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Statement by Mr. Alipour-Jeddi
Organization of the Petroleum Exporting Countries

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Organization of Petroleum Exporting Countries (OPEC)

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OPEC would like to reiterate to the distinguished delegates attending the IMFC its continued commitment to maintaining oil market stability. This commitment is exemplified in the recent decision taken at the OPEC Ministerial Conference to increase crude oil production despite considerable uncertainty about the actual market requirements. This decision provides a clear demonstration of the Organization's ongoing concern about the health of the world economy, as well as its long-standing commitment to ensure adequate supplies in the market.

Since the last meeting of the IMFC, **crude oil prices** have experienced considerable volatility. From March until the end of July, the OPEC Reference Basket rose steadily, reaching $73.67/b on 20 July. Prices fell sharply by $6/b in the first two weeks of August before rebounding again to a record high of $77.46/b on 12 October, although due to the strong depreciation of the US dollar, the price hike was felt differently in different currencies. Among the main factors contributing to this high volatility have been the continued downstream tightness exacerbated by a series of unexpected refinery outages in the USA, which have led to exceptionally low gasoline inventories, particularly over the driving season. Geopolitical developments and the Atlantic storm season have also contributed to higher prices as have increased speculative activity in the crude oil futures market, which magnifies the impact of other factors. The weaker dollar also supported prices, encouraging new investment in the futures market from non-dollar investors. It should be noted that throughout this period, crude oil inventories have remained at comfortable levels, at time well-above the five-year range, an indication that the crude oil market continues to be well supplied.

Apart from these factors, the recent price volatility reflects the growing **economic uncertainties** in the wake of the recent financial turbulence, which have further clouded the outlook for the US and world economic growth, and hence demand for oil. Like other organisations OPEC is monitoring the regional and global economic conditions very carefully.

The recent credit squeeze will certainly have an effect on the real economy; however, the lag before the full impact is felt along with the time it will take for the credit market to re-price risk and the real economy to adjust remains unclear as the situation is still unfolding. Fortunately, the turmoil catches the world economy at a time of strength when the negative shocks can be endured more easily.

At present, our forecasts reflect a continued strong **world economy,** with growth expected at 5.1% in 2007 and at a slightly lower but still healthy pace of 4.9% in 2008. As it is still too early to gauge the extent of the negative effects of the current credit crunch on economic prospects in the US and globally, there is a need to continue to carefully monitor developments in the financial markets and their impact on the real economy. Much will depend on the efforts of monetary authorities to contain the crisis as well as the reaction of consumers, businesses and financial institutions in the coming months.

These economic uncertainties have already had an impact on the outlook for **world oil demand**, with the potential for significant revisions to growth numbers in the coming quarters. World oil demand is estimated to increase by 1.3 mb/d in 2007 and continue at the same level in 2008. Transport and industrial fuels are expected to show the strongest sectoral growth rates in 2008 while non-OECD countries are expected to account for almost 80% of incremental world oil demand, mainly from Asia, specifically China, India and the Middle East. OECD oil demand growth is expected to come primarily from North America. In addition the economic outlook, weather-related uncertainties and geopolitics remain the key wild card for oil demand growth in the coming quarters.

Non-OPEC supply has experienced continuous downward revisions this year since the initial forecast. A key factor behind the downward revisions have been project delays due to higher service costs and the complexity of most new projects. Deeper and heavier than planned field maintenance and a general trend toward extended field shut-downs have contributed to lower-than-expected growth. From an initial forecast of 1.1 mb/d, non-OPEC supply in 2007 is now expected to grow by 0.8 mb/d. For 2008, non-OPEC supply is forecast to increase by 1.1 mb/d. Additionally, OPEC NGLs and non-conventional oils —which are not included in OPEC crude oil production figures — are expected to grow by 330,000 b/d to 4.4 mb/d in 2007 and by 520,000 b/d in 2008.

Despite lower than expected non-OPEC supply, **crude oil inventories** remain at comfortable levels overall. The most recent data at the end of August show total OECD commercial oil stocks are 68 mb above the five-year average. In terms of days of forward cover — which takes into account demand expectations — this corresponds to a healthy level above 53 days. In the US, crude oil stocks have declined since August. This is mainly due to declining crude oil imports and the re-emergence of backwardation in the crude futures market, after more than two years in contango, which has removed economic incentives to stockpile oil. Despite the recent declines, US crude oil inventories are still more than 28 mb above the five-year average. The pressure on crude oil inventories could ease in the coming weeks as crude oil demand declines with US and European refiners moving into a relatively heavy maintenance schedule, taking as much as 2 million barrels of refinery capacity out of the market. However, this would not help improve the ongoing tightness in the US product market, which is likely to persist in the coming year as refining capacity is not projected to increase until the end of 2008.

The large uncertainties surrounding both non-OPEC supply and world oil demand have translated into even larger uncertainties regarding the **demand for OPEC crude**. Despite the uncertainties about the volume of crude oil required, OPEC decided at its September Ministerial Conference held in Vienna to increase production by half a million barrels per day effective 1 November. The OPEC Conference is scheduled to meet again in Abu Dhabi on 5 December to review the market situation and has expressed its readiness to respond swiftly if needed to any developments which might undermine oil market stability.

In addition to increasing current supply to the market, OPEC Member Countries are also continuing to invest to expand their crude oil **production capacity**. As a result, OPEC spare capacity in the coming quarters is expected to rise above 10%, providing a comfortable cushion to meet unexpected supply shortages. Such levels should reassure the market that OPEC is ready and willing to meet the needs of the world oil market.

Moreover, the upcoming **Third Summit of Heads of State and Government of OPEC Member Countries**, which will take place in November in Saudi Arabia, will provide further long-term guidance to enhance OPEC's stabilizing role in the market; reinforce its continued commitment to meaningful dialogue and cooperative efforts with consuming nations; and ensure adequate supplies to meet the growing energy needs for sustainable development.