Sheikh Ahmad was Chairman and Managing Director of the Burqan Bank between May 1987 and November 1997 and Deputy Chairman and Managing Director of the Al-Ahli Bank of Kuwait from November 1997 to July 1999.

Asked about his appointment as the new Oil Minister in March, when he was in Vienna, Sheikh Ahmad told the OPEC Secretariat's webcast team that it had come during a very difficult situation regarding the world economy and OPEC.

He said that with oil demand declining OPEC, through its actions, was striving to do its utmost to consolidate efforts at ensuring oil market stability.

"It also needs to safeguard the economies of its Member Countries, but at the same time, the Organization does not want to be self-ish in its actions, so that it can help to revive the economy," he said at the time.

He pointed out that each OPEC Member Country had its own budgetary needs, which required oil prices to be at a certain level.



Ecuador appoints new Mines and Petroleum Minister

Eng Germánico Pinto has been appointed Ecuador's new Minister of Mines and Petroleum, replacing Eng Derlis Palacios Guerrero.

Pinto, who was born in Cologne, Germany, in June 1963, began his schooling in Ecuador at an early age. He later attended the National Polytechnic School, where he studied electrical and control engineering, before attaining a certificate in Business Consulting at the Instituto Tecnológico de Monterrey.

In 1981, he received a First Certificate in English (Grade A) from the University of Cambridge and became a Microsoft Certified Professional (MCP).

In his working experience as a teacher, Pinto was Professor, Institute of Technologists, at the National Polytechnic School (1990–98) and Professor of Mathematics, College of La Condamine, Quito (1998–2008).

Of his other work experience, he was President of SI Electronics between 1989 and 1990 and Argos Systems Manager from 1991–2002. From 2002 until 2007, Pinto was Manager of Argosystems Cía Ltd.

In the public sector, Pinto, who is married and speaks four languages, was Assemblyman in the Constituent Assembly (2007–08) and Technical Secretary in the Ministry of Coordination of the Strategic Sectors (2008 to June 2009).



Speculation in focus

*A recent OPEC-European Union (EU) workshop, held in Vienna, tackled the complex and challenging issue of the impact of financial markets on the price of oil and reviewed efforts to enhance regulation and transparency. **Douglas Linton**, Research Specialist with the OPEC Secretariat's Petroleum Studies Department, reports for the OPEC Bulletin.*

The evolving impact of financial markets on the price of oil was the subject of a high-level OPEC-EU workshop, held at the Secretariat at the end of April. Experts from OPEC and EU member countries, along with a select group of senior experts, were presented with the results of a joint study on developments in the financial oil markets since 2007.

The study was a follow-up to an initiative implemented in 2006, which included an OPEC study on financial markets and the first OPEC-EU workshop on the impact of financial markets on the price of oil.

Recognized as a ground-breaking event with considerable foresight, the workshop in 2006 acknowledged the influence of the paper oil market on the price of oil and



L-r: Ioannis Samouilidis from the European Union; Jean-Arnold Vinois, Head, Energy Policy and Security of Supply, DG Tren, EC; Mohamad Alipour-Jeddi, Head of OPEC's Petroleum Studies Department; and Fuad Al-Zayer, Head of OPEC's Data Services Department.

called for the strengthening of regulation and oversight in the financial markets, as well as the need to improve data transparency.

This occurred well before the events of 2008, when crude oil prices experienced a strong upsurge, before collapsing, and which was primarily due to the strong influence of speculative activity in the financial markets.

Study findings

The expert who prepared the study, Dr Ahmad R Jalali-Naini, Consultant to the OPEC Secretariat's Petroleum Studies Department, began his presentation by noting the important role that the oil futures market played in price discovery, as well as providing a cost-effective hedge and eliminating payment risk.

The futures market also allowed different expectations and information by participants to be incorporated into prices.



Dr Ahmad R Jalali-Naini, Consultant, Petroleum Studies Department, OPEC.

Oil as an asset class

The study noted the strong co-movement between futures prices and the physical price of benchmark crudes, as well as other non-benchmark crudes. This indicated that oil prices were not determined solely on the basis of fundamentals in the physical market.

Jalali-Naini said oil prices also reflected risk premiums and expectations regarding future events — even if such events had only a remote chance of occurring.

The study noted that, starting in 2002, the paper oil market made a quick transition from a primarily hedge market to a hedge and investment market. In the process, oil and commodities were transformed into a new asset class.

As a consequence, oil prices now exhibit some of the characteristics of financial assets and have become more exposed to developments in the global financial arena.

The period leading up to 2008 experienced the largest oil price cycle in history, the study pointed out. At the same time, the financial oil market grew and evolved quite significantly. Globalization also helped to increase the role of financial markets, leading to a huge rise in transaction volumes across all markets, particularly the energy sector.

Since the mid-1980s, price volatility in oil had been higher than in other commodities. The occurrence of large intraday price volatility in recent years — a characteristic of other financial assets, such as stocks and foreign exchange — had become more frequent. This type of price volatility usually did not reflect physical market demand and supply conditions, the study maintained.

'Super-spike' expectations

The study also noted that the share of speculative money in the paper oil markets rose substantially from 2003 and 2008. It showed a link between price changes for benchmark West Texas Intermediate crude and net long speculative positions on the New York Mercantile Exchange (NYMEX). During certain periods, changes in the speculative money inflow led to changes in crude oil prices.

One way derivative markets could influence oil prices was through expectations. Higher prices were influenced



Jonathan Hill, UK Financial Services Authority.



Prof I Michael Greenberger, University of Maryland School of Law.



Dr Michael S Haigh, K2 Advisors, United States.

by ‘super-spike’ and ‘supply-shortfall’ prophecies, propagated by investment banks.

The study observed that these scenarios were built on the assumption of continued high growth rates in the emerging countries and China — and indeed the world economy as a whole — irrespective of the level of oil price.

Super-spike type prophecies and price dynamics in the futures market exaggerated high price expectations. These prophecies became self-fulfilling, leading to an overshoot of prices way above the levels justified by fundamentals over the first seven months of 2008 — despite the fact that economic indicators were predicting a slowdown in growth, if not an outright recession.

Moreover, oil demand forecasts were being consistently revised down to reflect the economic reality and crude oil supplies showed no signs of any imminent physical shortage.

During the discussions, it was noted that the OPEC Secretariat had warned about this growing dualism as economic and oil market fundamentals continued to weaken, while prices moved sharply higher.

It was only when prices reached \$147/b in July 2008 that the urgent need to address this issue became more evident and some sort of consensus started building about the impact speculative pressure was having on crude oil prices, as it was clear that changes in supply/

demand fundamentals were not driving this massive movement in prices.

A few months later, with the dramatic worsening of conditions in the broader financial markets and the global economic recession, it became impossible for financial players to continue promoting the unjustified perception that the oil market was tight and heading towards a price spike.

With the sudden removal of speculative support, crude oil prices collapsed.

Enhanced regulation and oversight

The workshop produced a very lively discussion on loopholes in supervision and the issue of enhanced regulation and data transparency. It agreed that the recent run-up in prices suggested certain shortcomings and remedies.

Better information flow and greater access to information, improved transparency, regarding the position of different categories of traders, and more effective regulation were needed.

It was also felt that more informed, liquid and transparent oil derivatives markets, with better oversight, could improve information aggregation and reduce price volatility.



Helmut Doering, Head of Division, International Energy Policy: International Oil and Gas Market, Ministry of Economics and Technology, Germany; Siham Abdulrazzak Razzouqi, Kuwait's Governor for OPEC, Chairperson of the OPEC Board of Governors.



Javad Yarjani (l), OPEC National Representative of Iran; with Mohammad Sadegh Memariain, Iran.

The presence of information costs and the lack of data transparency could result in a departure of price discovery from fundamental values and contribute to the potential emergence of a bubble.

More specifically, said the workshop, extending Commodity Futures Trading Commission monitoring procedures and greater scrutiny over the organized exchanges outside the purview of regulatory agencies was seen as a positive step forward.

There was also a significant need to strengthen data

collection and reporting in the unregulated over-the-counter (OTC) market. The size of the OTC was large, both absolutely and relative to the organized futures exchanges, but data availability and transparency were limited.

The workshop noted that effective regulation should be undertaken with a longer-term view. Speculative pressures were likely to return when circumstances changed and 'irrational exuberance' repeated itself.

Implementation of the current stimulus packages had large liquidity-creation and potentially inflationary



Mohamad Alipour-Jeddi, Head of OPEC's Petroleum Studies Department (third left), with the invited experts at the Workshop.



Dr Attahir Yusuf (l), Group Executive Director, Corporate Services, NNPC; Eng Uthman Muhammad, Nigerian National Representative to OPEC.



Felix Manuel Ferreira, Angolan Governor for OPEC.



Dr Majid A Al-Moneef (l), Saudi Arabia's Governor for OPEC; Prof I Michael Greenberger, University of Maryland School of Law.

consequences which may spill over to oil and commodity markets.

The way forward

At the conclusion of the workshop, it was noted that under the framework of the OPEC-EU Energy Dialogue,

important steps had been taken on this complex and multifaceted issue.

Taken together, the studies and workshops had provided in-depth analysis of the impact of financial markets and paper oil derivatives on oil prices and volatility.

Although, with the onset of the financial crisis and the global recession, speculative money had exited the oil market, this did not mean that the issue of the speculative impact on oil prices had been resolved.

There were good reasons to believe that the divergence of prices from economic fundamentals, as experienced in 2008, could see a repeat, which would clearly not be in the benefit of either producers or consumers, workshop participants noted.

Due to the impact of the global financial crisis, there was a broad consensus among governments on the need to review the global regulatory framework in the financial markets for a range of financial asset categories.

This provided a window of opportunity to also improve regulation and oversight in the financial oil markets, with a view to ensuring regulatory consistency across major trading platforms, such as the regulated exchanges (NYMEX, Intercontinental Exchange), as well as the OTC market.

Efforts to strengthen data transparency were also seen to be important.



Major Pablo Caicedo, Vice President of the Administrative Council of Petroecuador.



L-r: Mabrouk Aib; Ali Rezaiguia; and Bouchra Benyelles; all from the Algerian Ministry of Energy and Mines.

Naturally, these efforts would need to be carried out by the governing and regulatory bodies in consuming countries, primarily in the United States and Europe. While oil-producing countries would not be able to contribute directly to this effort, they would certainly follow developments with interest.

The workshop stipulated that time should now be

given to allow for the results of these efforts to be put in place.

In the meantime, participants stressed that the impact of financial markets should continue to be monitored, benefiting from the comprehensive and excellent work that had been carried out within the OPEC-EU Energy Dialogue on this issue.



Group picture of participants at the workshop.

The financial markets — causes and concerns

*The global economic recession, sparked by the onset of the financial crisis last year, has hit all walks of society the world over. Some of the globe's leading banks have failed, once rock solid car manufacturers have stared bankruptcy in the face, while unemployment, especially in the major OECD countries, has soared to levels not seen in many decades. The international oil industry, already beset with its own all-too-familiar problems of market instability and price volatility, has not escaped the turmoil. With oil demand declining sharply and international crude prices falling from record highs of nearly \$150/barrel in July last year to below \$35/b in December, the petroleum sector has been forced into stagnation and to wait until such a time the economy recovers and demand once again rises. OPEC, through its policy actions — it has cut production by over four million barrels/day — has been playing its part in aiding the recovery. Financial leaders and analysts have proffered various reasons for the oil price slump — and most have blamed the financial meltdown. The **OPEC Bulletin** caught up with three leading financial experts in Vienna following an OPEC-European Union workshop on financial markets and asked them their opinions on the reasons for the economic catastrophe, the effects on oil price volatility and the need for structured regulation.*

Riding the risk factor

*The impact of financial speculation on the world's economic and financial system has been the subject of widespread debate in the recent past, not least among OPEC Members who have long warned of the dangers of unregulated markets. But according to one expert, the signs were apparent years ago. I **Michael Greenberger**, Professor at the University of Maryland School of Law, was an official at the Commodity Futures Trading Commission (CFTC) from 1997 to 1999, when the risks of unregulated derivatives markets began to become apparent. The Bulletin's **Alvino-Mario Fantini** spoke to him about the origins of the current crisis, the role of speculative activity and the ongoing debate over financial market regulation.*



What is the root cause of the problems we are seeing today in the financial industry and in the global economy in general?

The Chicago School of Economics — and very strong personalities such as Alan Greenspan, Margaret Thatcher and Ronald Reagan following the teachings of that school — began about 30 years ago to propagate the view that markets are self-regulating, that markets function best on their own and that the government that is best is the one that regulates least. This was an attack on the New Deal regulatory structure.

Now that the norms of New Deal regulation are somewhat back in vogue, one thing you have got to understand is that someone who is regulated is never going to be a 'happy camper'. There are always going to be feelings of abuse, of unnecessary interference, of a lack of productiv-

ity and, sometimes, of outright incompetence. But what we have learned at the end of this 30-year respite is how to balance those 'harms'. The drawbacks of regulation do not equate with a global world meltdown and, in retrospect, I think any objective observer who looks back will say it was a mistake to do what we did and deregulate.

It is also interesting to note that in the late 1990s, at the height of deregulation when people like Alan Greenspan, Chairman of the Federal Reserve Bank, were imposing their ideas, the crude oil futures markets were regulated; but the financial swaps markets were not. We thought financial swaps should be regulated. Interestingly, Alan Greenspan, while supporting deregulation of financial swaps, did not want the energy markets deregulated. In 2000, Congress deregulated the energy futures markets anyway at the behest of Enron.

What was the source of Greenspan's opposition to deregulating energy futures markets?

Greenspan felt they could be manipulated. His thesis was that when you are dealing with commodities, you have a limited supply and, therefore, manipulation of those markets would be easy if unregulated. His theory was that with regard to the financial swaps, there is a virtually unlimited supply of money so you cannot manipulate money and, therefore, we can have unregulated interest rate swaps, currency swaps, credit default swaps, etc.

But those swaps were never properly understood and there was too much of a chance of short-term gain for long-term loss if not supervised, and no accountability. Greenspan also thought that credit derivatives were the answer to everything because you were 'insuring' every financial activity and insuring it across a broad market. In other words, people could invest in the securitization of the credit markets and, therefore, instead of having one, two, three or four big institutions taking all the risk lending, we would spread that risk throughout the world.

But the problem was the way the risk was disbursed. First of all, it was not a one-to-one proposition. For example, for every loan default on a subprime mortgage, when you work through the financial system, somebody is losing three times that amount of money through the betting that goes on. There is something called a 'naked credit default swap' in which somebody says, 'I want insurance on somebody else's liability. I want to insure somebody else's exposure to this risk.' In such unregulated swaps markets, people made three times as many bets that subprime mortgages would not be paid as there were subprime mortgages. Some of the 'betters' got to the window early — like one speculator who, in 2007, collected \$4 billion — but then other people went to the window and there was no money. That is why with AIG, \$110bn in US taxpayers' money has gone in to pay those people off. So, I do not think Greenspan ever thought that you would have a more than one-for-one liability in credit markets.

Now, bookies hedge their risk. They will honour every bet. It is the person placing the bet that you should worry about. Within the deregulated swaps markets, the so-called 'bookies' (eg, AIG) never hedged their bets. AIG thought that housing prices would always go up and they had all these people coming to them with premiums to pay for this risk. It was like printing money for AIG! When housing prices went down, however, AIG had hundreds of billions of dollars of obligations and it had never set aside any money to pay those obligations off. And a lot

of that is not a direct one-to-one relationship on subprime defaults. It is at least three times the 'real losses' by those who were betting on subprime defaults.

If it were one-to-one, perhaps there would have been less of a problem.

If the losses were only one-to-one, I believe we would not be in the mess we are in now. But it is three-to-one, some people think it is eight-to-one. And, also, there are things called synthetic collateralized debt obligations (CDOs). CDOs are essentially a Frankenstein's monster of mortgage-backed securities. But they ran out of mortgages and thus ran out of CDOs to sell, and people thought it was such an attractive investment, that they said ...

... let us mimic them?

Exactly. So there again, the mimickers are exponentially increasing the real-world losses. That is you not only had failing CDOs based on real investments, you also had failing bets on the CDOs.

You seem to be suggesting that the whole gown-to-town movement — when academics flooded Wall Street and began creating these new instruments — contributed to the problem we have now? It was the quants?

It is not the quants. Anybody who is regulated is not happy to be regulated. And up until 1979–80, they were generally regulated. Then people began to say, 'let them do what they want. Who cares?' And, the Chicago School of Economics and the free-market orthodoxy followers developed an academic model to endorse deregulation. You had an intellectual support for deregulation.

I just came from a meeting of academics and economists who are bemoaning the fact that those who support regulated markets never developed a philosophy, or a school of their own. For example, in the CFTC's battles with Alan Greenspan, Secretary of the Treasury Robert Rubin and Deputy Secretary of the Treasury Larry Summers over basic principles of market regulation, there was no academic background to say, 'Oh yes, the CFTC is right.' Today there would be a constituency to back us up.

As well as a theoretical or conceptual model to support the pro-regulatory position?

Yes. Respected economists worldwide would now say, 'markets do not regulate themselves.'

Who are some of the guiding lights in the new push towards regulation?

Joseph Stiglitz at Columbia University; James K Galbraith at the University of Texas; Paul Krugman at Princeton University and of the New York Times; Nouriel Roubini at New York University; George Soros; and there is also a guy named David A Moss at the Harvard Business School. And there are many more. I am not bringing everybody to the table. This is just a short laundry list of people.

So are we watching the pendulum moving back?

Yes. The pendulum is moving back. But my view is that we are still in a battle over who is going to prevail. The hostility of the financial services industry to regulation is substantial. While economically they are ‘flat on their back’, politically they are not.

There was a quote in the paper I read yesterday where Senator Dick Durbin of Illinois, the Deputy Majority Leader, said they are trying to get some bankruptcy relief for people who are behind on their mortgages. But they are not going to get it. And he said, ‘you know, the banks control this place.’

How powerful is the hedge fund industry lobby?

It is not just the hedge funds.

It is the whole financial services industry?

It is the whole industry. It is what we used to call investment banks and the bank holding companies. It is everybody who is ‘stress tested’. I do not think there is an institution among them that is truly welcoming meaningful regulation. Now, with regard to this argument about a systemic regulator — some big institution that will look over the economy and keep big institutions from becoming ‘too big to fail’ — they are all for that because they think it is going to be the Fed, and they think it is going to be ‘dialogue’ with the Fed, not real regulation.

But it is at the micro-level — increasing the powers of the Securities and Exchange Commission, or the CFTC, or others — to which they are hostile and right now, it is hand-to-hand combat. The only time the playing field gets tipped in favour of the consumer, the investor, or the American taxpayer, is when there is outrage over something like the AIG bonuses.

Outrage brings results?

Yes. My own personal view is — and I hope I am wrong about this — that in two to three months time, there is going to be another kind of crash in the economy because the ‘real’ losses are just mounting up too fast and the price of oil is escalating. These swaps instruments and

unregulated crude oil futures markets are still out there. As the economy dips, more and more unfunded swaps commitments get triggered. The capital is not there. The International Monetary Fund just said there is a worldwide \$4 trillion hole. I think that is a conservative estimate!

That is an extremely dark picture you are painting of the short-term.

The only reason that it is not a dark picture is because I think once we take another hit, I have a strong feeling that the forces for regulated markets will be locked into place. And one window on that right now is the Obama Administration — that is tipping in both directions. I think a lot of the people I mentioned to you earlier are very anxious to be able to get to the table for discussion in the halls of power about what should be done. If there is a bigger economic hit in the future, and I hope there is not, the door is going to be open for these people. Right now, a lot of them are being shut out of the policy debate — but maybe not for long.

Were we not in a similar but perhaps less dramatic place about 15 years ago — with the Orange County bankruptcy? That was when we first started hearing about the risk of derivatives?

You are absolutely right and this is the point I am making. Orange County’s failure was bad, but it was not big enough. There was also, at the same time, the Bankers Trust scandal. So, in 1994, the US Government Accountability Office (GAO) did a study on this. Powerful members of Congress then introduced legislation to create a Derivatives Regulatory Commission. There was a real push for this. And it was so close to the savings and loan crisis that it was almost like a wind at the back of concerns of the need for more regulation.

But at that point in time, Lloyd Bentsen was Secretary of the Treasury and he went to — I think it was Congressman Edward Markey in the House who was pushing the regulation of swaps — and said, ‘We will fix this through the President’s Working Group on Financial Markets. Do not do anything.’ Then we at the CFTC came along, we wrote our so-called ‘concept release’ paper in May 1998, which

“The pendulum is moving back. But my view is that we are still in a battle over who is going to prevail. The hostility of the financial services industry to regulation is substantial.”



Prof. Michael Greenberger

said — focusing on financial instruments — that these markets are unstable and that by law they should be regulated. We said we are willing to ‘grandfather’ in the existing market, which was then \$27 trillion (it is now valued at \$600tr) but we have to treat this like exchange-trading. We lost that battle. We not only got stopped from doing it but, affirmatively, the government deregulated the markets. In the intervening time, Long-Term Capital Management (LTCM) failed, which also should have been ...

... a wake-up call?

It was, almost. And, in fact, we had been very badly beaten down by our attempt for regulation in May 1998 and after the LTCM there was a four-week interim when people were saying, ‘maybe you are right. When my boss, Brooksley Born, Chairperson of the CFTC in 1996–99, went to testify before the House Financial Services Committee right after the LTCM collapse, Chairman James A. Leach said, ‘I think we may owe you an apology, Miss Born.’ Later, the LTCM was taken over by its counter-party creditors (the world’s largest banks) and the original LTCM bets turned good within about four months. The banks were able to

get out of it, did not lose a thing and shut the thing down. By November 1999, Summers, Greenspan and the SEC chair were arguing: ‘Deregulate the financial markets; but do not deregulate the physical markets.’ By the time all this got to Congress, Enron was there saying, ‘deregulate the energy markets.’ And Congress did.

You have suggested that all trading should take place on exchanges.

Senator Tom Harkin, Chairman of the Senate Committee on Agriculture, is heading in that direction, too. I think there are a lot of progressive Democrats who support exchange trading. On the House side, actually, the House Committee on Agriculture reported on a bill that goes about 75 per cent down that road, not 100 per cent. So, it has definitely got a lot of currency. On that front, there are several philosophies that are competing with each other. One says that if you put it on an exchange, or you clear it, you have to standardize the contracts. But the

financial industry has resisted, saying that a lot of their customers do not want standardized contracts.

They want specific, tailor-made, bespoke instruments.

And the banks are saying if you do not give customers bespoke swaps, they are going to be running what is called ‘basis risk’. In other words, for example, someone who is hedging their crude oil — say, an airline is hedging its jet fuel by buying crude oil futures: that is a basis risk. It is not a perfect hedge. But, that happens every day. Hedges are almost always not ‘perfect.’ You trade off the basis risk for getting an instrument that is going to be viable and work, and not marred by speculation, etc. So you have one set of the industry coming down the pike saying, ‘this will not work because we need to have bespoke.’

Then there is another part of the industry, led by the International Swaps and Derivatives Association (ISDA), that wants standardized agreements. They are saying, ‘We will regulate this ourselves. Do not interfere with our business.’ Essentially, there is an economic battle going on there. ISDA has made its business by writing these standardized agreements. If you require exchange trading, you take their reason for being away from them. That is the main point from the financial services side: ‘Do not do anything.’

The mid-ground position is, ‘clear these products but do not require exchange trading.’ This is, right now, a meaningful debate in Washington. The Obama Administration has said that for standardized products, it will require clearing and encourage exchange trading. With clearing, you get transparency to the clearing facility and to the government you are reporting to — but there is not public market transparency, which is a valuable thing because it allows people to judge the viability of these markets and ensure the fairest pricing. In clearing, there is a requirement for collateral. So that does help, but there is no anti-fraud, no anti-manipulation, no self-regulation and no regulation of intermediaries.

So the debate right now — at least among those who want to regulate — is the difference between clearing, which would be a tiny form of regulation, and exchange trading. Harkin is a very powerful member of Congress and he is supported by other powerful members in the Democratic Party who want to have exchange trading. The House has said, ‘we are going to have clearing with some exchange trading elements to it, but not go the full distance.’ That is a little bit of this, a little bit of that. It will have no anti-fraud, no anti-manipulation. But it will

have capital adequacy requirements and ensure a lack of conflict among boards of director. So they have taken about four or five principles of exchange trading and thrown them in.

A recent television report showed an investment bank trading physical assets, docking tankers full of crude in New York harbour.

I was actually part of that television report. If I am right — and if people who think the way I do are right — if you control the futures price you control the spot price, and if you are controlling the futures prices by getting everybody and their brother involved in buying long (say, crude oil futures contracts), there is this appearance of demand on the futures side that is affecting the spot price. What is the next thing you are going to do? Buy the spot. So what you were seeing there in New York harbour was terminal after terminal owned by banks holding heating oil in New England.

Remember when someone interviewed on that show said they could not find enough tankers? That is because speculators were storing crude on tankers where it was more valuable — if the asset was going to appreciate — being held on a tanker rather than selling it off. So, it becomes a self-fulfilling prophecy. You start having supply problems because people do not want to sell as the price is being driven up by the appearance of supply problems.

Clearly, there is an important task with regard to classifying participants in the market.

Do not forget, if swaps dealers have ‘spec limits’ on the NYMEX that they have to comply with, that limits the number of swaps they can sell to passive crude oil ‘paper’ investors. They are selling longs to all their customers, getting all the transaction fees, then they have to go lay off the risk — because they are short and they think the market is going to \$200. So they have to go long. Where do they go? They go to the NYMEX. Well, the restriction on that should be: they are not commercial in the classic sense so they should be limited by hitting NYMEX spec limits.

In 1991, a staffer at the CFTC gave Goldman Sachs a letter that said, when you are hedging swaps transactions, you are considered commercial; you do not have to worry about spec limits. Now, the CFTC made that decision again and again. But that precedent was set by a letter. But this was not a transparent action by an agency, but it was a letter from one staffer in the agency to Goldman Sachs.

It is funny because I was the head of the same division that issued the letter from 1997–99 and I never knew about the letter. Brooksley Born and I were just talking about it the other day. She did not know anything about this. When she found out that swaps dealers were being treated as commercial, she was shocked.

Now, over the summer, the CFTC re-categorized a major trader and said, ‘you are no longer commercial; you are a speculator.’ There were things that happened this past July — short of actually passing legislation — that sort of sent a message out that this is not going to go on forever. But that was not permanent — and unless they put some permanent controls on, my fear is that the price is just going to go back up again, despite the lack of a supply problem worldwide.

What will happen in Washington this year with regard to regulatory reform?

Right now there are below-the-radar-screen discussions between powerful members of Congress and the White House. The members of Congress are siding with Harkin’s proposal that everything be traded on exchange. I think where the White House is now is that they want to ‘clear’ everything. But there is a big difference. And that is being debated out. I think it is like a 50:50 proposition. I think it is 50:50 whether there will be a meaningful regulation — that is to say, that the financial services industry will not convince Congress to ignore this — and then, if it happens, it will be 50:50 whether it is clearing or exchange trading, unless something really dramatic happens.

The Harkin proposal would not just affect credit default swaps; it would affect oil swaps and unregulated crude oil futures as well. So you could not have private oil swaps, or index swaps. They would all have to be traded on exchange. *(Editor’s note: This interview was conducted at the end of April. On June 17, the Obama Administration announced plans for a massive overhaul of the existing financial regulatory system. The Administration’s proposal would, among other things, expand the CFTC’s authority over the derivatives market, expand the US Federal Reserve Board’s supervisory powers over troubled financial institutions and require all hedge funds to register with the Securities and Exchange Commission.)*

To the interest of OPEC Member Countries?

I am actually interested in what Member Countries think. If they want market fundamentals to drive prices, then it is in their interest to support regulated markets. That is

why I was saying to people who go back far enough, ‘was this a problem you saw up to 2002?’ The answer probably is ‘no’. Nobody ever thought that deregulated futures contracts could have such an effect because they were totally regulated until December 2000. You could not do what is done today.

And futures go back to the 18th and 19th centuries. They are not a new invention.

Yes. But another thing about this market is that there are not a lot of skilled, educated people who really understand the way these markets function. These markets have been very, very opaque — even when regulated to

those commercial interests dealing with the physical commodities on a regular basis. Why is that? Because basically it grew up from the agricultural markets. The agricultural sector understood it. And then they added on energy, metals futures. It is like the same group of people just expanded their knowledge, but there was not a global knowledge base about it. So much so that when oil went up last summer, it was such a shock to the system that the airlines started looking at this, the heating oil dealers, petroleum marketers, and even the farmers.

Agricultural products were never intended to be deregulated. How they ended up deregulated is a mystery to me. But the farmers are starting to get upset about it. Now you have these human rights and world hunger groups that are starting to understand this. And as this constituency builds, the argument for moving to exchange trading is going to be easier. When I was trying to deal with this — and we were not dealing with energy futures, that was a given; energy futures at that time had to be traded on an exchange — we were addressing the financial swaps market. All we had to fight with for meaningful regulation was our reasoning. The other side had an entire political infrastructure supporting it. And even then it was a pretty close case.

Today, as these debates rage, I think the financial services industry is very, very powerful. But it is much more of a level playing field. And every day that goes by, more and more people are familiar with these markets and there is not a monopoly on the knowledge of them. Many lawyers in the US are now having people come to them saying, ‘I have got this interest rate swap or natural gas swap and I cannot make my payments on it. The ‘deal’ is one-sided.’ So you have a whole new class of lawyers

who are looking at this stuff, saying, ‘what is this?’ But they are starting to educate themselves. I think in a year or two you are going to have some very big lawsuits that are claiming that a lot of these instruments just do not even satisfy the deregulatory measures from which they sprung.

Do you think the financial graduate schools — like Bendheim at Princeton or Andrew Lo’s laboratory at MIT — have contributed to the financial education of the public?

Not really. I just came from two different sets of meetings sponsored by the Ford Foundation in the last week and the message that came across was that the public needs to understand what is happening to it. There is a total lack of knowledge on the part of the public as to how these markets work. For example, for some reason, when gas got to \$4/gallon, there was a public intuition that speculation was the problem. There were actually polls taken, I am told by some members of Congress, at the beginning of last summer when one asked: “Is the rising price of crude oil and gasoline a supply problem, or a speculation problem?” It was something like, 65:35 in favour of supply. By the end of the summer, it was something like 80:20 in favour of speculation. I think people knew to blame speculators and felt strongly about it, but they did not quite understand why speculators were gaming the markets. But there is beginning to be an understanding of how these markets affect the average person. Slowly but surely, people are starting to see how these markets affect their lives.

But I would say we are a long way from where we need to be. In fact, a lot of foundations are starting to think they are going to fund public education efforts, not just about oil speculation, but all financial markets. They are probably more motivated by the need to understand how the subprime crisis happened — how did we have this total collapse in which, at the back-end, you have these credit default swaps?

There is a lot of interest in education. There is also an interest in starting advocacy centres. I have just met with a whole group of PhD economists and business school professors. They are trying to organize a counter-movement to the Chicago School of Economics so that there will be, finally, an intellectual foundation for going in the direction that, instinctively, many of us think we need to go in.

Perhaps we will follow up this conversation a year from now and see where we are. Thank you for your time.

“There are not a lot of skilled, educated people who really understand the way these markets function. These markets have been very, very opaque ...”

Speculation, volatility and information

*In recent years, OPEC has increased its efforts at understanding the impact of financial markets on crude oil prices and price volatility. It has directed much-needed time, funding and effort into related research, maintaining an on-going dialogue with different analysts and financial experts. Today, thanks to the work of **Dr Ahmad R Jalali-Naini**, a consultant to the Organization's Petroleum Studies Department, OPEC has helped launch and further a high-level discussion between producers and consumers on this complex, multifaceted subject. In this interview with the OPEC Bulletin's **Alvino-Mario Fantini** and **Steve Hughes**, Jalali-Naini talks about the recently released joint OPEC-EU study — 'The impact of financial markets on the price of oil and volatility: developments since 2007'.*



How did your study begin?

Late in 2004, I was invited to help OPEC's Petroleum Markets Analysis Department, now the Petroleum Studies Department (PSD) — to build a short-term price forecasting model. While working on this model, I noticed that the inclusion of certain paper oil market variables helped to generate superior within-sample price forecasts. As oil prices were rising faster and higher than had been foreseen by most analysts, PSD was asked to put out a research project, in late 2004, to examine the reasons.

While the initial report concluded that the fundamentals in both the upstream and downstream were tightening — consequently giving fundamental support for higher prices — OPEC's interest in the influence of the paper oil market on prices was growing. Partly based on

my previous work on econometric modelling of benchmark crude prices, I was asked to broaden the scope of my work to include the developments in the financial markets in oil. As time progressed, interest in the subject grew and the focus of the research project increasingly turned towards the financial markets' impact on oil prices and volatility.

Traditionally, we have been used to thinking that it is simply the physical demand and supply of oil that determines prices, and that whatever affects the price of oil should be those factors that affect demand, supply and storage within the oil industry. However, during the last eight years, the derivatives market (futures, options on futures, swaps, structured notes, etc) in oil (eg paper oil) has grown in volume and the derivatives

market has become more important in the price discovery of benchmark crude varieties (West Texas Intermediate and Brent) and, through formula pricing, the price of physical oil exports. This was the first thing I recognized and my econometric tests confirmed it.

How did this new financial reality in oil emerge?

Lax monetary policies, low interest rates, limited attraction for equity investment (after the dot-com debacle) and low investment rates, resulting in stagnant capacity in the energy sector, and a pick-up in world economic growth — particularly in China and India — resulted in the creation of significant investment opportunities in the oil market, beginning in 2002.

Demand for oil began to rise at a solid pace and higher expected prices (and, hence, higher returns on investment) lured investors into oil. Unlike previous cycles, in which better prospects attracted money to purchases of shares in oil companies and into capital expenditure in the industry, a large and growing amount of money was absorbed into the paper oil market.

Financial innovations in the paper oil market resulted in a diversified menu of oil derivatives and the availability of cheap credit facilitated the inflow of liquidity into the market. Consequently, the paper oil market grew and became much more liquid, particularly during 2003 and the first half of 2008.

Since the early 2000s, financial investors began thinking that perhaps stock-picking was not the most successful investment strategy. It appeared that investment managers could get a better risk-adjusted rate of return by playing a combination of different asset classes. They increasingly recognized that as commodities are added into the traditional asset mix, the trade-off between risk and reward improves.

Investment managers were also becoming more aware that oil and commodities are good portfolio diversifiers. For instance, pension funds and endowment funds have found these to be very appealing, and have acted on it. Commodity index funds utilized commodity price structures in a different way to maximize the rate of return with a diversified commodity basket that included a large proportion of assets invested in oil.

The financial industry increasingly recognized oil and commodities as an asset class and used it to improve risk and reward in financial portfolios. This has been one of the reasons that the market for paper oil and paper commodities has increased so substantially.

What are some of the findings of your work?

Our research work has been published in two phases. We first produced a booklet that was presented in December 2006 (at the OPEC-European Union Workshop). It examined the evolution of the futures market in oil — from a hedge to a hedge and investment market — and the different types of players active in this market (ie hedge funds with different investment styles, commodity funds, pension funds and more). In this booklet, we also discussed the issue of price discovery and price and volume relationships. Moreover, we discussed and provided some evidence regarding the impact of hedge funds and traditional speculators on the price of oil and volatility. The OPEC-EU workshop was very successful. As a result, OPEC asked me to continue with the work and look at the issues from a broader perspective — not just the impact of traditional speculators on oil prices, but also the impact of the financial markets as a whole on prices and volatility.

In our second booklet, presented in April 2008, we examined the cyclical pattern of real oil prices, the relationship between crude and product prices and volatility patterns. The question of whether speculators lead price movements, or whether oil price movements lure speculators into the market, was tested empirically. I also discussed the status of oil and commodities as an asset class and tried to examine if there is a link between the price of oil and macro-economic variables like interest rates and currency movements.

In my opinion, our findings regarding the impact of financial markets are now much richer. A good part of the booklet is devoted to events in 2008 and the ‘bubble’ in oil prices seen during last summer. As you are well aware, during 2007–08 we saw a tremendous increase in the price of oil, as well as a very big price collapse. A number of observers say that the increase in prices was due to financial speculation. A second group of analysts argue that the rise in prices was driven by fundamentals. My view is that, while the rise in oil prices was initially due to strong demand for oil and anaemic growth in non-OPEC supply, oil price movements were at times magnified by speculative pressures and incorrect expectations disseminated by certain investment banks.

The growth of demand was strong during 2003, 2004 and 2005, due to cyclical growth in the world economy. However, as in other markets, when you have a boom, it invites resources and money — and this can lead to speculation. The bubble-like rise in oil prices during June and July 2008 had no fundamental support and the subse-

quent price collapse put an end to the ‘super-spike’ scenarios of oil hitting \$200/barrel.

Is that how you explain the massive volatility that we witnessed throughout 2008?

I would say that in an efficient market — where the fundamental conditions are fully incorporated into market prices — we would not have seen prices rising so high and so fast, while the world economy was definitely going south. Can informational limitations (on supply, demand, price elasticities) result in incorrect expectations and a price overshoot? That is possible. When a situation like this happens, the market will, at some point, get more data and a better read of the fundamentals and will revise its expectations. The huge price rise is corrected via a very large price collapse, as in the period between mid-July 2008 and November. This created massive price volatility. When prices rise without a fundamental justification, economists say that a bubble is forming — a phenomenon that is usually identified, in retrospect, after a subsequent price collapse. In 2008, we had the elements to explain a price overshoot, if not a bubble.

To what degree was speculation to blame?

When we say speculation, we should understand that there are different groups of speculators at play with different trading horizons and strategies (such as macro hedge funds, spread strategies and momentum players). Moreover, speculators can act on good information, resulting in an increase (or decrease) in prices towards what the economists call the equilibrium price. Momentum speculators, and herd behaviour by speculators, can push prices away from fundamentally justified equilibrium prices in the short-run if they bring in sufficient money. All we know at this point is that there is a fairly strong dynamic correlation between oil price movements and changes in the net speculative length in the futures market. We also know that financial market developments and monetary shocks can impact oil prices. Moreover, over certain time periods, speculative money can result in moving prices. We also know that prices can separate from the fundamentals during certain periods, as in 2008. We cannot, however, say that the rise in prices during the summer of 2008 was purely and squarely (one-for-one) due to the inflow of speculative money into the paper oil market. There is an element of changing expectations and sentiments that can influence positions of the financial speculators and those that trade in paper oil because of their commercial, or business, interests (refiners, airlines

and such). There are also some gaps with respect to data and with regard to definitions.

First of all, the over-the-counter market in paper oil is larger than the market on the organized exchanges. Sufficient information was not available to us regarding the former. Secondly, some people are calling for the current classification of traders in the organized futures market to be redefined to provide a better gauge of the degree of speculation in the market. For example, some people argue that swap dealers should be reconsidered as non-commercial players — those who are in the business because of paper gain, rather than commercial players, like airlines or factories. So, we still need to get more data, in order to comprehend all the complexities. That is why we have all along called for more data availability and transparency in the paper oil exchanges and over-the-counter markets.

Will increased regulation help?

I am of the opinion that some degree of regulation, to safeguard against excessive speculation, is appropriate; however, we should avoid over-regulating the market.

First, we must have all the facts and we need more transparency so we can make better judgments. We need more and better data with regard to trader types and their positions in the organized exchanges, as well as in the over-the-counter market. But we also need better information on oil industry fundamentals like supply, demand, stocks, reserves, excess capacity, demand and supply elasticity, projects and so on.

OPEC has put out a fairly large menu of information regarding the physical market and fundamentals in the last few years. Then there is the Joint Oil Data Initiative (JODI). These are the kind of steps that we need to see continue so that we are better able to see who is going into the market and for what reason. If we have better information, it will limit the degree of difference of opinion in the market and help to reduce price volatility. Better information can bring different groups and traders into a closer range of prices.

If the primary role of the futures market is to provide price discovery and a hedging mechanism, then speculative money, so long as it provides liquidity, is welcome. But when that speculative money goes above a certain limit, then it is going to change the direction of the

“When we say speculation, we should understand that there are different groups of speculators at play with different trading horizons and strategies.”

market. The million dollar question is: What constitutes excessive speculation? I think this question needs more discussion and research. A range of speculative positions can be thought of, and it is my opinion that it is a matter of trial and error as to which is correct.

There is also a group of people saying that we should not limit the amount of money that comes from speculators because they bring money into the market — and that money brings information. They argue that more speculators and more money would result in more informed prices. So there are differences of opinion. But when we look at what the market does when there is too little or too much, then you have a case for regulation. What is that magic number between excessive and good speculation? Nobody has yet come up with that.

What is the main message of your recent study?

Oil has become an asset class and the behaviour of prices has changed because of this. Also, that the short-term

price of oil is no longer determined only by factors within the industry and it has characteristics of financial prices. Oil prices are affected by what the US Federal Reserve does to interest rates, what the exchange rate is, etc. Oil has become part of the investment and financial ‘space’ now, and anything that influences that space also influences oil prices.

Is your study now complete?

That remains to be seen. First, we have to use these findings to conceptualize and come up with some policy proposals with regards to regulation. Increased transparency, better monitoring, and effective (not over) regulation are all necessary. I think the issue of effective regulation requires more analysis. But if the interested parties would like us to continue with this type of study, we need to have better and more data from the over-the-counter market. If there is a further step in the study, it should be to unravel how the over-the-counter market works.



Dr Ahmad R Jalali-Naini

Speculate to accumulate

Dr Michael S Haigh, of K2 Advisors, a leading hedge fund of funds manager, has been in the thick of things since the credit crunch forced the global economy into recession. A former Managing Director and US Head of Commodities Research and Strategy at Societe General, he was previously Associate Chief Economist at the US Commodity Futures Trading Commission (CFTC). In this interview with the OPEC Bulletin's **Steve Hughes**, he offers his opinion on the impact of the financial markets on oil prices and price volatility.



Has oil become an asset class?

I think it is fair to say that it probably is considered an asset class now. I do not think all commodities are considered an asset class, but commodities in general are becoming that way. Oil certainly is because it is such an important component and reflects macro-economic influences. Something like natural gas, for instance, is more independent, so it cannot be used in the same sort of way.

Is the oil market more complex because of this?

It makes it more complex in that there are other participants. It makes it more complex to dissect who is doing what and what influence it might be having.

How far was speculation responsible for the price spike in the oil market in 2008?

Just to be clear, speculators generally do not start trends — they jump on them. Or certain types of speculators jump on them. Some speculators will reverse trends because they think that things are overshot. And to talk about speculators, as a general group, as being responsible for running the price up to \$147/barrel is just too sweeping a statement for me. There are certain types of speculative activity — certain types of traders — that may have contributed to its run up.

Could you elaborate please?

For instance, there are certain types of speculators that



Dr Michael S Haigh

“I think speculators are messengers to the market, they follow the trend — they jump on it sometimes, and maybe they did overshoot.”

use systematic trading that look for trends. So if a trend occurs because there is a generally growing thought that the global economy is expanding, then the easiest way to get access to that market is through the futures market. So they will jump on that trend. So might other types of speculators and so might producers.

But at a certain point, people are going to realize that there might be a demand and supply imbalance. And so some speculators were selling as the prices were going up — there is no question about that. You could use the CFTC data to see there were just as many buying as there were selling in terms of spread trading. So to answer your question directly — do I think the speculative class was responsible for the run-up? I do not think you could say that the entire class of traders ran the price up.

I think speculators are messengers to the market, they follow the trend — they jump on it sometimes, and maybe they did overshoot. And the price came down. But those same speculators that brought the price down brought it up, if you believe that those were the ones responsible. You know, they work in both directions. You look at the natural gas market right now — most speculators are short. They are selling — to say that they are always consistently long is wrong.

So what was the main contributing factor to the run up in prices?

Honestly, I think it was a perception — and reality —

that the world economy was growing very, very quickly and you have to remember that futures prices are about what people think the price is going to be in the future. And so they were not trading the spot price. I think the expectation of what might happen contributed to that run-up. And that means that trading reflected that expectation.

And how do you explain the meteoric collapse in prices?

I think what happened is that there was a series of negative commentaries about the general global economy that took place around July and that sort of set the wheels in motion. I think there was a complete change in expectations about what was going to happen.

You have to remember that speculators and manipulators are very different things. Manipulation is illegal. Speculators do not attempt to manipulate the market and keep it at a certain price, because at some point they are going to take their profits. So they were not manipulating the market. But they were taking their gains by selling at that point. The expectation had finished.

What are your views on calls for increased regulation?

It depends on what you mean. If, to use one type of example that is being thrown around right now about the imposition of very defined strict position limits — I should say

speculative limits on traders — what that means is that the liquidity is reduced in the marketplace.

People have suggested that speculative limits need to be put in place in oil, but there are limits in oil — there always have been in recent history and those are called position accountability limits. So, the exchange will look at what a particular oil speculator has in place and if it gets too large relative to what they are in the marketplace, they will ask them why they have those positions and ask them to reduce them accordingly.

But strict, narrowly-defined limits are being suggested. On the other side of speculators are hedgers. So, if speculators cannot trade that much, hedgers cannot trade that much, because they cannot trade amongst each other — they have different time horizons that they are interested in. So, to focus on that type of regulatory change, I think, is damaging.

Whereas other types of regulation — maybe transparency and international collaboration in terms of oversight — those are fair things to consider.

How should swaps be classified — as commercial traders or as speculators?

I do not think they are really either. The reason why the CFTC has the terminology commercial and non-commercial is not just random. They used to be called hedgers and speculators. And it was changed to commercial and non-commercial because what you might consider hedging is different from what I might consider hedging. And when you put a definition in place as to what a hedger is, then if you go beyond that, you are not considered a hedger, even though you might consider yourself to be one. So they changed the language to reflect that there are some grey areas in terms of hedging.

There is no question about it that swap dealers are hedging a financial position, but they are not hedging a physical position. So that is a slightly different type of hedging. So for the purposes of evaluating the impact on index activity on the market, I think it is important the regulator knows that there is a difference and can study those differences, and it can do that. Whether the general public gets access to that information is a different issue altogether. It goes back down to transparency. So how important is it that index activity is considered to be different? I think from a regulatory standpoint it is important they know that, and they do, and they continue to monitor it, which is what they do.

Is speculation in the paper oil market at an acceptable level?

I always have a problem: I do not even know what the words excessive speculation mean. I would love for someone to give me a definition — to explain how you devise some sort of way of measuring it. I think that as long as there is liquidity in the market and there is no manipulation by one individual pushing the market in one direction, then that is an acceptable level.

What would you like to see happen within the oil market, going forward?

The question of volatility in energy markets and how you reduce it changes over time. There are studies that show the introduction of futures trading reduces cash spot price volatility — hundreds of studies that have looked at that. So you know I am a believer in that, so I hope that continues. I hope there does continue to be a futures market that dampens volatility and I think it works in general.

I want the market to remain robust in terms of the number of participants. I think in oil markets, for instance, especially, there is a lack of fundamental information as opposed to corn or wheat where you can see how much corn is on the ground, and you can see how much is stored. With oil, it is very opaque from an informational standpoint. When something is opaque, such as oil, people have to guess at what is going to happen. The more people you have guessing and the more differences of opinions that exist in the market lead to fewer spikes, in my opinion.

As the oil market remains incomplete in terms of fundamental data, then you are going to need a lot of opinions as to what is going on and that collective force of opinions is brought to the marketplace, and that is the thinking. If you remove people who spend their lives trying to figure out what is going on fundamentally, then that is information removal from the market.

So I hope, going forward, there remains robust participation in the market — I hope going forward that there is more fundamental information out there because that will certainly reduce volatility, and I hope that people are very careful in how they regulate these markets.

“I hope going forward that there is more fundamental information out there because that will certainly reduce volatility, and I hope that people are very careful in how they regulate these markets.”



OPEC lays foundations for closer technological collaboration

Developing R&D ties a ‘must’ for enhancing oil industry

by Jerry Haylins



“The oil industry has developed in a world that has overlooked the undesirable aspects regarding environmental protection.”

— *Andres Vallejo*

OPEC's recognition of the vital role of scientific and technical research in the oil industry was reaffirmed when the 4th Meeting of the Organization's Research and Development (R&D) Officials was convened in Ecuador recently.

Over 30 industry experts from OPEC Member Countries and the Organization's Secretariat in Vienna met in Quito, capital of Ecuador, which has just joined the R&D initiative after returning to the OPEC fold in 2007. The meeting discussed various programmes set up under the initiative, designed to enhance and take forward future collaboration on important R&D issues.

OPEC fully recognizes that it has to be at the cutting edge of the technological and social advancements taking place globally so that it can respond effectively and efficiently to the growing challenges facing the oil industry in the 21st century — especially in association with environmental requirements.

“Latest research and development techniques and technological expertise offer benefits and advantages that our Member Countries simply cannot afford to pass up,” Dr Hasan M Qabazard, Director of the Research Division at the OPEC Secretariat, impressed upon the meeting in his opening remarks.

The R&D meetings have their roots in the Second OPEC Summit of Heads of State and Government, which was held in Venezuela in 2000. At that meeting, the vital role scientific and technical research both play in defining the future path of the oil industry was highlighted, with a call for Member Countries to establish links among their respective research centres.

Importance of R&D

The initiative was further endorsed at the Third OPEC Summit in Riyadh, in November 2007, where the Heads of State and Government urged petroleum research and development collaboration among OPEC science and technology centres and with other institutional establishments.

Before the Ecuador gathering, three previous meetings of the initiative were held — in Qatar in May 2005,

Pictured left: Andres Vallejo, Mayor of the Metropolitan District of Quito welcomes delegates to the 4th Meeting of R&D Officials. Seated are (l-r): Dr Hasan M Qabazard, Director of the OPEC Research Division; Eng Derlis Palacios Guerrero, (then) Ecuador's Minister of Mines and Petroleum; Eng Germánico Pinto, Minister Coordinator of Strategic Sectors; Mohamed Hamel, (then) Head of OPEC's Energy Studies Department.



“Today we are facing, at a global level, critical issues, such as global warming, that influence and impact decisively on the operational performance of the oil industry.”

— Eng Derlis Palacios Guerrero

in Venezuela in October 2006, and in Vienna last year.

The initiative covers important areas such as carbon management, clean fuels, gas-to-liquids, enhanced oil recovery and heavy oils.

Qabazard, who was heading the Secretariat delegation on behalf of OPEC Secretary General, Abdalla Salem El-Badri, said he did not need to remind delegates just how important a role R&D continued to play in the global petroleum industry.

He conceded that great strides had been made over the years, in both upstream and downstream operations, as the industry fully utilized the numerous and often pioneering technologies placed at its disposal.

“One important challenge I would like to stress, especially since we are meeting in one of the richest countries in the world from a biodiversity perspective, is environmental protection. This has been one of the strategic areas you have defined for collaboration — carbon management and clean fuels,” he said.

Qabazard said he was pleased to report that OPEC's ‘green’ credentials were increasing with each passing year. It was involved in several initiatives, including what was

arguably the single most important process for helping to reduce harmful global CO₂ emissions — carbon capture and storage.

“In providing the growing amounts of petroleum the world will need in the future, our Members realize they must continue to do so in a responsible, reliable and environmentally sound manner.

“That is why our Organization and its governing bodies are fully supportive of this initiative. The OPEC Secretariat is committed to facilitating its activities and now that the structure of our cooperation has been defined, we need to agree on action-oriented work programmes, in order to turn expectations into reality.”

Qabazard said it was fitting that the meeting was being held in a Member Country of OPEC since the overriding theme of the discussions was working in partnership towards a common goal.

He said it was now imperative that the Organization made speedy progress in establishing lasting coordinated and effective R&D links.

“We must keep abreast of — and invest in — the kind of scientific and technical research and know-how that will ensure we can effectively respond to the ever-increasing challenges we face,” he affirmed.

Towards this end, he said, it was important for the Organization to remain responsive, competitive and capable of realising a level of revenues that could comfortably support the development of its Member Countries’ economies.

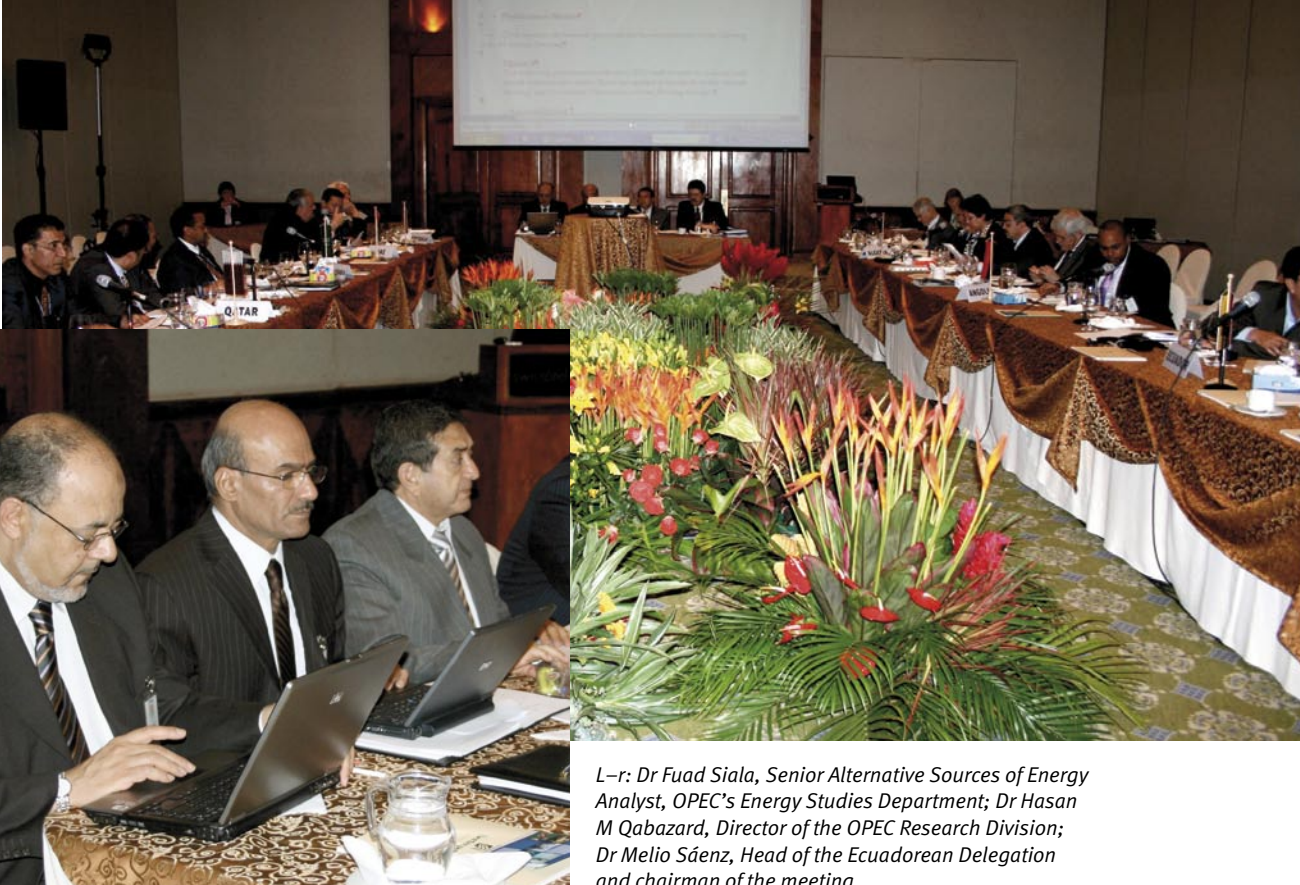
The meeting’s participants were welcomed to Ecuador by Andres Vallejo, Mayor of the Metropolitan District of Quito, who stated that everything they explored and researched would turn out to be useful and vitally important, not only for Member Countries of OPEC, but for the world as a whole, especially the underprivileged.

Environmental protection

He said that after 15 years outside OPEC, Ecuador was pleased to welcome top-level researchers from Member Countries who were developing a strategic process of technological development in areas linked to the core functions of the Organization, particularly supply and demand.

“The oil industry has developed in a world that has overlooked the undesirable aspects regarding environmental protection. There is no doubt that the tasks of exploration and exploitation may cause traumatic effects





L-r: Dr Fuad Siala, Senior Alternative Sources of Energy Analyst, OPEC's Energy Studies Department; Dr Hasan M Qabazard, Director of the OPEC Research Division; Dr Melio Sáenz, Head of the Ecuadorean Delegation and chairman of the meeting.

“One important challenge I would like to stress, especially since we are meeting in one of the richest countries in the world from a biodiversity perspective, is environmental protection. This has been one of the strategic areas you have defined for collaboration — carbon management and clean fuels.”

— Dr Hasan M Qabazard

in nature, so there is a global pressure to develop clean fuels with less toxic discharges and with minimal effects on global warming,” he maintained.

Vallejo said that participating in the R&D initiative was of strategic importance to Ecuador. “The high level of knowledge passed on by you ... for seeking practical results, will be of the utmost usefulness to Ecuadorean experts who have not been part of the three previous meetings held under this initiative,” he said.

In turn, he stressed, Ecuador had a lot to offer the process concerning its own unique experience as one of the few countries in the world that was conducting oil exploitation activities in the middle of a tropical rainforest, while striving to minimize the impact on the environment.

Vallejo added that it was hoped the added value of the research processes being developed would help the oil industry become more in tune with the environment and, with more predictable price trends, would be less traumatic for the global economy.

The meeting was officially opened by Eng Derlis Palacios Guerrero, then Ecuador’s Minister of Mines and Petroleum, who, in following on from Vallejo’s remarks, pointed out that the international oil industry, with all its intrinsic aspects, such as exploration, exploitation, transportation, storage, refining, marketing and petrochemicals, was perhaps one of the most demanding sectors in the world with regard to the level of resources devoted to R&D.

But this was seen as a fundamental necessity that ensured sustainability and viability within the industry, even during the difficult times, such as in the current situation, he said. In fact, increasingly stringent environmental management standards alone required such a level of attention.

“Today we are facing, at a global level, critical issues, such as global warming, that influence and impact decisively on the operational performance of the oil industry,” he affirmed.

Guerrero said he was confident OPEC’s decision to take the process forward and seek progressive

Left: Delegates to the 4th Meeting of OPEC R&D Officials assemble for a group photograph.

technological autonomy, while ensuring that the financial and human resources committed were primarily geared towards the consolidation of oil industry sovereignty in each OPEC Member Country, would prevail over time.

“This is beyond any doubt one of the fundamental merits of this process within OPEC,” he stressed.

From Ecuador’s side, added the Minister, at the start of the country’s participation in the R&D initiative they were full of expectations and confident in the capabilities and dedication of its delegates, who had been nominated and empowered to team up for the process.

Progress reports


“Ecuador joins and supports this OPEC initiative with conviction and firmness to promote a visionary and ambitious cooperative effort that has already completed three years of driving the processes of research and technological development, oriented towards the achievement of common goals and objectives that will allow for shared benefits in the near future,” he said.

Over the two days of the meeting, participants were given progress reports by the respective working groups and heard from the initiative’s steering group. Presentations were also made by Member Countries. In the case of the host country, Ecuador, there were presentations from the national oil company, Petroecuador, and various energy and oil services firms active in the country.

In addition, the Ecuadorean authorities arranged site visits to show how the country is handling its oil operations. The visitors viewed contamination pits of Petroecuador, the OCP heavy crude pipeline at Lago Agrio, the Sertecpet offices at Coca, as well as Petrobras facilities.

In summing up the visit, Qabazard said the meeting had made good progress. There had been concrete results which would hopefully be taken forward to the next meeting in Vienna in 2010.

He had special praise for the Ecuadorean companies in attendance, whose presentations, he stated, showed that it was possible to develop the necessary technology and apply it for the benefit of the oil industry and the producing countries.

Qabazard agreed with the general impression of the meeting’s participants that the foundations for the initiative had now been laid for R&D collaboration and it was up to them — the delegates — to make the programme successful. 



Photographs: pp44–47, Ministry of Mines & Petroleum, Ecuador; pp48–49, Anne Rechbach.



The OCP facilities at Lago Agrio.



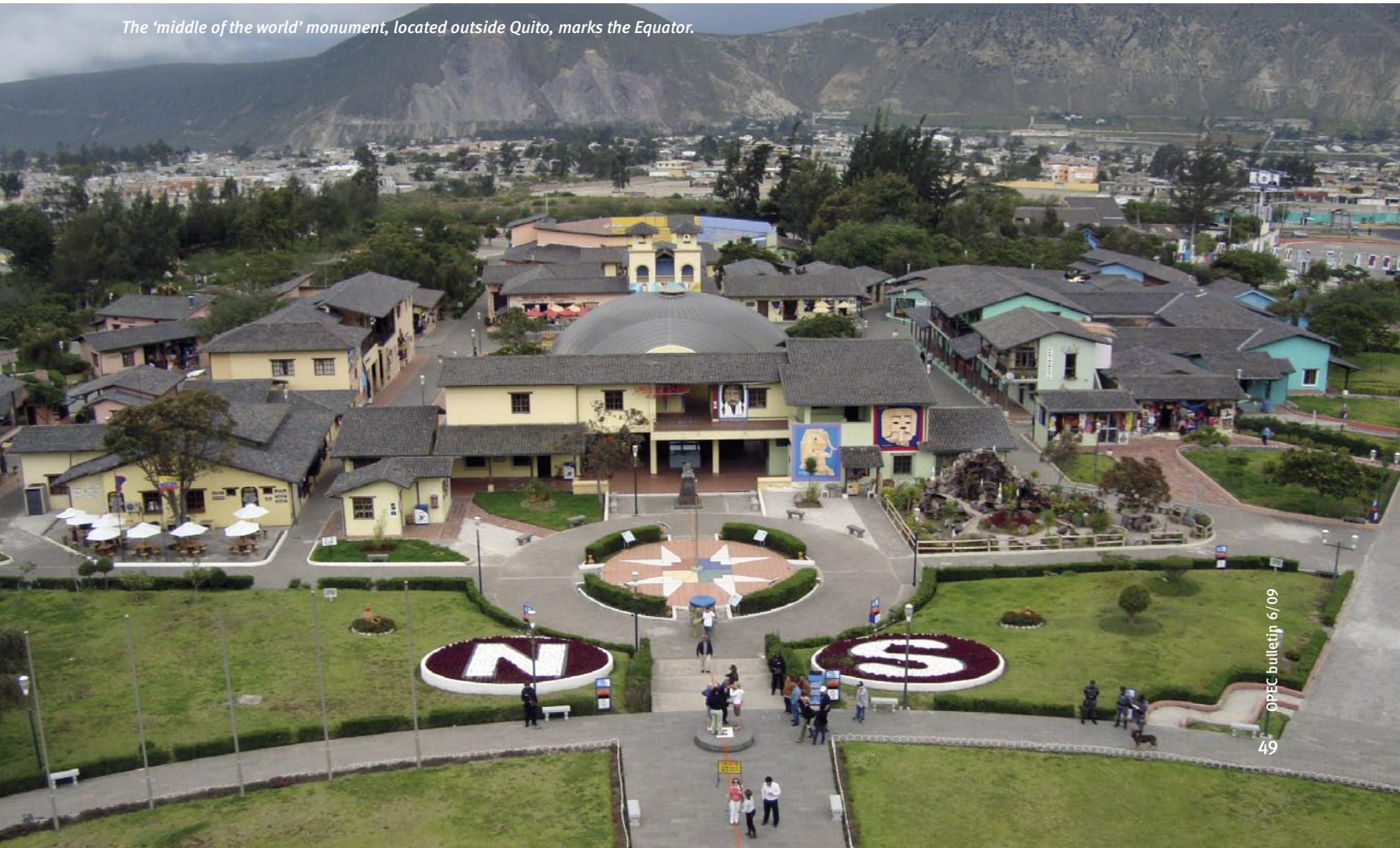
Above: At the Petroecuador contamination pits with Dr Oswaldo Tapia, Advisor to the Ecuadorean Minister.



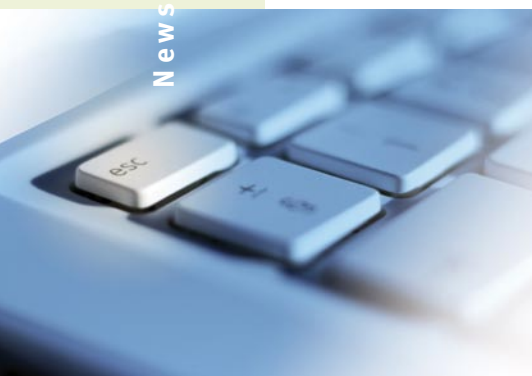
Right: Hamad J S Al-Marri (l), of the Qatari delegation, with Karen Sanchez, one of the interpreters.

Left: The OPEC visitors were treated to some traditional Ecuadorean music during their stay.

The 'middle of the world' monument, located outside Quito, marks the Equator.



A selection of news stories on OPEC Member Countries taken from international media services



Algeria's hydrocarbon revenues hit \$16 billion in first five months of 2009

Algiers – Algeria earned \$16 billion in hydrocarbon export revenues within the five first months of 2009, according to the Chief Executive Officer of the national oil company, Sonatrach, Mohamed Meziane. “From January to May, we achieved revenue of approximately \$16bn, which gives us an average income of more than \$3bn per month” since the beginning of the year, he said. At the end of April, revenues had amounted to \$13.1bn. Meziane earlier said that \$70–80/ barrel for crude oil was an appropriate price for Sonatrach to continue its investment programme. *APS*

Algerian energy savings will amount to 250,000 toe over five years

Algiers – The development and implementation of the national programme for energy control and savings would achieve energy savings of around 250,000 tonnes of oil equivalent (toe) for the period 2007–11, according to the country's Minister of Energy and Mines, Dr Chakib Khelil. The programme, which would include preventing the emission of 470,000 tonnes of carbon dioxide into the atmosphere, would be “the beginning of a strong dynamic for improvement of our energy system efficiency,” commented Khelil in an interview with ‘Balance’ magazine, published by the Commission for Electricity and Gas Regulation (CREG). *APS*

Angolan Minister calls for commitment to energy sector development

Luanda – Angola's Minister of Energy, Emanuela Vieira Lopes, has called on technicians and other staff of her Ministry to step up their commitment to enhancing energy development, with the aim of boosting the country's electricity sector. She said that with everyone's commitment, the country's energy sector would become stronger and be an example to others. The Minister also called on the public to collaborate with efforts of the central government and local authorities to conserve electricity use. *AngolaPress*

Kuwait's crude oil exports to Japan fall by 28 per cent

Kuwait – Kuwait's crude oil exports to Japan fell by 28.2 per cent in April from a year earlier to 10.59 million barrels, or 353,000 b/d, according to latest government data. Japan is Kuwait's largest oil purchaser, accounting for 20 per cent of its total crude exports. Kuwait supplied ten per cent of the nation's crude oil in April, compared with 10.8 per cent in the same month last year and 7.8 per cent in March, according to the Japanese Natural Resources and Energy Agency, a unit of the Ministry of Economy, Trade and Industry. Japan's overall imports of crude oil in the month fell by 22.5 per cent year-on-year to 105.79m b (3.41m b/d) for the seventh consecutive month of decline. Shipments from the Middle East were down by 16.5 per cent to 96.69m b and accounted for 91.4 per cent of total imports, up by 6.6 per cent from a year earlier for the sixth straight monthly expansion. Saudi Arabia remained Japan's largest oil supplier, although imports from the Kingdom fell by 12.3 per cent from a year earlier to 30.51m b. It was followed by the United Arab Emirates with 22.23m b, down by 35.8 per cent. Qatar ranked third with shipments increasing by 23 per cent to 14.49m b. Iran was fourth with 11.75m b, down by 19.9 per cent. *KUNA*

Nigeria will continue with measures to boost economy – Muhtar

Abuja – Nigeria's Federal Government will continue to take adequate measures to boost the country's economy. Minister of Finance, Dr Mansur Muhtar, said this in Abuja when he received a delegation from the Industrial and Commercial Bank of China (ICBC), led by its Chairman, Jianqing Jiang. The Minister stated that the measures were necessary because of the current global financial meltdown. “Nigeria has embarked on efforts to reposition its economy and make it one of the best in the world and this is anchored around the Seven-Point Agenda,” he said, adding that the country had tremendous potentials in oil and non-oil resources, with indigenous entrepreneurs who are ready to work to improve the economy. The Minister said that the government had already set short, medium and long term targets for power generation and had also embarked on the rehabilitation of the country's railways. Responding, Jiang said that the delegation was in Nigeria to explore ways of fostering bilateral relations in the area of power generation, trade and commerce. *NAN*

Qatari investors show interest in Indonesian joint ventures

Doha — Qatari investors are interested in taking a major stake in the establishment of a \$1 billion joint-venture power plant in Indonesia, according to Indonesia's special envoy to the Middle East. Dr Alwi Shihad said the power plant project, which would be established in Bali, was part of a long-term investment package mulled by Qatari businessmen in an agreement reached during a recent visit to Indonesia by Qatari Emir Sheikh Hamad bin Khalifa Al Thani. According to Shihad, the investment would be 85 per cent Qatari and 15 per cent Indonesian with an initial capital of \$1bn. Other projects discussed during the state visit covered natural resources, infrastructure and another power plant in Sumatra worth \$300 million which was already in the process of tender. *QNA*

Qatar's Tourism Authority to organize 'Entertainment Town'

Doha — The Qatar Tourism and Exhibitions Authority is set to organize a series of summer events called 'Entertainment Town' and hosted in the Doha exhibition centre. Entertainment Town will start on July 5 and will run until August 15. This new venture is designed to provide various activities for children and families in one convenient location. It will offer a wide range of leisure activities and cultural shows. Artists will be from Europe, Asia and India and will perform numerous live shows, such as plays for children, acrobatics and magic arts. There will also be puppet shows, while children, through the leisure activities, will be able to exercise. Additional attractions will include skill and electronic games and other challenging, yet enjoyable, activities. Lahdan Al-Mohannadi, Head of Organizing Local Exhibitions, stated at a press conference: "Entertainment Town will provide families and most specially children in their summer holidays with a culture-rich, educational and fun-packed vacation. The Qatar Tourism and Exhibitions Authority is promoting high-quality leisure and culture events, to make the 2009 summer lively and unforgettable." *QNA*

UAE's Etihad Airways eyes fleet expansion to 150 aircraft

Abu Dhabi — The national carrier of the United Arab Emirates (UAE) is planning to launch services to 100 countries by the year 2020 through expanding its fleet to 150 aircraft, according to James Hogan, Etihad Airways' Chief Executive Officer. "The company is entering a new stage of expansion to keep up with Abu Dhabi's development strategy (Plan Abu Dhabi 2030), aimed at transforming the emirate into the most modern city in the Gulf and Middle East with \$200 billion of investments in infrastructure," Hogan said on the sidelines of the 48th International Paris Air. He said the move, which would result in the biggest aircraft engine order in aviation history, worth up to \$14bn, provided solid proof that Abu Dhabi's economy was strong. "All carriers around the world were hit by the global financial crisis. But Etihad Airways has not changed its plans. Rather, it continues to grow and expand to meet future demand and keep up with the aspirations of the government of Abu Dhabi," Hogan added. Etihad Airways has achieved significant growth since it first took to the skies in November 2003. Today, it maintains its position as the world's fastest-growing commercial airline. From its hub in Abu Dhabi, Etihad operates one of youngest and most environmentally efficient fleets in the world, which is set to grow to 52 by the end of 2009. The award-winning airline also aims to increase its passenger numbers this year to seven million, an increase of 15 per cent, while also launching into new markets and further developing its global flight network. *WAM*

UAE showing signs of riding over global financial crisis — Lubna

Abu Dhabi — The United Arab Emirates (UAE) market has begun to show positive signs of riding over the international financial crisis, thanks to a raft of proactive preventive and confidence-building measures taken by the government to cushion the economy, according to Sheikha Lubna Bint Khalid Al Qasimi, Minister of Foreign Trade. "Positive preliminary indicators show that the UAE market has overcome the impact of the global financial meltdown, thanks to early measures adopted by the government, which have given a big boost to underpin confidence in the UAE economy," Sheikha Lubna said during talks with visiting Algerian Minister of Finance, Karim Djoudi. She said the measures had also boosted confidence in the UAE economy among local and foreign businessmen and investors. The two ministers explored ways of enhancing bilateral cooperation in areas of trade and investment and stimulating private sectors in the two countries to establish joint ventures. Sheikha Lubna stressed the importance of increasing trade exchanges and investment, given the fact that the UAE was the largest Arab investor in Algeria. *WAM*

Venezuelan exports to Brazil increased by 55.6 per cent in 2008

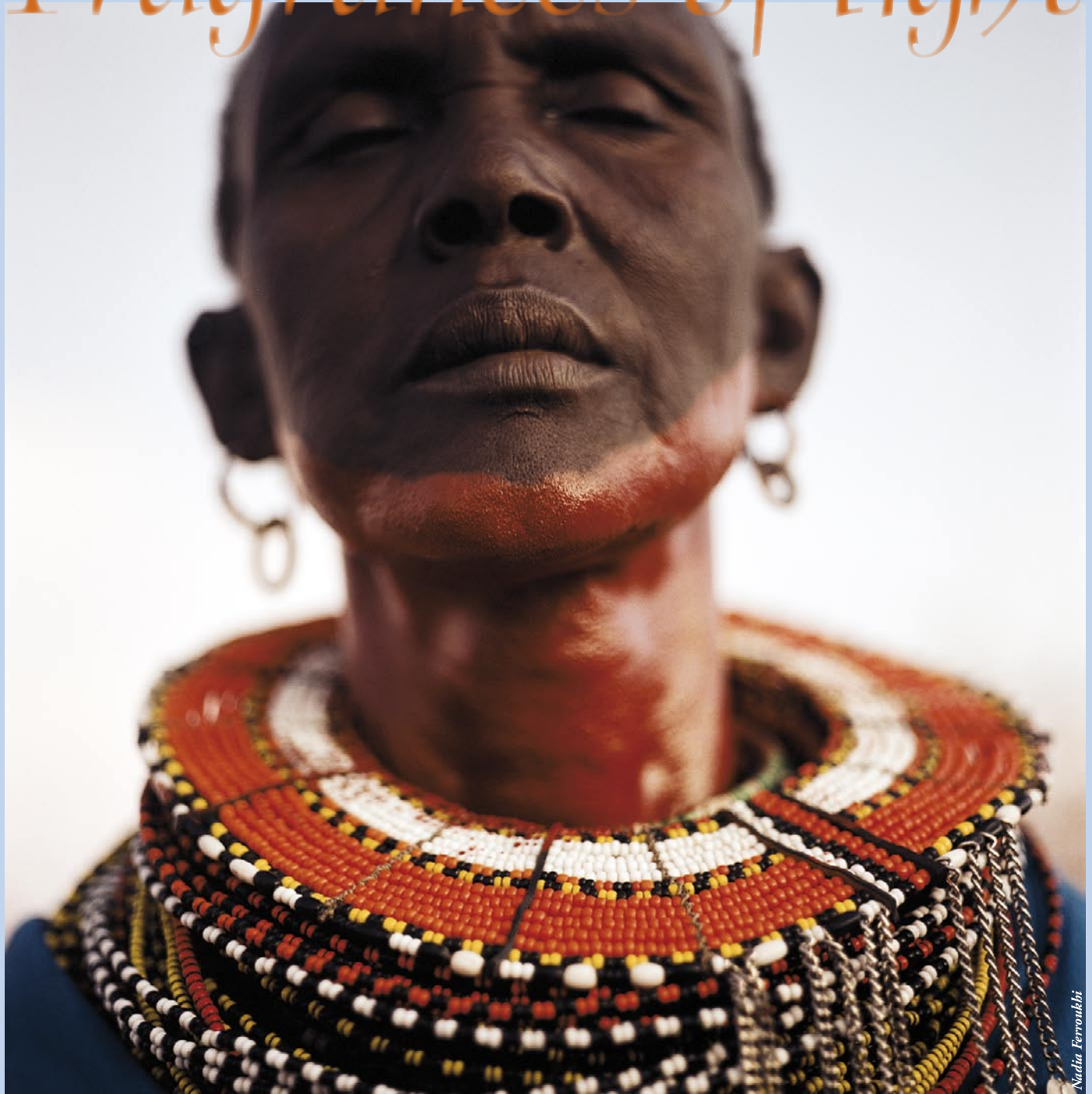
Caracas — Venezuela's exports to Brazil increased by 55.6 per cent in 2008, compared with the previous year, despite the world economic crisis. Figures from the Brazilian Trade Bureau (SECOM) revealed that Brazil-Venezuela trade in 2008 was worth \$5.69 billion. During the year, Brazilian exports to Venezuela rose by nine per cent, while imports of Venezuelan products to Brazil increased by 55.6 per cent. Regarding 2009, the data shows that during the first trimester, a decrease of 8.4 per cent in trade was recorded. *ABN*





Exhibition portrays photographic journey through Algeria and Kenya

Fragrances of light



Nadia Ferroukhi

A close-up of a proud woman of the matriarchal village of Tumai, Kenya.



Rana Wintersteiner

Above: Nadia Ferroukhi (l); Taous Feroukhi, Algerian Ambassador to Austria.

Recently, at one of the OPEC Fund for International Development's occasional exhibitions, held at its headquarters along the Ringstrasse in Vienna, the photojournalist, **Nadia Ferroukhi**, portrayed a series of her work from two recent trips. Entitled *'Fragrances of Light: A Photographic Journey through Algeria and Kenya'*, the collection showcased more than two dozen photographs, put together over the last few years, that reflected her voyage of discovery and documentation. The images of Kenya are part of a long-term research project on matriarchal societies around the world, about which Ferroukhi has done previous photographic work professionally. The Algerian pictures, on the other hand, were taken during her recent return to her paternal homeland, which she left at an early age. With prior exhibits in Bamako, Barcelona, Lille, Paris and Prague, her work offered Viennese audiences a glimpse into two fascinating worlds. At the launch of the exhibition, the OPEC Bulletin's **Alvino-Mario Fantini** spoke to Ferroukhi, whose images reveal a sensitive and talented young photographer, with both artistic sensibilities and an awareness of the challenges of developing countries.

Part of your exhibition refers to Tumai in Kenya? Why that village?

I am doing general work on matriarchal societies in the world. This is the first one I did — two years ago. The idea was to do work on matriarchal societies, which was a personal idea. A few years ago, I read a book which talked about how, in Neolithic times, people thought women in contact with nature would have a child. They thought women had a supernatural power to create life.

I read this book and then I did some research on women in society. I found that, today, there are some micro-societies spread throughout the world that still give more importance to women. Some of these societies are new, like the Tumai in Kenya. I call them matriarchal, but this could be interpreted differently. They are really just women's villages. But I say matriarchal because they are self-sufficient. They do not need men. They do everything themselves, even the traditionally male-oriented things

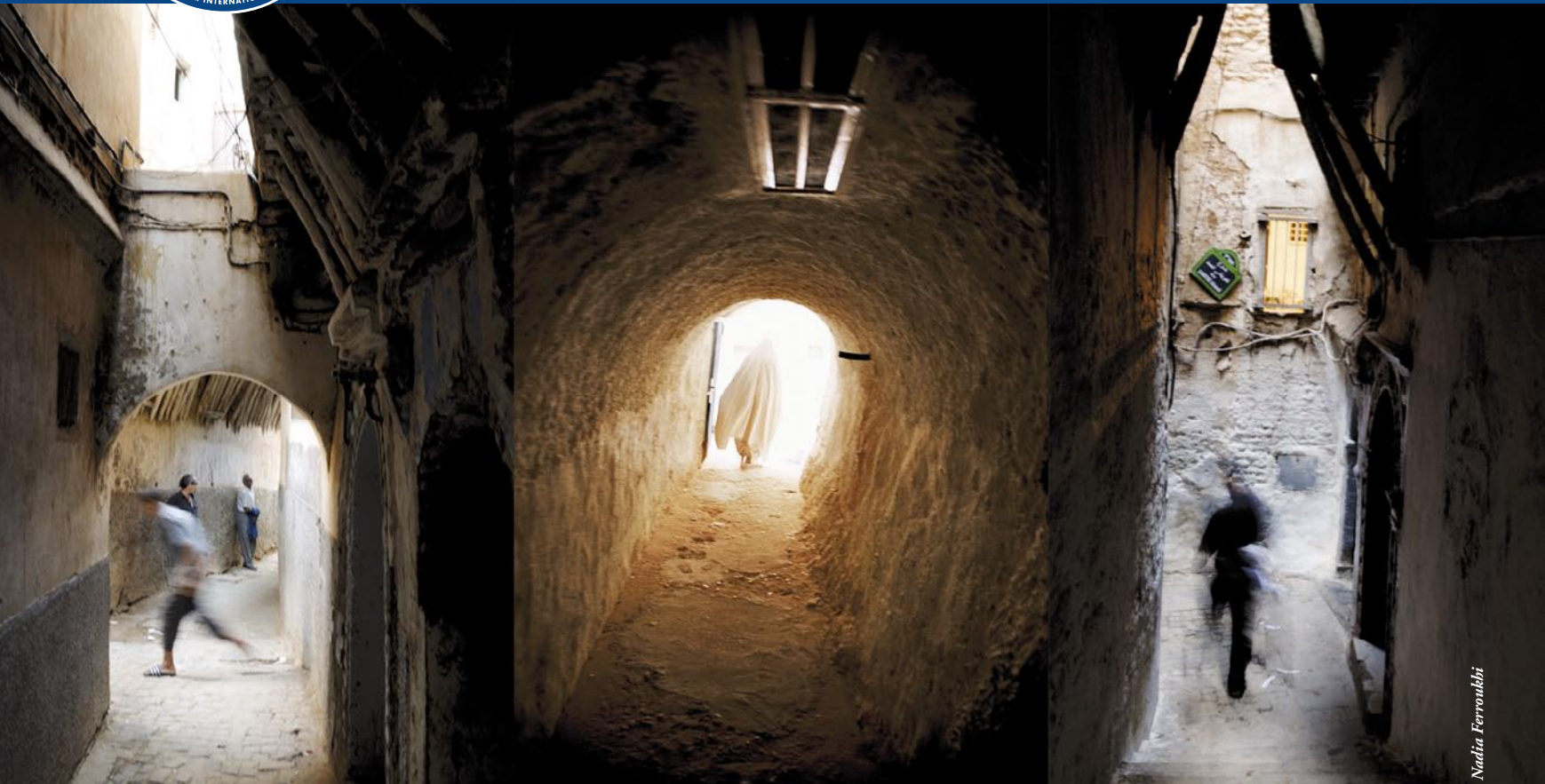
like hunting or building huts. Usually men do this, in all African cultures, but in Tumai, the women do it.

This is a new version of matriarchal societies; whereas in China, where I was with the Moso tribe, they have been living matriarchally for about 2,000 years. There was a small interruption during the Chinese Cultural revolution, when they imposed marriage — because in that society, they do not believe in marriage. In the Moso society, they prefer girls, which is, of course, the opposite of trends now in China. Also, the children inherit the name of the mother, not the father, and properties and land go to the mother, not the father. And if the woman does not want to be with her man anymore, he goes back to his mother's home.



Rana Wintersteiner

Cutting the ribbon to open the exhibition are (l-r): Taous Feroukhi, Algerian Ambassador to Austria; Consolata Kiragu, Charge d'Affaires at the Embassy of Kenya in Austria; and Suleiman J Al-Herbish, OFID Director-General.



Nadia Ferronkhi

An impressionistic combination of images of the passageways and tunnels in the Casbah in Algiers, Algeria.

Now the Moso tribe is threatened by tourism, by the Chinese school system and by what they learn in schools about life in the West. They are taught that it is not normal not to marry. They themselves want to live like Westerners, with television and Internet. They want to be like people here. The younger generation considers it is more modern to get married.

It was interesting to compare these different types of women's societies — where women have some sort of privileges, or where they have a say. It is interesting to see another way of living. I am not saying that it is better, or not better; but they seem to live very well with it.

Are the Tumai aware of the uniqueness of their society?

Yes, definitely. They are very proud women; but I should

say that they are not against men. In all the societies I have visited — in China, India and Kenya — they are not against men. But, for example, in Kenya, if a woman wants to marry, she does have to leave the village. They want to preserve these rules.

Now, the first village I ever visited is called Umoja and was started 15 years ago. That is where I first went in Kenya. It is near the Tumai village. The media has done a lot work in that village — television, magazines, so I went to see them. But they wanted me to pay them \$1,500 for three days of work for three hours per day! Since I am an independent photographer, I do not really work that way. So, I finally discovered this other village — Tumai. I was the first one who went there. No one had ever covered that village. There is a jealousy between the two villages. The older one does not like the new village; but they are set up in the same way.

OPEC Fund for International Development (OFID)

You mentioned the pride of the Tumai, which you can see in the pictures. Is that a quality you look for when composing your shots?

I try not to compose my shots. There are some pictures shot when they were all in a group, walking from their village to the river. But these are not composed; at one point I just said, 'stop', and I lay on the ground and I took the shot. It is the same with the way they dress. I exhibited this in Paris last year and people asked me: 'Did they wear their necklaces only for you?' No, they did not. They do not necessarily wear them every day, but, like me, there are certain days when they feel like wearing their necklaces and some days when they do not.

They are always proud. I think they are proud because they live in an African culture where relationships between men and women are often difficult, as well as job problems and violence, and frustrations. But they live away from all that.

People in other villages do recognize them. They know them. The men always keep a distance. The men do not really dare to say anything to them. They have never had any problems so far. No one has ever attacked them and no man has ever been aggressive towards them.

The colours in your shots are really brilliant. In part, it is the textiles and the dyes used. But is the air, or the light, different in Africa?

Well, first of all, the light in Africa is amazing. That is why all photographers love to shoot there. But, also, this is negative film. It is not digital. I also work with digital, but more often with negative film. I was very careful in working at certain times. Usually, when you are working on a story, and you have to move around to different places, you cannot always choose the time when to shoot pictures. And if there is an event you have to take it, even if it is noon and the light is not good. But in that case, it was a small village so the geographical area was reduced. During the day, I usually just hung around, talking or helping them to do things. Most of the pictures were done in the morning and evening — sunrise or sundown — so that helped a lot for the colours, or indoors, when it was during the day.

But I hardly took any pictures during the day. I also have a special technique which I will not tell you about (she laughs). It's a particular way I shoot my film.

What equipment do you use?

I use Kodak film. My digital camera is a Canon. But I also use a traditional film SLR. I always travel with three cameras: I have my digital camera, which is good to have when I walk around places, to take pictures to give to agencies. But when I do my reportage, I use a film camera. I use both a Nikon F100 and a Mamiya 330, which is a square, medium-format. What is nice about this camera is that — unlike a Hasselblad, which although is also a nice camera, you cannot get closer than 80 cm — with this camera, you can get very close. I also mix both, but some people do not like that. I do not do it for every story. I usually work more with a 24 x 36 format. But for this work, and for work I did in China and India, and for work I will do in Mexico and Albania, I will mix the 24 x 36 and square, which not everyone likes.

Did you study photography, or are you self-taught?

No, I studied international relations in the United States, in Washington, DC. I lived there from the age of 13 until 23. Then I moved to France. I also did theatre for two years. I wanted to be an actress. One day, I think I would like to star in a movie, but it is not really my thing. I am much better behind the camera. It is more my world.

I always did photography. My grandfather on my mother's side was a photographer. He was Czech and was a maths and physics teacher in school. But he also had a second profession as a photographer. He had a studio and would shoot models and I would always hang around there when I was on vacation. I was strongly influenced by him. He was more technical than me. The technical side, of course, has to be there, but it is kind of secondary. I am more into the story. I guess it is

Looking out across an unknown structure, with pedestrians, in Algeria.





just a different approach. But I was influenced by him and I always did photography as a kid, shooting friends and places. But I never thought of doing it as a profession.

Then I worked in the fashion world for a while and assisted some fashion photographers, thinking I wanted to do that. I quickly realized this area was not for me. But since my first love in life was travelling, I figured why not combine travelling with photography? I also have a deep sense of the injustice that prevails in the world. Since I was very little, I always defended those who were put aside. So that is why I chose reportage: I wanted to tell the stories of the forgotten ones, the marginalized people.

Let us talk about your Algerian photos. There is a significant difference in the style or tone. While the Tumai pictures look more spontaneous, more colourful, the Algerian shots have more shadows and double exposures. Why is this?

Yes, there is a big difference between the two. When I do an assignment like Kenya, in that more classical way, I like to get very close to people. I try to feel more about their story because I am discovering also something completely new, so I need to be close to them. I do not like to work with big lenses, or to take pictures from too far away. The Kenyan pictures are more traditional reportage work where I just get close to people. That is how I usually work.

Algeria is a different story because it is my country and I left there when I was five. I always felt a distance. I never really felt accepted in Algeria, growing up, or when I was going back on vacation there. Because I left early, I did not really have the same codes and I lived overseas. My sister was 12 when we left. She was older, so she was more integrated. Me, I guess I left at an important and young age. So, going back, I always feel different — not rejected, but not really accepted and not fitting in.

When I started photography professionally, about ten years ago, Algeria was my first field of work. But what I have shot now, what I am showing today, is not reportage. It is the way I see Algeria. I had grown up seeing this country only from the nice side of things. But I returned

without family pressure, kind of like a neutral person with my camera, thinking: let us see how I see this country.

They are also the result of what I have edited, because not all my work in Algeria is like what I am showing today. I have always felt a slight distance with Algerian culture, as I mentioned; but the more I go back to Algeria, the more I realize I am very Algerian in many ways. I am closer to the Algerian temperament than I am to the Czech temperament. I feel closer to Algeria than I do to the Czech side, although before it was the opposite. So, through my photography, I am getting closer and closer to Algeria — and I like going there.

It is like you found another side of your identity. But you did not set out to find it — to fill in a gap in your past?

No, no. I am not an intellectual. Perhaps I am cerebral. I think about things, but it is not as if every picture I shoot is thought out before-hand, or to be analyzed. I am not into that at all. I am much more into spontaneity. Of course, when I take a picture I will think about how I am going to frame it. But I am not going to over-analyze why I did it one way or another. Even with these new pictures from Algeria — everything I am telling you about the darkness and about this return to my roots — I did not really think about these things. Obviously, they were in my subconscious. But I did not think about it.

So some of these things emerged after you shot them?

Yes. It would be lying to say that I thought about everything. Maybe, with certain things — yes. But generally I would say I just go, do my thing and afterwards I realize why I did some things. It is related to what I feel today about Algeria.

The pictures in the exhibition show a large part of the country. Even my Algerian father says: 'When I look at your pictures, I myself discover an Algeria I did not know.' There are really two worlds there. That was the story I was interested in. That is what I showed. That is what I continue showing. That is what I will continue to show. ❁



Nadia Ferrouchi

A group of Tumai women wearing their traditional, colourful garb on the banks of a river in Kenya.



Adventure in Venice

OPEC-style

By Keith Aylward-Marchant

La Serenissima, City of Bridges, Queen of the Adriatic — call it what you will, but Venice has a unique history and magic which draws in visitors from across the world.

Therefore, when the OPEC/OFIG Social Committee announced that it was planning a three-day trip to this famous city, set in its own sprawling lagoon in the northeast corner of Italy, more than 80 staff members, families and friends from the two organizations jumped at the chance of going.

They were not disappointed.

From the moment the two distinctive, unmarked coaches — one red and the other white — left the OPEC Secretariat in Vienna at seven o'clock on the Friday morning of an Austrian national holiday, till the moment they returned at midnight on the Sunday, the trip was one long, action-packed adventure. This was in spite of two nine-hour journeys confined to the seats of the two coaches, with only occasional, but well-organized, breaks.

On the outward trip, the coaches left the 'autostrada' (autobahn) shortly after entering Italy and headed off into







the countryside, where the families and friends enjoyed a relaxed, open-air lunch in the sunshine at an organic farm — Agriturismo Contessi, in San Daniele, in the province of Udine.

On arrival at the lagoon late in the afternoon, a boat was waiting to take the group on a 45-minute panoramic cruise along some of Venice's main waterways, with a local guide describing the distinctive features of the historic city and pointing out key landmarks.

Participants then had a short time to familiarise themselves with the timeless charm of the canals, alleyways, palaces, churches, monuments, shops, street-vendors and other centuries-old buildings and institutions, including a brief visit to a glass-blowing demonstration.

After gathering together again, as dusk fell, in the heart of the city, at Piazza San Marco, with its imposing

basilica, ducal palace and bell-tower, the group returned to the coaches, which took them to the Novotel Castellana at Mestre on the mainland, where they would stay.

The OPEC/OFID party made a full-scale touristic assault on the city on the Saturday! It was not so much a case of 'Where do we begin?' as 'Where is the next narrow alleyway or shimmering canal leading us?'

For many, the thrill lay in the unexpected, the stumbling across a riveting piece of history in a crumbling façade, the countless displays of colourful, yet ghostly masks, depicting the city's legendary annual carnival, the tramping down cobbled streets little changed since medieval times, the meditative calm of the inner waterways and the sudden shock of an approaching boat — all icons woven together by the labyrinth of alleyways and canals that define Venice.





For those who wanted it, there was the chance to experience first hand the rich heritage of Venice's centuries-old transport system, with a ride in that most romantic of boats, the gondola.

Equally popular was a trip to Murano, where participants could savour the myriad colours and breathtaking opulence of a glass art gallery.

The excursion took a further step back in history on Sunday morning, with an outing to nearby Treviso, whose origins predate that of Venice by centuries and whose citizens played a part in the founding of La Serenissima. Most recently, the group was told, Treviso had found new fame as the home of designer clothes company Benetton.

The final activity was a visit to, and lunch at, the impressive Castelli Papadopoli and surrounding attractions, in San Polo di Piave, before the coaches returned

to Vienna at around midnight, with their weary, but satisfied passengers.

Much appreciation was given to the trip's main organizer, Martin Hablecker, from OPEC's Administration and IT Services Department, as well as the OPEC/OFID Social Committee, which had made it all possible. 🍷



OPEC/OFID staff members and their families were able to take in many of the sights and landmarks Venice has on offer, including the famous gondolas on the Grand Canal (second left); the Rialto Bridge (left); St Mark's Basilica (top left); and Castelli Papadopoli (top right). They were also treated to a glass-blowing demonstration (top centre).

OPEC sponsors bicycle anti-theft equipment



Above (front row l-r): Karl Mahrer, Municipal Chief Commander of Vienna's Police; Dr Omar Farouk Ibrahim, Head of OPEC's PR and Information Department; (in background) Sally Jones, Media Relations Advisor at OPEC; Group Inspector Günter Brunner from the Vienna Police; Alejandro Rodriguez Rivas, Head of OPEC's Finance & Human Resources Department, in Charge of the Administration & IT Department; and Lisa Feix, Administrative Coordinator in the OPEC Administration & IT Department.



Right, inspecting the equipment are (l-r): Group Inspector Harald Doppelreiter from the Vienna Police; Dr Omar Farouk Ibrahim; and Karl Mahrer.

The OPEC Secretariat in the Austrian capital, Vienna, is playing its part in helping the city's police tackle bicycle crime.

The Organization is sponsoring a device which registers Vienna's bicycles, so they can be identified through a police data bank, if lost or stolen.

General Karl Maher, Chief of the Municipal Police of Vienna, in offering his thanks to OPEC for funding the €6,000 machine, said he was confident the latest instrument would significantly lower bicycle theft in the Austrian capital.

Last year, over 3,000 bicycles were registered using such equipment.

"With this new device, registrations will be more than 3,000 this year," he said.

According to Austrian news reports, bicycle crime is on the increase and Vienna is no exception. As Austrians cycle more and are buying more bikes, the number of bicycle thefts has also been increasing, with over 20,000 stolen in the country in 2008 — this is a hefty 66 a day, claimed one news report.



Above: The OPEC and police officials pictured with a group of children who gave a bicycle safely demonstration during the presentation.



Above: Group Inspector Doppelreiter demonstrating the specialized anti-theft equipment (l).

This section includes highlights from the OPEC Monthly Oil Market Report (MOMR) for June 2009, published by the Petroleum Studies Department of the Secretariat, with additional graphs and tables. The publication may be downloaded in PDF format from our Website (www.opec.org), provided OPEC is credited as the source for any usage.

Crude oil price movements

The OPEC Reference Basket¹ rallied by a near 14 per cent in May, averaging the month at \$56.98 a barrel for a gain of \$6.78/b – the highest monthly average in seven months.

The OPEC report said that economic indicators showed signs of improvement, lending hope for a recovery and a rebound in petroleum demand. Refinery problems sparked concern over a potential supply shortfall for seasonal fuels as the driving season began in the United States with implied weekly demand estimated at the highest level in two years.

Nonetheless, movements in the US dollar and fluctuations in Wall Street stocks dominated market bullishness.

The Basket averaged the first week of the month at \$54.26/b, nine per cent, or \$4.53/b, higher than in April.

In the second week, the market continued to move on improving Wall Street sentiment, which raised optimism for a recovery in petroleum demand. The Basket averaged the week at \$56.48/b, up by four per cent, or \$2.22/b.

In the third week, the Basket maintained its steady improvement, averaging at \$57.78/b for a gain of 2.3 per cent, or \$1.30/b.

In the final week of May, the Basket averaged \$60.70/b, rallying by almost five per cent, or \$2.92/b.

The Basket peaked in the first week of June at \$67/b, the highest level since mid-October last year, on the back of hope for economic recovery amid perceived positive indicators, while a higher price forecast by investment banks, coupled with the US dollar's weakness, inspired buying in energy futures. The Basket reached a level of \$70.87/b on June 10.

On the US market, benchmark crude WTI averaged May at \$57.78/b for a gain of 16 per cent, or \$7.96/b, over April.

In the North Sea market, Brent averaged \$57.27/b for a gain of 13.5 per cent, or \$6.83/b.

In the Mediterranean market, Russia's Urals crude averaged the month under review at \$56.90/b, 16 per cent, or \$7.8/b, higher than in April.

In the Middle Eastern market, Dubai crude averaged May at \$57.48/b, an increase of 13 per cent, or \$7.38/b, over the April figure.

Commodity markets

Looking at trends in selected commodity markets, the OPEC report said the IMF commodity price index in May rose by 9.7 per cent month-on-month, compared with 4.1 per cent in April, but remained lower by more than 40 per cent from the same period a year ago.

Commodity prices were supported by energy prices, which increased by 16 per cent month-on-month (m-o-m). Non-fuel commodity prices rose by five per cent, a slightly slower rate than in the previous month.

"The performance of commodity prices was supported by the favourable impact of new positive macroeconomic data and an improvement in investor sentiment," commented the report.

"Nevertheless, it is worth noting that, in some cases, notably industrial metals, the price increase is not based on fundamental factors. Persistent weak demand in the OECD and a possible reduction of Chinese metal imports in the coming months may cause prices to fall for this commodity group," it stated.

1. An average of Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Iran Heavy (IR Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (SP Libyan A), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela).

Contrary to the previous month, the IMF energy commodity index (crude oil, natural gas and coal) recorded a hefty increase in May of 13.1 per cent, compared with three per cent in April, on the back of a 15.6 per cent increase in crude oil prices (average petroleum spot price), as opposed to 7.1 per cent in the previous month.

At the same time, Henry Hub natural gas prices rose sharply by 9.6 per cent in May, while coal prices saw further losses.

Non-energy commodity prices expanded by five per cent in May, compared with six per cent the previous month. Food prices, especially grains, pushed prices up, but industrial metals saw a deceleration in growth.

The industrial metal price index growth rate halved in May to four per cent, compared with the previous month.

Copper prices increased by 3.6 per cent in May, down from 17.7 per cent in April, while aluminium prices rose by 2.3 per cent, compared with seven per cent growth a month earlier.

Lead prices witnessed a rise of four per cent in May m-o-m, compared with six per cent in April, while the price of zinc halved to 7.5 per cent, compared with 13.5 per cent in April.

Nickel prices improved by 12.6 per cent in May, compared with 17 per cent a month earlier.

The World Bank's agricultural price index rose by 6.3 per cent in May, compared with 4.9 per cent in April, fuelled by grain prices and especially wheat on the back of weather-related concerns.

The IMF food price index increased by 5.8 per cent in May – up from 4.8 per cent in April.

Gold prices climbed by 4.3 per cent in May m-o-m, after a 3.7 per cent drop the previous month.

World oil demand

In its review of the market, the OPEC report pointed out that given the “horrendous” decline in OECD oil demand, global oil demand in 2009 was forecast to fall by 1.6m b/d year-

on-year (y-o-y) to average 83.8m b/d, broadly unchanged from the last report.

“As the world economy stabilizes, global oil demand appears to be settling down. Industrial production activities are steadying and, in some parts of the world, have even improved slightly. This should stop the bleeding in oil demand,” said the report.

“There are no significant downward revisions to our previous oil demand forecasts. Still, US oil demand is the wild card and any further downward adjustment in the country's oil demand would have an impact on total world oil demand,” it added.

Demand for OPEC crude in 2009 has been revised down by 200,000 b/d to reflect lower-than-expected growth in world oil demand. Required OPEC crude is now forecast at 28.6m b/d, a decline of 2.2m b/d from the estimated 2008 figure. In quarterly terms, demand for OPEC crude in 2009 is now expected at 28.6m b/d, 28.0m b/d, 28.7m b/d and 29.0m b/d, respectively.

Demand for OPEC crude in the first quarter of this year is estimated to have shown a strong decline of around 3.0m b/d, while in the second and third quarters, demand for OPEC crude is projected to fall by about 2.2m b/d, before dropping by 1.3m b/d in the fourth quarter.

Demand for OPEC crude in 2008 is estimated to have averaged 30.8m b/d, indicating a decline of 500,000 b/d. On a quarterly basis, demand for OPEC crude last year was estimated at 31.7m b/d, 30.3m b/d, 30.8m b/d and 30.4m b/d, respectively.

World oil demand growth in the first quarter of 2009 reached a record low of -2.8m b/d. However, the second quarter's oil demand is estimated to decline by 2.1m b/d. The picture in the third quarter is estimated to be enhanced by at least 1.0m b/d to show a decline of 1.2m b/d y-o-y.

“The fall in US industrial production is taking a major toll on the country's oil usage. However, some indicators imply that the economic contraction is reaching bottom,” commented the report.

“Furthermore, the US driving season is here and this will lift the country's oil demand to a

certain degree. Early data for May indicates that gasoline consumption is flat in comparison with the same month last year.”

The report said that these two factors should ease the strong decline in US oil demand seen since 2006. Year-to-date US oil demand has lost around 1.4m b/d on average. May oil demand declined by 1.3m b/d y-o-y, with most

Demand for OPEC crude in the first quarter of this year is estimated to have shown a strong decline of around 3.0m b/d.

of the decline as a result of lower use of industrial fuel, which declined by 12 per cent.

US oil demand in the second half of the year is expected to be better than in the first half as economic activities improve. Furthermore, the hurricane season this year is expected to be calmer than usual.

First quarter US oil demand declined by 5.3 per cent, or 1.0m b/d. However, gasoline declined by only 1.3 per cent.

Mexican oil demand declined by an average of 4.7 per cent y-o-y over the first four months of 2009. Most of the decline was attributed to industrial fuels. Gasoline consumption was stable.

Despite an increase in gasoline consumption, Canadian April oil demand declined by 4.8 per cent y-o-y. The decline was attributed to industrial use.

“Given not only the disastrous economic effect, but also fallout from the swine flu outbreak, North America oil demand was revised down by 100,000 b/d to show a decline of 900,000 b/d to average 23.4m b/d in 2009.”

The report said the European economy was still in deep decline. The German economy consumes the most oil in Europe, followed by

Unlike last year, when Chinese oil demand grew by 400,000 b/d, this year oil demand growth is expected at only 51,000 b/d, or 0.6 per cent.

France. However, the biggest decline is expected to come from Italian demand in 2009.

Germany's oil demand showed a moderate decline in the first quarter of 0.5 per cent y-o-y. Unlike the US, most of the decline in Germany's oil demand is attributed to transport fuel. It is anticipated that German oil usage will decline by 2.8 per cent in 2009.

Declining industrial production pushed oil demand in France to contract by five per cent y-o-y in April. As expected, due to the current economic problems, the United Kingdom, Italy

and Spain all experienced negative oil demand growth in April.

"Given the very dim picture of the European economy, OECD Europe oil demand is forecast to decline by 410,000 b/d y-o-y to average 14.8m b/d in 2009," said the report.

Declines in gasoline and crude oil for direct burning were disastrous for Japan's oil demand in April. Gasoline declined by 20 per cent and crude for direct burning plunged by 73 per cent, pushing the change in the country's total oil usage to a 15-year low of 750,000 b/d.

The situation in the second largest country in the OECD Pacific was much better. South Korea's oil demand fell by only 2.5 per cent y-o-y in March. Most of this decline was related to jet fuel and diesel. As the strong decline in Japanese oil demand was more than anticipated, the forecast for 2009 OECD Pacific was revised down by 50,000 b/d, showing a decline of 470,000 b/d to average 7.5m b/d.

As a result of improving economic activities and higher consumption of transport fuel,

India's oil demand in April grew by 4.6 per cent, or 139,000 b/d, y-o-y, to average 3.1m b/d.

The healthy Middle East economies kept oil consumption in the group of Developing Countries on the positive side this year, as most of the world's oil demand dipped into the red.

Given low GDP growth this year, relative to last year, regional oil demand is estimated to show growth of around three per cent, or 200,000 b/d, y-o-y in 2009.

Latin America is forecast to see minor oil demand growth this year. Brazilian oil demand – once the catalyst for the region's oil demand growth – is losing its power, but not to the extent thought previously. Hence, Latin America's oil demand was revised up by 20,000 b/d y-o-y.

Developing Countries' oil demand is suffering from the current economic downturn; hence oil demand growth is forecast at 250,000 b/d y-o-y in 2009 to average 25.3m b/d.

China's apparent oil demand in April changed from negative to positive growth. Since the beginning of the year, China's oil demand has been on the decline; however, April data indicated 1.2 per cent, or 100,000 b/d, growth y-o-y.

Furthermore, the country's oil imports switched from a y-o-y decline of seven per cent in March to growth of 3.7 per cent in April.

"Unlike last year, when Chinese oil demand grew by 400,000 b/d, this year oil demand growth is expected at only 51,000 b/d, or 0.6 per cent," said the report.

As a result of the poor performance in the first quarter, China's oil demand is forecast to grow by only 20,000 b/d y-o-y in 2009.

Former Soviet Union (FSU) apparent oil demand was worse than expected, resulting from dreadful economic activities so far this year. As a result, the region's oil demand was revised down by 40,000 b/d in 2009.

World oil supply

Preliminary figures indicate that global oil supply increased by 90,000 b/d in May to average 83.35m b/d. Non-OPEC supply experienced a

decline of 40,000 b/d, while OPEC crude production increased. The share of OPEC crude oil in global production rose slightly to 33.9 per cent in May. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC natural gas liquids (NGLs) and OPEC crude production from secondary sources.

Meanwhile, non-OPEC supply in 2009 is forecast to increase by 210,000 b/d over the previous year to average 50.52m b/d, representing a downward revision of 10,000 b/d from the previous forecast. On a quarterly basis, non-OPEC supply this year is estimated to stand at 50.71m b/d, 50.38m b/d, 50.28m b/d and 50.73m b/d, respectively.

In 2008, non-OPEC supply is estimated to have averaged 50.32m b/d, a drop of 190,000 b/d from the previous year. On a quarterly basis, non-OPEC supply in 2008 was put at 50.73m b/d, 50.55m b/d, 49.72m b/d and 50.27m b/d, respectively.

Total OECD countries' oil supply in 2009 is expected to average 19.37m b/d, indicating a decline of 230,000 b/d from the previous year and a downward revision of 5,000 b/d from the earlier forecast. The downward revision came mainly from Western Europe and the OECD Pacific, while North America supply indicated an upward revision.

On a quarterly basis, OECD supply for this year now stands at 19.83m b/d, 19.28m b/d, 19.09m b/d and 19.30m b/d, respectively.

North America's supply forecast experienced an upward revision of 30,000 b/d for total 2009 supply to stand at 14m b/d, an increase of 80,000 b/d over the previous year. The upward revision came on the back of revisions to the US and Mexico supply forecasts.

On a quarterly basis, North America's oil supply in 2009 is foreseen at 14.15m b/d, 13.91m b/d, 13.93m b/d and 14.02m b/d, respectively.

The Western Europe oil supply forecast was revised down by 15,000 b/d to stand at an average of 4.74m b/d, a decline of 310,000 b/d. On a quarterly basis, Western Europe supply in 2009 is seen at 5.04m b/d, 4.73m b/d, 4.51m b/d and 4.68m b/d, respectively.

The OECD Pacific experienced a downward revision of 20,000 b/d to its 2009 supply figure, compared with the previous OPEC report. OECD Pacific oil supply is now projected to average 640,000 b/d in 2009, flat compared with the previous year.

US oil supply in 2009 is expected to increase by 250,000 b/d over the previous year to average 7.75m b/d, representing an upward revision of 13,000 b/d. On a quarterly basis, US oil supply this year is foreseen at 7.79m b/d, 7.74m b/d, 7.70m b/d and 7.78m b/d, respectively. According to preliminary data, US oil supply in May is estimated to have averaged 7.71m b/d.

Oil supply from Canada is estimated to average 3.29m b/d in 2009, an increase of 40,000 b/d over the previous year, indicating a downward revision of 6,000 b/d from the previous report. On a quarterly basis, Canada's supply in 2009 is forecast to average 3.31m b/d, 3.19m b/d, 3.27m b/d and 3.37m b/d, respectively. According to preliminary data, Canadian oil supply in May is estimated to have averaged 3.01m b/d.

Mexico's oil supply is anticipated to average 2.96m b/d in 2009, a decline of 210,000 b/d from the previous year, following an upward revision of 23,000 b/d. On a quarterly basis, Mexico's oil supply this year is expected to average 3.04m b/d, 2.98m b/d, 2.96mb/d and 2.87m b/d, respectively.

Oil supply from OECD Western Europe is expected to decline by 310,000 b/d in 2009 from the previous year to average 4.74m b/d. Compared with previous assessments, OECD Western Europe oil supply is forecast to decrease by around 15,000 b/d, following adjustments to Norwegian and UK supply projections. On a quarterly basis, OECD Western Europe supply in 2009 is seen at 5.04m b/d, 4.73m b/d, 4.51m b/d and 4.68m b/d, respectively.

Norwegian oil supply this year is forecast to average 2.34m b/d, a decline of 120,000 b/d, compared with the previous year, and representing a downward revision of 20,000 b/d. On a quarterly basis, Norway's oil supply in 2009 is expected to average 2.52m b/d,

2.29m b/d, 2.19m b/d and 2.35m b/d, respectively. Preliminary data indicates that Norway's oil supply stood at 2.34m b/d in April, a decline of 180,000 b/d from March.

Oil supply from the UK this year is anticipated to decline by 130,000 b/d from the previous year to average 1.44m b/d, indicating an upward revision of 6,000 b/d. On a quarterly basis, UK oil supply in 2009 stands at 1.56m b/d, 1.46m b/d, 1.38m b/d and 1.37m b/d, respectively.

Denmark and Other Europe oil supply remained relatively flat from last month's OPEC evaluation at 260,000 b/d and 700,000 b/d, respectively. There were minor adjustments to first quarter supply, but these did not affect the annual figures. Denmark's oil supply is expected to experience an annual drop of 20,000 b/d on mature field declines.

OECD Asia Pacific oil supply is projected to average 640,000 b/d in 2009, unchanged from the previous year. The region's supply was revised down by 20,000 b/d, due to changes to Australia and New Zealand supply forecasts. On a quarterly basis, OECD Pacific oil supply this year is seen to average 640,000 b/d, 650,000 b/d, 660,000 b/d and 610,000 b/d, respectively.

Oil supply from Australia in 2009 is anticipated to remain unchanged, compared with the previous year, to average 540,000 b/d, representing a downward revision of 8,000 b/d. On a quarterly basis, Australian supply this year is foreseen to average 550,000 b/d, 540,000 b/d, 550,000 b/d and 500,000 b/d, respectively.

New Zealand's oil supply in 2009 is estimated to average 100,000 b/d in 2009, flat from the previous year, following a downward revision of 12,000 b/d.

Developing Countries' oil supply is forecast to average 12.57m b/d in 2009, an increase of 340,000 b/d over 2008 and a downward revision of 49,000 b/d from the previous month's estimate. On a quarterly basis, total oil supply from the Developing Countries in 2009 is projected to stand at 12.36m b/d, 12.46m b/d, 12.71m b/d and 12.76m b/d, respectively.

Oil supply from Other Asia is expected to average 3.81m b/d this year, representing growth of 60,000 b/d over the previous year. On a quarterly basis, Other Asia supply in 2009 stands at 3.72m b/d, 3.76m b/d, 3.88m b/d and 3.89m b/d, respectively.

Developing Countries' oil supply is forecast to average 12.57m b/d in 2009, an increase of 340,000 b/d over 2008.

Oil supply from Latin America is expected to average 4.32m b/d in 2009, an increase of 240,000 b/d over 2008, following a downward revision of 10,000 b/d. On a quarterly basis, Latin America's oil supply this year stands at 4.27m b/d, 4.26m b/d, 4.37m b/d and 4.39m b/d, respectively.

Middle East oil supply in 2009 is foreseen to remain relatively unchanged, indicating a downward revision of 7,000 b/d. On quarterly basis, Middle East supply this year stands at 1.63m b/d in the first quarter and 1.67m b/d in the remaining three quarters.

African supply in 2009 is seen to average 2.78m b/d, an increase of 30,000 b/d over the previous year, following a downward revision of 17,000 b/d. On a quarterly basis, African oil supply this year stands at 2.74m b/d, 2.77m b/d, 2.79m b/d and 2.82m b/d, respectively.

Oil supply from the FSU is estimated to grow by 60,000 b/d in 2009 over the previous year to average 12.62m b/d. The current supply forecast represents an upward revision of 26,000 b/d, due to adjustments to Russia, Kazakhstan and Azerbaijan. On a quarterly basis, total oil supply in the FSU is estimated to stand at 12.60m b/d, 12.69m b/d, 12.50m b/d and 12.69m b/d, respectively.

Oil supply from Russia is expected to average 9.70m b/d in 2009, a drop of 80,000 b/d from last year. This represents an upward revision of 12,000 b/d, due to healthy production levels. On a quarterly basis, Russian oil supply in 2009 is seen to average 9.77m b/d, 9.72m b/d, 9.66m b/d and 9.64m b/d, respectively. Preliminary data suggests that Russia's oil supply in May stood at 9.85m b/d.

Kazakh oil supply is projected to increase by 80,000 b/d in 2009 over the previous

Total OPEC crude oil production averaged 28.27m b/d in May, up by 135,000 b/d from the previous month, according to secondary sources.

year to average 1.49m b/d. This represents an upward revision of 5,000 b/d. On a quarterly basis, Kazakhstan's oil supply this year is anticipated to stand at 1.48m b/d, 1.51m b/d, 1.40m b/d and 1.58m b/d, respectively.

Azeri oil supply in 2009 is forecast to increase by 60,000 b/d over last year to average 970,000 b/d, representing an upward revision of 8,000 b/d. On a quarterly basis, Azerbaijan's oil supply this year is estimated to average 910,000 b/d, 990,000 b/d, 960,000 b/d and 1.00m b/d, respectively.

Oil supply forecasts for Other Europe in 2009 are said to be relatively steady from the previous month with the figure put at 12,000 b/d.

Oil supply from China in 2009 is expected to remain relatively unchanged from the previous year to average 3.85m b/d. On a quarterly basis, China's oil supply this year is estimated to average 3.80m b/d, 3.84m b/d, 3.88m b/d and 3.86m b/d, respectively.

OPEC oil production

Total OPEC crude oil production averaged 28.27m b/d in May, up by 135,000 b/d from the previous month, according to secondary sources. Most Member Countries saw minor increases in crude oil production, except Algeria and Qatar where output declined. Supply from Angola, Venezuela and Nigeria experienced increases of 20,000 b/d, or more, in May, compared with a month earlier. As per secondary sources, OPEC crude production, not including Iraq, stood at 25.90m b/d in May, an increase of 119,000 b/d from the previous month.

Production of OPEC NGLs and non-conventional oils in 2009 are forecast to increase by 360,000 b/d to average 4.68m b/d. Last year, their output was estimated to have averaged 4.31m b/d, representing growth of 280,000 b/d over the previous year.

Downstream activity

Looking downstream, the OPEC report said that a combination of gasoline stock-draws in the US with lower refinery runs and product output had provided support for product markets and lifted refining margins, especially in the Atlantic Basin.

"However, due to bearish momentum in the distillates market and an expected lack of sufficient strength in gasoline demand over the driving season, the recent positive developments in the gasoline market are not expected to persist over the coming months to lead the market," maintained the report.

"Meanwhile, ample distillate stocks have created operational restrictions for refiners to significantly boost throughputs over the coming months as higher output would further deteriorate middle distillate market fundamentals and exert pressure on refining margins.

"Under such circumstances, refiners would try to switch their operation mode in favour of gasoline production, rather than boost their runs. Additionally, the recent uplift in crude prices may also have a negative impact on refining margins and encourage refiners to continue

lower-than-normal throughputs over the coming months." added the report.

Refining margins for WTI crude on the US Gulf Coast jumped to \$9.43/b in May from \$5.25/b the previous month.

"Although current refining margins may hold up over the very short-term, there is a risk of downward pressure if gasoline demand remains weak over the driving season," observed the report.

In Europe, the market followed a similar trend with refining margins for Brent crude rising to \$4.54/b from \$4.33/b in April.

In Asia, refining margins remained unhealthy, due to more costly crude oil and slowing demand for products. Refining margins for Dubai crude oil in Singapore fell to 19¢/b in May from \$1.60/b the previous month.

"Looking ahead, arbitrage opportunities to the US West Coast and tight product supplies, resulting from a continuation of seasonal refinery turnarounds, may lift Asian refining margins next month," said the report.

It noted that refinery utilization rates, especially in the Atlantic Basin, usually increased in May. "However, due to poor performance of refinery economics in recent months, Western refiners so far have not followed their typical behaviour and are reluctant to lift operation levels. The current operation policy may continue over the coming months."

Refinery utilization rates in the US in May increased by one per cent, compared with the previous month, to 83.4 per cent.

In Europe, refinery utilization rates are estimated to have fallen by 1.6 per cent to reach 78.2 per cent in May, from 79.8 per cent in April.

In Asia, refinery throughputs fell further, due to continued seasonal maintenance. Refinery utilization rates in Japan slipped by 3.6 per cent to 80.2 per cent in May from 83.8 per cent the previous month.

"Looking ahead, with the start of the driving season and completion of maintenance schedules, particularly in the Atlantic Basin, refinery utilization rates are expected to increase in the coming months. However, due to the underlying economic crisis and its adverse impact on product demand, refiners

are not expected to raise their operation levels significantly in the next months,” maintained the OPEC report.

Oil trade

According to official data, US crude oil imports in May declined to average 8.98m b/d, the lowest level since October 2008 and some eight per cent, or 740,000 b/d, down from the previous month and by almost the same percentage compared with May 2008.

“Including May’s crude imports, the five-month average for US imports in 2009 stands at about 9.38m b/d, about four per cent, or 380,000 b/d, lower, compared with the same period in 2008,” said the report.

In contrast, US product imports increased by two per cent, or 46,000 b/d, in May, compared with the previous month, to average 2.8m b/d, some 13 per cent lower than in the same month last year.

Finished motor gasoline imports increased in May by 68,000 b/d, or 31 per cent, to reach 287,000 b/d. May’s finished motor gasoline imports were lower by 43 per cent, compared with a year ago, while average imports during the first four months of 2009 were 25 per cent lower, compared with the same period last year.

Distillate fuel oil imports also increased in May – by 38,000 b/d, or 24 per cent, to average 194,000 b/d. This level of imports indicates a three per cent increase, compared with the same month last year. Average distillate fuel oil imports during the first five months of 2009 were six per cent higher.

Residual fuel oil imports in May were steady, compared with the previous month, at 391,000 b/d, but were 12 per cent higher than in the same month last year. Average residual fuel oil imports during the first five months of 2009 were at 394,000 b/d, about six per cent higher than in the same period of 2008.

Jet fuel imports in May averaged 97,000 b/d, up from 88,000 b/d the previous month and 31 per cent lower than the same month last year.

On the export side, US product exports increased in May for the fifth month in a row to average 1.85m b/d, 68,000 b/d, or four per cent higher, compared with the previous month, and three per cent higher, compared with year-earlier levels. US product exports during the first five months of 2009 averaged 1.67m b/d, seven per cent lower, compared with the same period of 2008.

As a result, US net oil imports declined in May by seven per cent, compared with the previous month, to reach 9.91m b/d. The 762,000 b/d decline in net oil imports in May came as a result of a 740,000 b/d drop in net crude oil imports and a 22,000 b/d decline in net product imports, compared with the previous month. May’s net oil imports were ten per cent lower, compared with a year earlier and average net oil imports during the first five months of 2009 were four per cent lower, compared with the same period last year.

Stock movements

Concerning stock movements, the OPEC report said that US commercial oil inventories continued their upward trend in May, adding 14.5m b to stand at 1,102m b. This resulted in an overhang of 98m b with the five-year average.

“It is worth mentioning that the overhang has declined for the third consecutive month, falling to 115m b in March and then to 105m b in April,” observed the report.

The build of 14.5m b came as a result of a combination of a draw of 11.2m b in crude oil and a build of 25.7m b in products. The build in products came primarily from other products than gasoline, which dropped by 9.2m b, and distillates, which increased by only 3.4m b.

Crude oil stocks in May dropped for the first time in ten months, reversing the upward trend which had pushed inventories to their highest level since mid-1990.

However, even at 364m b, crude oil stocks remained high with an overhang of 37m b, or 11 per cent, with the average of the previous five years and 62m b, or 20 per cent, with a year earlier.

The draw, which was in line with the seasonal pattern, was driven by a strong decline in imports and an increase in refinery runs, following the return of some refineries from seasonal maintenance.

In addition, the flattening contango in the futures market also contributed to the draw on crude oil stocks.

US commercial oil inventories continued their upward trend in May, adding 14.5m b to stand at 1,102m b. This resulted in an overhang of 98m b with the five-year average.

On the products side, gasoline inventories dropped for the second consecutive month, despite an increase in production from refineries. With a draw of 9.2m b, driven by a clear recovery in demand, gasoline stocks are now at around 203m b, a decline of 6m b below the average of the previous five years.

In contrast to gasoline, the recession continued to support the build in distillates, which added 3.4m b to stand at a very high level of 150m b, implying an overhang of 34m b, or 29 per cent, with the five-year average, as well as with a year earlier.

Following the same trend, residual fuel oil stocks rose by 3.9m b to stand at 39.8m b and jet fuel oil stocks increased by 900,000 b to 41.6m b.

The Strategic Petroleum Reserve (SPR) continued its upward trend, adding 3m b to hit an all-time high of 727m b and approach maximum capacity. Almost 20m b has been added to the SPR since the beginning of the year.

Latest data shows that US commercial oil inventories dropped by 1.7m b to 1,101m b in the week ending June 5, as a result of a draw of 4.4m b in crude oil and a build of 2.7m b in

US commercial stocks remained high considering demand, with crude oil corresponding to 24.8 days of forward cover, four days over the seasonal average.

products. But the inventories remained very high at 110m b above the seasonal level.

The decline, which left crude oil stocks at 361.6m b, implying an overhang of 37m b, or 12 per cent, with the five-year average, was driven by lower imports.

On the product side, gasoline stocks continued their downward trend and fell by 1.6m b, dropping by almost 16m b over seven consecutive weeks to stand at 201.6m b, the lowest level since late November 2008 and showing a

deficit of 8m b, or four per cent, with the average of the previous five years.

“Again, the recent stock-draw in gasoline

is attributed to a recovery in demand, as well as lower imports,” said the report.

Distillate inventories fell by 300,000 b, the first draw since mid-April, but remained very high at 150m b, 30 per cent above the seasonal average.

Overall, US commercial stocks remained high considering demand, with crude oil corresponding to 24.8 days of forward cover, four days over the seasonal average, with distillate stocks representing 42 days, a surplus of 14 days.

“The exception is gasoline, which, following the recent decline, saw days of forward cover move below 22 days, implying a deficit of around half a day with the five-year average,” said the report.

Driven by lower demand from refineries, European (EU-15 plus Norway) oil inventories rose by 7m b in May to stand at 1,153m b, which corresponds to the upper end of the five-year range, or 23m b above the five-year average.

“However, stocks are much higher compared with a year earlier, with a surplus of 34m b over the previous year. The surplus is due to products as crude oil is in line with the five-year average,” commented the report.

Crude oil inventories rose by 6.5m b in May, in line with the seasonal build, to remain at the five-year average of 489m b, while prod-

ucts increased by a marginal 500,000 b, due to lower production from refineries and lower demand, but remained well above the seasonal average as demand continued to be sluggish.

“However, the picture is mixed within products, with gasoline remaining below the five-year-range and distillates above,” said the report.

Gasoline stocks edged up by 900,000 b, the first build in four months, to stand at 121.6m b and narrowed the deficit with the five-year average to around 8m b, or six per cent.

Distillate stocks dropped for the first time since last October to stand slightly below 394m b, down by 1.1m b from the previous month, but were 26m b higher than the seasonal average, reflecting lower demand in both the industrial and domestic sectors.

Residual fuel oil stocks rose by 1.5m b, offsetting the draw of the previous month, to stand at 117.5m b, a decline of 4m b from a year ago.

In contrast, naphtha stocks fell by 900,000 b to 30.8m b, but remained 3.5m b higher than a year earlier.

According to preliminary data, Japan’s commercial oil stocks in May saw a recovery, with estimates of an increase of around 7m b, due essentially to products, which continued to build amid a persistent decline in demand. ❄️

Table A: World crude oil demand/supply balance m b/d

World demand	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
OECD	49.4	49.8	49.6	49.2	48.9	47.2	46.6	47.0	47.4	46.5	44.9	44.9	46.2	45.6
North America	25.4	25.6	25.4	25.5	24.8	24.5	23.7	23.9	24.3	23.6	23.2	23.0	23.6	23.4
Western Europe	15.5	15.7	15.7	15.3	15.2	14.9	15.4	15.2	15.2	14.8	14.4	14.9	14.9	14.8
Pacific	8.5	8.6	8.5	8.3	8.9	7.8	7.5	7.9	8.0	8.1	7.3	7.1	7.7	7.5
Developing countries	21.8	22.6	23.3	24.2	24.8	25.2	25.2	25.0	25.1	25.0	25.3	25.5	25.4	25.3
FSU	3.8	3.9	4.0	4.0	4.1	3.7	4.2	4.4	4.1	3.9	3.7	4.2	4.4	4.0
Other Europe	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.9	0.8	0.7	0.8	0.8	0.9	0.8
China	6.5	6.7	7.2	7.6	8.0	8.2	8.1	7.7	8.0	7.7	8.2	8.3	7.8	8.0
(a) Total world demand	82.5	83.9	84.9	85.9	86.6	85.2	84.9	85.0	85.4	83.8	83.0	83.7	84.6	83.8

Non-OPEC supply	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
OECD	21.3	20.5	20.2	20.1	20.0	19.7	19.1	19.6	19.6	19.8	19.3	19.1	19.3	19.4
North America	14.6	14.1	14.2	14.3	14.2	14.1	13.6	13.8	13.9	14.2	13.9	13.9	14.0	14.0
Western Europe	6.2	5.7	5.4	5.2	5.2	5.0	4.8	5.1	5.0	5.0	4.7	4.5	4.7	4.7
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.7	0.6	0.6
Developing countries	11.6	11.9	12.0	12.0	12.2	12.2	12.2	12.3	12.2	12.4	12.5	12.7	12.8	12.6
FSU	11.1	11.5	12.0	12.5	12.6	12.7	12.5	12.5	12.6	12.6	12.7	12.5	12.7	12.6
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.5	3.6	3.7	3.8	3.8	3.9	3.9	3.8	3.8	3.8	3.8	3.9	3.9	3.8
Processing gains	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total non-OPEC supply	49.6	49.6	50.0	50.5	50.7	50.5	49.7	50.3	50.3	50.7	50.4	50.3	50.7	50.5
OPEC NGLS and non-conventionals	3.7	3.9	3.9	4.0	4.2	4.3	4.4	4.4	4.3	4.5	4.6	4.7	4.9	4.7
(b) Total non-OPEC supply and OPEC NGLS	53.3	53.5	53.9	54.5	55.0	54.9	54.1	54.6	54.6	55.2	55.0	55.0	55.6	55.2

OPEC crude supply and balance	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
OPEC crude oil production¹	29.6	30.7	30.5	30.1	31.2	31.2	31.5	30.3	31.1	28.3				
Total supply	82.9	84.2	84.4	84.7	86.2	86.1	85.6	85.0	85.7	83.5				
Balance²	0.4	0.3	-0.6	-1.2	-0.5	0.9	0.7	0.0	0.3	-0.3				

Stocks	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
OECD closing stock level m b														
Commercial	2538	2585	2666	2567	2572	2603	2659	2698	2698	2742				
SPR	1450	1487	1499	1524	1527	1529	1522	1526	1526	1547				
Total	3988	4072	4165	4091	4099	4132	4180	4224	4224	4289				
Oil-on-water	905	958	916	942	929	929	898	928	928	920				
Days of forward consumption in OECD														
Commercial onland stocks	51	52	54	54	54	56	57	58	59	61				
SPR	29	30	30	32	32	33	32	33	33	34				
Total	80	82	85	86	87	89	89	91	93	95				

Memo items	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
FSU net exports	7.3	7.7	8.0	8.5	8.5	8.9	8.2	8.1	8.4	8.7	9.0	8.3	8.3	8.6
[(a) – (b)]	29.2	30.4	31.1	31.3	31.7	30.3	30.8	30.4	30.8	28.6	28.0	28.7	29.0	28.6

1. Secondary sources.

2. Stock change and miscellaneous.

Note: Totals may not add up due to independent rounding.

Table 1 above, prepared by the Secretariat's Petroleum Studies Department, shows OPEC's current forecast of world supply and demand for oil and natural gas liquids.

The monthly evolution of spot prices for selected OPEC and non-OPEC crudes is presented in **Tables 1 and 2** on page 72 while **Graphs 1 and 2** (on page 73) show the evolution on a weekly basis. **Tables 3 to 8**, and the corresponding graphs on pages 74–75 show the evolution of monthly average spot prices for important products in six major markets. (Data for Tables 1–8 is provided courtesy of Platt's Energy Services.)

Table 1: OPEC Reference Basket crude oil prices, 2008–2009

\$/b

Crude/Member Country	2008					2009					Weeks 19–23 (week ending)							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	May 1	May 8	May 15	May 22	May 29
Arab Light – Saudi Arabia	120.59	129.35	132.75	113.69	97.57	69.14	50.09	38.82	41.23	40.87	46.39	50.91	57.45	50.31	54.63	57.01	58.44	61.13
Basrah Light – Iraq	116.35	124.46	127.00	109.16	94.84	67.99	49.11	37.27	39.47	39.66	44.94	51.18	56.47	50.54	53.71	55.80	57.25	60.36
Bonny Light – Nigeria	126.55	136.44	137.64	116.93	100.48	74.57	56.11	43.10	45.44	45.07	49.70	52.24	57.87	51.82	54.91	57.12	58.36	62.14
Es Sider – SP Libyan A)	122.50	131.69	132.14	111.98	97.28	71.22	51.86	39.60	42.74	42.37	46.35	50.24	56.87	50.02	53.91	56.12	57.36	61.14
Girassol – Angola	121.76	130.89	131.35	110.26	96.68	70.63	51.76	40.30	43.43	43.33	46.98	49.72	57.36	49.73	54.21	56.36	57.99	62.04
Iran Heavy – IR Iran	116.47	124.66	126.75	108.10	93.04	66.33	47.55	36.88	39.93	39.91	44.52	50.10	56.02	49.00	53.33	55.67	56.98	59.55
Kuwait Export – Kuwait	115.79	124.37	127.57	108.84	93.15	65.88	47.13	36.47	40.00	40.34	44.91	50.16	57.93	49.50	55.21	57.72	58.90	61.38
Marine – Qatar	119.27	129.25	132.73	113.53	97.78	68.94	50.58	41.24	44.62	43.74	46.58	50.82	58.09	49.86	55.53	58.01	58.95	61.37
BCF-17* – Venezuela	106.20	116.16	124.51	110.48	96.17	65.86	40.37	31.65										
Merey* – Venezuela									37.39	38.76	39.59	43.73	52.95	45.02	51.51	52.19	53.35	55.85
Minas – Indonesia ¹	126.50	136.49	139.76	119.07	101.63	76.80	56.48	41.80										
Murban – UAE	124.84	134.56	137.94	119.50	101.32	71.52	53.05	43.15	46.27	44.71	47.75	52.33	59.58	51.25	56.96	59.51	60.49	62.87
Oriente – Ecuador	111.25	119.13	119.43	102.13	89.52	60.57	40.17	29.56	35.12	35.83	42.45	42.41	53.56	43.38	49.77	52.69	54.90	58.38
Saharan Blend – Algeria	125.15	133.94	134.49	114.33	99.48	73.02	53.86	41.35	43.89	44.07	48.40	51.69	57.27	51.26	54.31	56.52	57.76	61.54
OPEC Reference Basket	119.39	128.33	131.22	112.41	96.85	69.16	49.76	38.60	41.54	41.41	45.78	50.20	56.98	49.73	54.26	56.48	57.78	60.70

Table 2: Selected OPEC and non-OPEC spot crude oil prices, 2008–2009

\$/b

Crude/country	2008					2009					Weeks 19–23 (week ending)							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	May 1	May 8	May 15	May 22	May 29
Minas – Indonesia ¹									44.98	45.04	49.06	54.11	61.69	53.27	58.45	61.61	62.72	65.53
Arab Heavy – Saudi Arabia	112.00	120.62	124.09	105.47	89.92	63.48	44.94	34.38	38.31	39.41	43.76	49.48	55.69	48.38	53.00	55.60	56.63	59.01
Brega – SP Libyan A)	123.90	133.29	133.94	113.78	99.08	72.87	53.31	40.95	43.89	43.52	47.25	51.24	57.87	51.02	54.91	57.12	58.36	62.14
Brent – North Sea	123.05	132.44	133.19	113.03	98.13	71.87	52.51	40.35	43.59	43.07	46.55	50.44	57.27	50.26	54.31	56.52	57.76	61.54
Dubai – UAE	118.86	127.82	131.27	112.86	95.90	67.82	49.84	40.46	43.94	43.09	45.59	50.10	57.48	49.25	54.82	57.38	58.41	60.80
Ekofisk – North Sea	124.96	135.26	136.66	115.20	99.62	74.31	54.77	41.47	45.83	44.51	47.28	50.65	58.48	50.54	55.60	57.42	59.18	63.35
Iran Light – IR Iran	119.39	127.89	128.19	110.95	97.56	70.81	51.72	40.03	42.33	41.31	46.10	49.69	56.53	49.03	54.22	55.61	56.75	61.12
Isthmus – Mexico	120.43	129.90	130.98	112.63	100.15	71.96	49.77	37.27	40.15	39.39	46.98	50.38	58.51	50.93	55.66	57.36	59.29	62.83
Oman – Oman	119.15	128.32	132.81	113.28	96.13	68.34	50.04	40.91	44.28	43.52	45.83	50.16	57.59	49.29	54.88	57.51	58.55	60.91
Suez Mix – Egypt	115.40	124.58	126.68	109.32	94.76	67.57	48.86	36.66	40.08	39.44	42.89	46.26	54.33	46.10	51.32	53.06	55.03	59.69
Tia Juana Light ² – Venez.	116.45	125.62	127.71	110.04	96.65	69.58	47.44	35.26	38.86	38.60	45.52	49.32	57.34	49.87	54.55	56.21	58.10	61.57
Urals – Russia	119.11	127.73	130.06	112.17	97.61	70.51	51.79	40.03	43.09	42.32	45.65	49.05	56.85	48.83	53.41	55.82	57.73	61.69
WTI – North America	125.66	133.93	133.82	116.58	104.15	76.62	57.12	41.45	41.50	39.08	48.00	49.82	59.21	51.06	55.99	58.07	60.32	63.67

Note: As per the decision of the 109th ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108th ECB, the ORB has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board). As of June 16, 2005 (ie 3W June), the ORB has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference. As of January 2009, the ORB excludes Minas (Indonesia).

* Upon the request of Venezuela, and as per the approval of the 111th ECB, BCF-17 has been replaced by Merey as of January 2009. The ORB has been revised as of this date.

1. Indonesia suspended its OPEC Membership on December 31, 2008.

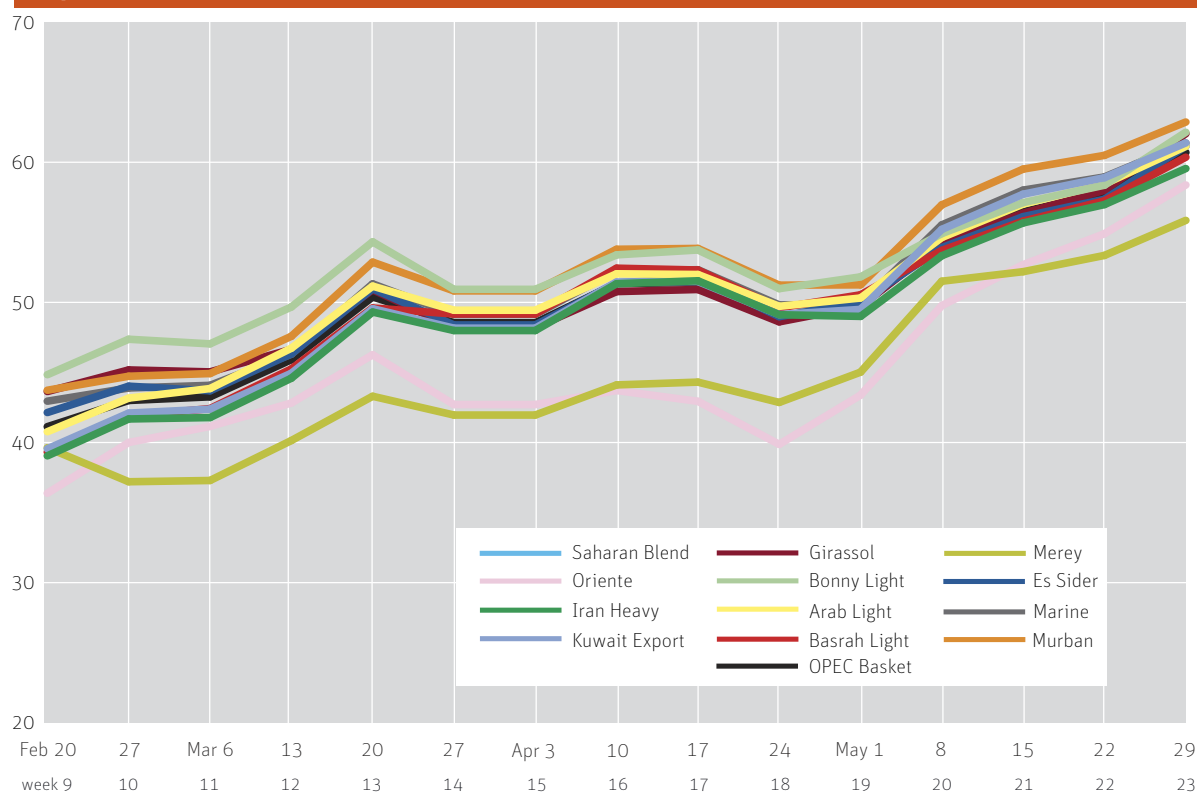
2. Tia Juana Light spot price = (TJL netback/Isthmus netback) x Isthmus spot price.

Brent for dated cargoes; Urals cif Mediterranean. All others fob loading port.

Sources: The netback values for TJL price calculations are taken from RVM; Platt's; Reuters; Secretariat's assessments.

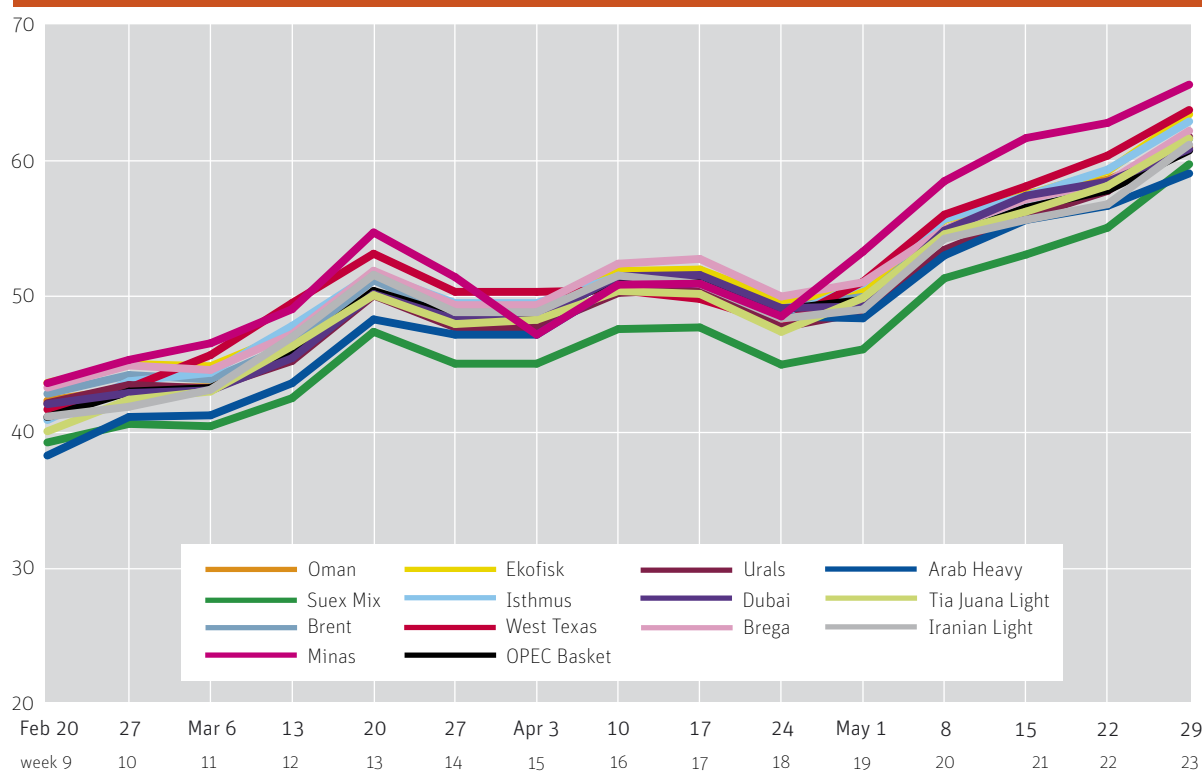
Graph 1: Evolution of the OPEC Reference Basket crudes (2009) \$/b

\$/b



Graph 2: Evolution of spot prices for selected non-OPEC crudes (2009) \$/b

\$/b

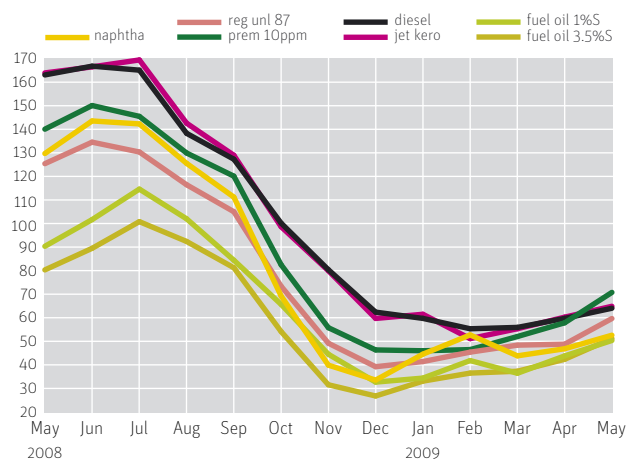


Note: As per the decision of the 109th ECB (held in February 2008), the OPEC Reference Basket (ORB) has been recalculated including the Ecuadorian crude Oriente retroactive as of October 19, 2007. As per the decision of the 108th ECB, the basket has been recalculated including the Angolan crude Girassol, retroactive January 2007. As of January 2006, monthly averages are based on daily quotations (as approved by the 105th Meeting of the Economic Commission Board). As of June 16, 2005 (ie 3W June), the ORB has been calculated according to the new methodology as agreed by the 136th (Extraordinary) Meeting of the Conference. As of January 2009, the ORB excludes Minas (Indonesia). Upon the request of Venezuela, and as per the approval of the 111th ECB, BCF-17 has been replaced by Mery as of January 2009. The ORB has been revised as of this date.

Table and Graph 3: North European market – spot barges, fob Rotterdam

\$/b

	naphtha	regular gasoline unleaded	premium gasoline 10ppm	diesel ultra light	jet kero	fuel oil 1%S	fuel oil 3.5%S
2008							
May	129.70	125.40	140.04	163.07	163.93	90.32	80.30
June	143.54	134.53	150.09	166.80	166.50	101.66	89.47
July	142.28	130.36	145.48	165.10	169.44	114.61	100.80
August	125.53	116.45	129.93	138.28	142.59	101.99	92.38
September	111.21	105.00	120.10	127.29	128.97	84.40	81.22
October	69.23	73.36	82.48	100.15	98.63	65.67	54.12
November	39.87	49.18	55.77	80.38	79.95	44.51	31.54
December	33.53	39.21	46.33	62.38	59.70	32.67	26.78
2009							
January	44.54	41.40	45.98	59.72	61.48	34.38	33.08
February	52.70	45.39	46.48	55.32	51.13	41.82	36.50
March	43.82	48.36	52.02	55.90	55.33	36.43	37.29
April	46.84	48.77	57.85	59.72	60.25	43.80	42.35
May	52.58	59.66	70.76	64.03	64.87	50.34	51.19



Note: Prices of premium gasoline and diesel from January 1, 2008, are with 10 ppm sulphur content.

Table and Graph 4: South European market – spot cargoes, fob Italy

\$/b

	naphtha	premium gasoline 50ppm	diesel ultra light	fuel oil 1%S	fuel oil 3.5%S
2008					
May	108.72	141.69	162.71	91.49	80.43
June	119.81	151.71	167.17	101.76	89.64
July	119.76	146.11	166.44	111.35	100.95
August	105.72	130.39	139.48	97.12	92.32
September	92.57	119.15	126.54	83.12	81.69
October	56.67	84.00	98.56	61.31	54.87
November	31.86	56.96	78.67	43.64	29.70
December	26.29	45.78	60.72	34.94	23.42
2009					
January	36.11	44.30	59.14	36.58	32.11
February	45.21	28.66	38.26	38.63	35.42
March	42.05	26.66	35.59	39.37	36.74
April	45.57	27.46	35.69	44.42	42.54
May	50.74	32.51	42.25	52.93	50.93

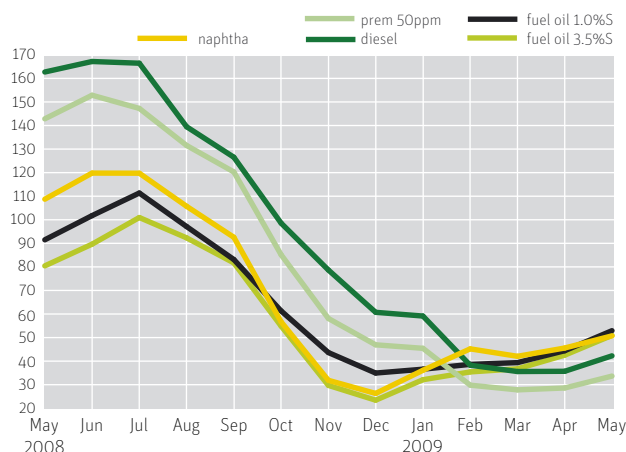
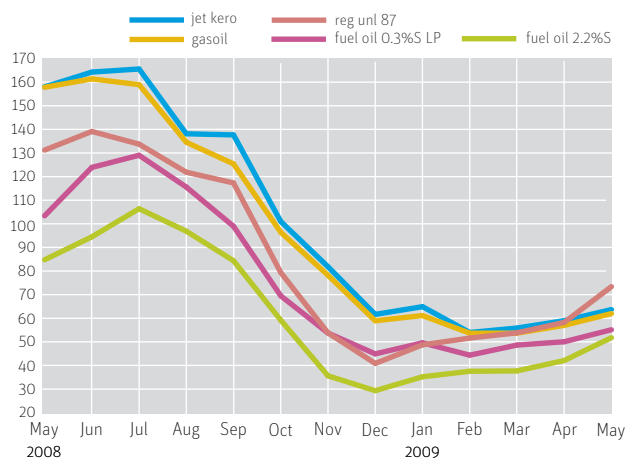


Table and Graph 5: US East Coast market – spot cargoes, New York

\$/b, duties and fees included

	regular gasoline unleaded 87	gasoil	jet kero	fuel oil 0.3%S	fuel oil 2.2%S
2008					
May	131.22	157.82	157.99	103.38	84.76
June	139.12	161.37	164.26	123.89	94.48
July	133.75	158.93	165.57	129.03	106.40
August	121.86	134.56	138.13	115.57	96.86
September	117.30	125.38	137.65	98.95	84.37
October	79.36	96.40	100.98	69.51	59.18
November	53.81	78.19	81.82	53.73	35.62
December	40.87	58.93	61.64	44.92	29.33
2009					
January	48.74	61.15	64.91	49.59	35.21
February	51.61	53.68	53.98	44.37	37.55
March	53.83	53.69	55.86	48.64	37.70
April	58.24	57.00	58.98	50.05	42.10
May	73.39	61.98	63.68	55.14	51.77



Source: Platts. Prices are average of available days.

Table and Graph 6: Caribbean market – spot cargoes, fob

\$/b

	naphtha	gasoil	jet kero	fuel oil 2%S	fuel oil 2.8%S
2008					
May	126.77	154.44	156.32	79.31	79.60
June	134.09	164.35	162.69	83.45	83.12
July	130.10	162.05	164.78	95.24	94.52
August	120.15	136.29	140.10	88.27	75.40
September	119.02	125.11	141.76	76.28	75.40
October	94.64	94.64	99.09	52.42	51.29
November	45.60	77.88	81.69	29.85	27.83
December	31.78	56.26	58.88	22.46	20.48
2009					
January	42.95	59.33	64.18	28.28	26.13
February	46.49	15.95	54.21	31.66	29.92
March	50.87	16.19	54.18	32.55	30.83
April	51.75	18.02	59.42	36.95	35.25
May	64.97	19.75	64.62	46.72	45.02

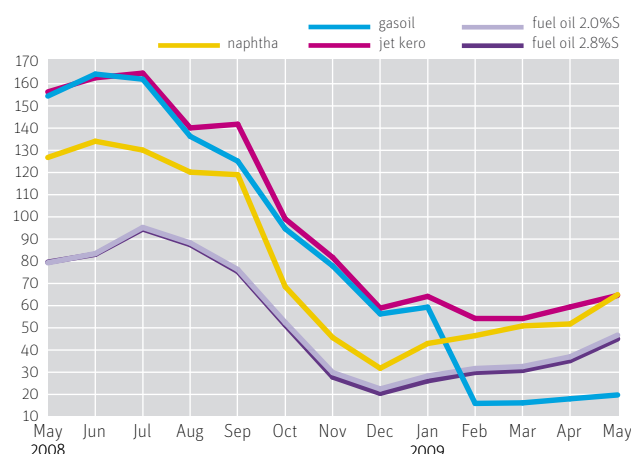


Table and Graph 7: Singapore market – spot cargoes, fob

\$/b

	naphtha	premium gasoline unl 95	premium gasoline unl 92	diesel ultra light	jet kero	fuel oil 180 Cst	fuel oil 380 Cst
2008							
May	113.63	131.07	130.01	161.86	159.47	91.15	87.62
June	125.18	140.23	138.72	170.00	164.76	96.23	94.58
July	125.41	135.19	134.60	168.64	167.21	109.53	108.05
August	108.24	115.42	113.91	135.87	121.42	101.07	99.84
September	91.89	107.02	104.75	121.57	121.42	88.23	87.77
October	51.04	79.38	77.07	90.00	89.97	59.99	59.08
November	28.98	48.29	47.38	75.13	75.01	36.14	35.13
December	30.90	40.97	38.80	62.97	58.90	34.00	33.27
2009							
January	41.89	50.95	47.57	61.82	60.89	37.65	37.47
February	46.84	63.61	55.42	39.76	52.85	40.66	50.48
March	46.53	54.20	53.14	56.20	53.34	38.70	38.05
April	49.35	60.46	58.27	61.14	59.10	45.66	44.90
May	54.01	68.50	65.48	66.29	64.07	54.53	53.90

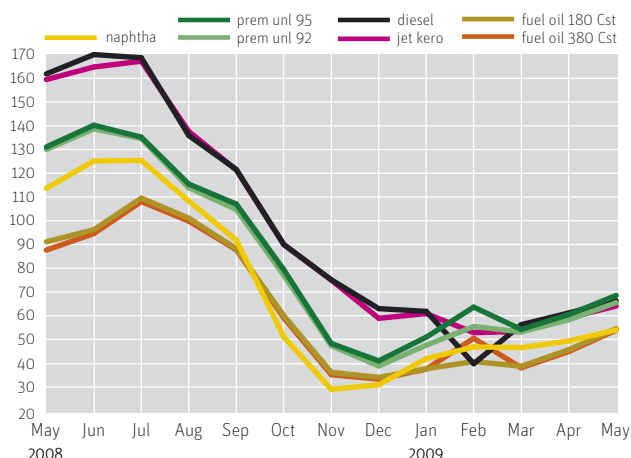
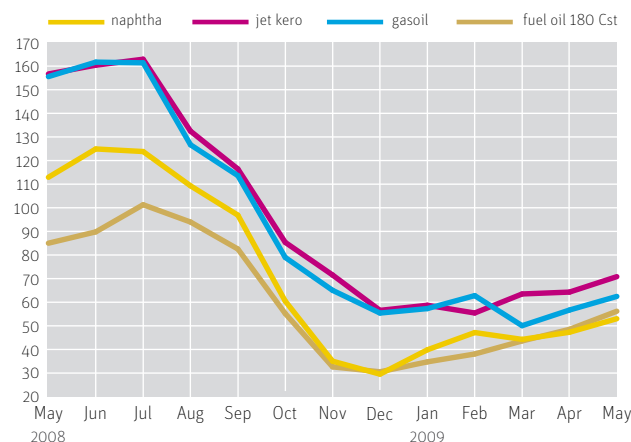


Table and Graph 8: Middle East Gulf market – spot cargoes, fob

\$/b

	naphtha	gasoil	jet kero	fuel oil 180 Cst
2008				
May	112.91	155.54	156.68	85.00
June	124.91	161.68	160.38	89.79
July	123.82	161.39	162.92	101.29
August	109.30	126.68	132.46	93.96
September	96.88	113.61	116.44	82.53
October	60.48	78.97	85.35	55.21
November	35.03	65.03	71.52	32.62
December	29.53	55.41	56.56	30.54
2009				
January	39.85	57.30	58.72	34.74
February	47.16	62.80	55.44	38.07
March	44.26	50.06	63.50	43.60
April	47.28	56.69	64.29	48.51
May	53.02	62.46	70.83	56.19



Source: Platts. Prices are average of available days.

OPEC celebrates 50th anniversary

September 14, 2010 is an important date on the calendar of OPEC. On that day, it will be exactly 50 years since five oil-producing developing countries — the Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela — put pen to paper and brought into existence the Organization of the Petroleum Exporting Countries (OPEC). The milestone was achieved in the Iraqi capital of Baghdad at a Conference that lasted five days (September 10–14).

The five Founder Members were later joined by Qatar (1961); Indonesia (1962); the Socialist People's Libyan Arab Jamahiriya (1962); the United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973); Gabon (1975); and Angola (2007).

Over the years, the Organization's membership has gone through different configurations, with Gabon leaving in 1994 and Ecuador suspending its membership in 1992, before returning to the fold in 2007. Indonesia then suspended its membership from January 2009.

At its inception, OPEC defined a set of objectives that still apply today. Summarized, these were to coordinate and unify the petroleum policies among its Member Countries, in order to secure: fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

With half a century almost completed, OPEC can look back with a sense of satisfaction at having adhered fully to these objectives. And, in so doing, the Organization has played a major part in ensuring stability in the international oil market. It has achieved this goal through consistent policy actions in support of a supply and demand balance leading to oil market stability and by engendering the spirit of dialogue and cooperation among the major stakeholders in the oil industry — producers, consumers and investors.

The celebration

This responsible approach towards helping to support global economic welfare, among other successes, gives OPEC cause to celebrate at 50. And that is exactly what the Organization and its 12 Member Countries will be doing on January 1–December 31, 2010.

Many activities have been lined up for this landmark celebration. They include book publications and exhibitions and cultural displays in Vienna and OPEC Member Countries, an anniversary symposium, as well as drawing and logo competitions, among others.

One of the first steps to this celebration has been taken with an appeal to Member Country nationals to enter the OPEC 50th Anniversary Logo Competition.

OPEC @ 50 logo competition

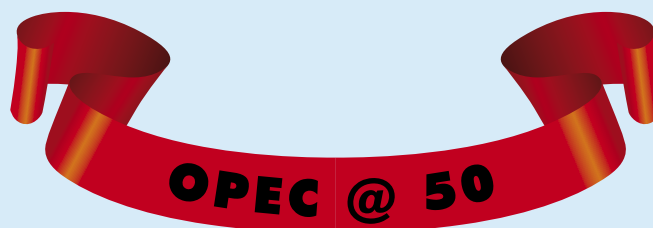
Healthy competition brings out the best in us. So, do

you think you can provide us with 'that' logo, the one that will embody the true essence of this celebration — Cooperation; Dialogue; Stability? This is your chance to show your skills. So get your thinking caps on and let your artistic talents flow.

The winning entry of the OPEC @ 50 logo competition will be used on the postage stamps due to be issued by OPEC Member Countries, as well as in all official OPEC publications, banners, corporate gift items, the OPEC website, as well as OPEC stationary that will be used throughout the year-long celebration. In addition, the winner will be invited to the OPEC Secretariat in Vienna, Austria, at our expense, to receive his or her cash prize of five thousand euros (€5,000).

See opposite for full details about entering the competition. Please follow the guidelines listed.

Good luck!



Logo competition

On 14 September 2010, the Organization of the Petroleum Exporting Countries, OPEC, will be 50 years old. To celebrate this very important landmark anniversary, a number of events and activities are planned to take place at the OPEC Headquarters in Vienna, as well as in all OPEC Member Countries throughout 2010.

For this reason **OPEC is inviting nationals of its Member Countries** to participate in a competition for the production of a special logo on **OPEC @ 50**. The logo will be used on the postage stamps to be issued by OPEC Member Countries, as well as all official OPEC publications, banners, corporate gift items, a special anniversary website and OPEC stationeries throughout the year-long celebration.

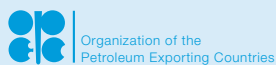
The Design should have the following features:

1. Contain the **OPEC logo** and the number **50**
2. The design of OPEC @ 50 Logo should conform to the principles of the use of the basic four colours of CMYK.
3. The OPEC logo should conform to the OPEC Corporate Identity Manual
<http://www.opec.org/home/announcements/CorporateldentityManual.pdf>
4. The logo should be produced in Adobe Illustrator or Adobe Photoshop programme.
5. Participants should send in their entries as a PDF file. A second copy of the logo reduced to 3cm x 3cm should also be included.
6. The design shall not in any way infringe any third party's right, including but not limited to copyright, logos, trademark, trade names, or other proprietary rights of publicity or privacy.

The designer of the winning entry will receive a cash prize of € 5,000 and an all-expenses paid trip to the OPEC Secretariat in Vienna, Austria, for the presentation of the prize.

While all entries received with email addresses will be automatically acknowledged, only the designer of the winning entry will be contacted.

Entries close on July 17, 2009



Entries should be sent on a CD to: OPEC Secretariat
Head, PR and Information Department
Obere Donaustrasse 93
A-1020 Vienna, Austria

Electronic copies should be sent to prid@opec.org

Secretariat activities



Above: Delegates from OPEC Member Countries who attended a Multi-Disciplinary Training Course at the OPEC Secretariat on May 11–15, 2009. Pictured here with OPEC Secretary General, Abdalla Salem El-Badri and Members of the Secretariat’s Management team.

Below: A delegation from the Province of Alberta, Canada, visited the Secretariat on May 8, 2009, when it met the OPEC Management. It was headed by the Honourable Ed Stelmach, Premier of Alberta (front row, second right), next to the Canadian Ambassador to Austria, Marie Gervais-Vidricaire. Dr Hasan M Qabazard (front row, left), Director of OPEC’s Research Division, headed the Secretariat’s team.



Forthcoming events

Carbon trading, risk and strategy, July 6–7, 2009, London, UK. Details: International Faculty of Finance, 8th Floor, 29 Bressenden Place, London SW1E 5DR, UK. Tel +44 207 017 7190; fax +44 207 017 7802; e-mail: enquiries@iirltd.co.uk; website: www.iff-training.com.

Economics of downstream oil, July 6–8, 2009, Singapore. Details: Conference Connection Administrators Pte Ltd, 105 Cecil Street #07-02 The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

Africa Energy Week, July 6–9, 2009, Cape Town, South Africa. Details: Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

20th World oil forum 2009, July 13–15, 2009, London, UK. Details: Global Pacific Partners, Suite 7, 4 Montpelier Street, Knightsbridge, London SW7 1EE, UK. Tel: +44 207 589 7804; fax: +44 207 589 7814; e-mail: babette@glopac.com; website: www.petro21.com.

26th PetroAfricanus dinner 2009, July 14, 2009, London, UK. Details: Global Pacific Partners, Suite 7, 4 Montpelier Street, Knightsbridge, London SW7 1EE, UK. Tel: +44 207 589 7804; fax: +44 207 589 7814; e-mail: babette@glopac.com; website: www.petro21.com.

Africa mining congress 2009, July 14–17, 2009, Johannesburg, South Africa. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 (0)11 516 4000; fax: +27 (0)11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Natural gas dynamics, July 27–28, 2009, Jakarta, Indonesia. Details: Conference Connection Administrators Pte Ltd, 105 Cecil

Street #07-02 The Octagon, 069534 Singapore. Tel: +65 6222 0230; fax: +65 6222 0121; e-mail: info@cconnection.org; website: www.cconnection.org.

Energy efficiency – Power Tech 2009 Conference, July 27–30, 2009, Singapore, Singapore. Details: IBC Asia. Website: www.powertechasia.com.

Oil and gas mini MBA – ten day management, July 27–August 7, 2009, London, UK. Details: Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

Oil and gas outlook Africa 2009, July 28–30, 2009, Cape Town, South Africa. Details: Terrapinn Holdings Ltd, First Floor, Modular Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston 2021, South Africa. Tel: +27 (0)11 516 4000; fax: +27 (0)11 463 6000; e-mail: enquiry.za@terrapinn.com; website: www.terrapinn.com.

Oil and gas fundamentals, July 28–30, 2009, Cape Town, South Africa. Details: CWC Associates Ltd, Regent House, Oyster Wharf, 16–18 Lombard Road, London SW11 3RF, UK. Tel: +44 207 978 000; fax: +44 207 978 0099; e-mail: sshelton@thecwcgroup.com; website: www.thecwcgroup.com.

Refinery equipment maintenance and troubleshooting, August 17–18, 2009, Kuala Lumpur, Malaysia. Details: Centre for Management Technology (CMT), 80 Marine Parade Road #13-02, Parkway Parade 449269 Singapore. Tel: +65 6345 7322/6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtp.com.sg; website: www.cmtevents.com.

Oil and gas pipeline systems, August 19–20, 2009, Kuala Lumpur, Malaysia. Details: Centre for Management Technology (CMT); 80 Marine Parade Road #13-02, Parkway Parade 449269 Singapore. Tel: +65 6345 7322/6346 9132; fax: +65 6345 5928; e-mail: cynthia@cmtp.com.sg; website: www.cmtevents.com. ☒

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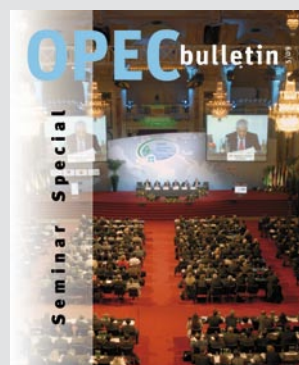
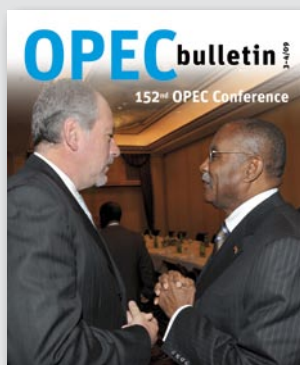
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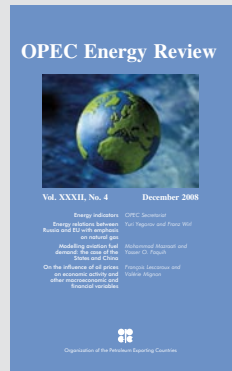
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