Medium Term Oil Outlook and the Impact of the Crisis

EU/GCC Ninth Energy experts Meeting

Brussels

February 2009

Outline

- **Impact of the Current Financial and Economic Crisis on the Oil Market**
- **Medium Term Oil Market Outlook**
  - **Oil Demand**
  - **Non-OPEC Supply**
- **Conclusions**

Impact of the Current Financial Crisis on Energy Investments

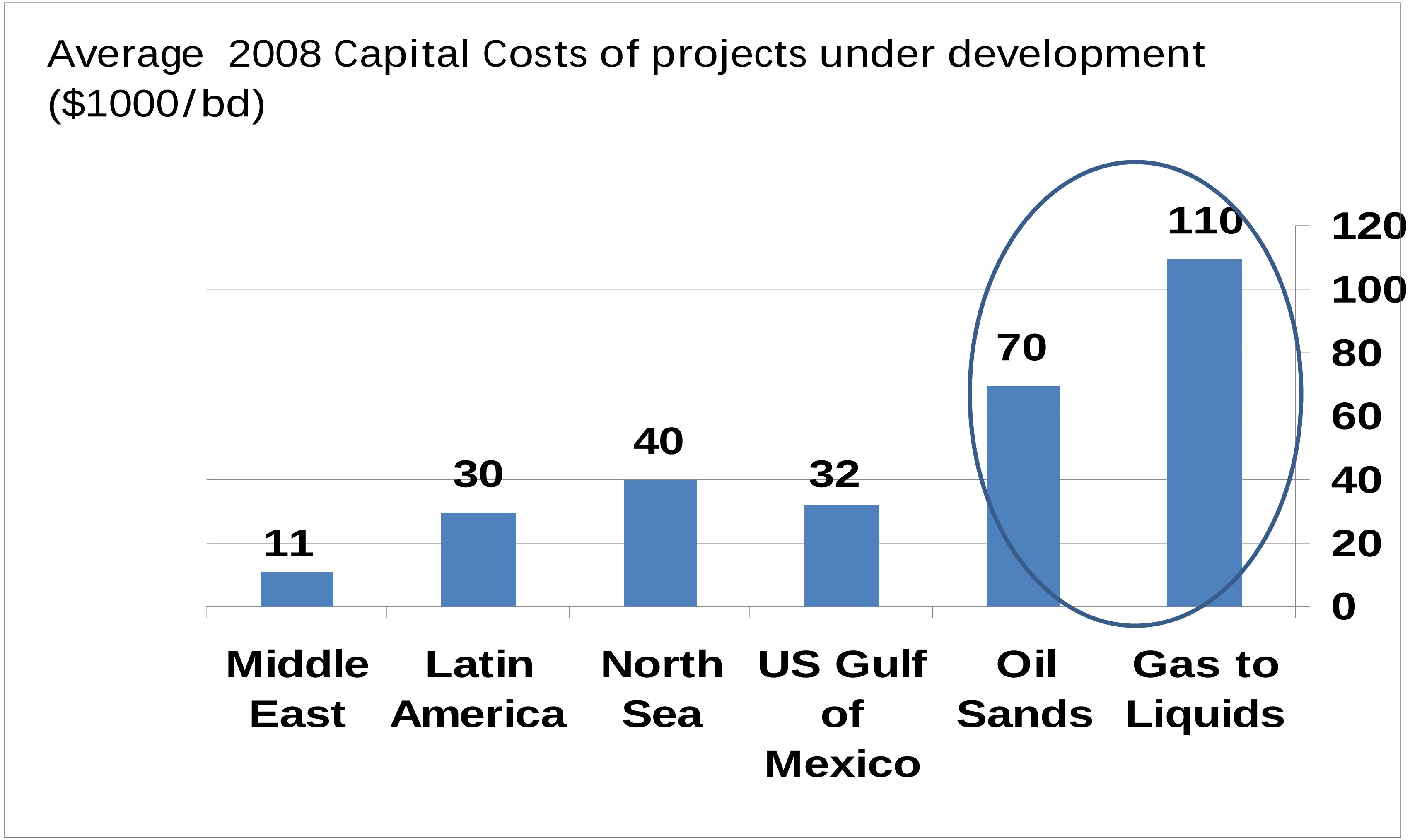
- Upstream Investment mostly from Equity (esp. NOCs)
- Debt Financed Investment most likely impacted:

  - Refining Capacities, LNG and gas downstream (petrochem)
  - Non-Conventional (Tar Sands, Heavy Oil, Ethanol, Etc)
  - Renewables

- Changing Market Sentiment and the Credit Squeeze will Impact the Economics of Some Projects
- Size of Companies Matter(NOCs and Major IOCs in better position)

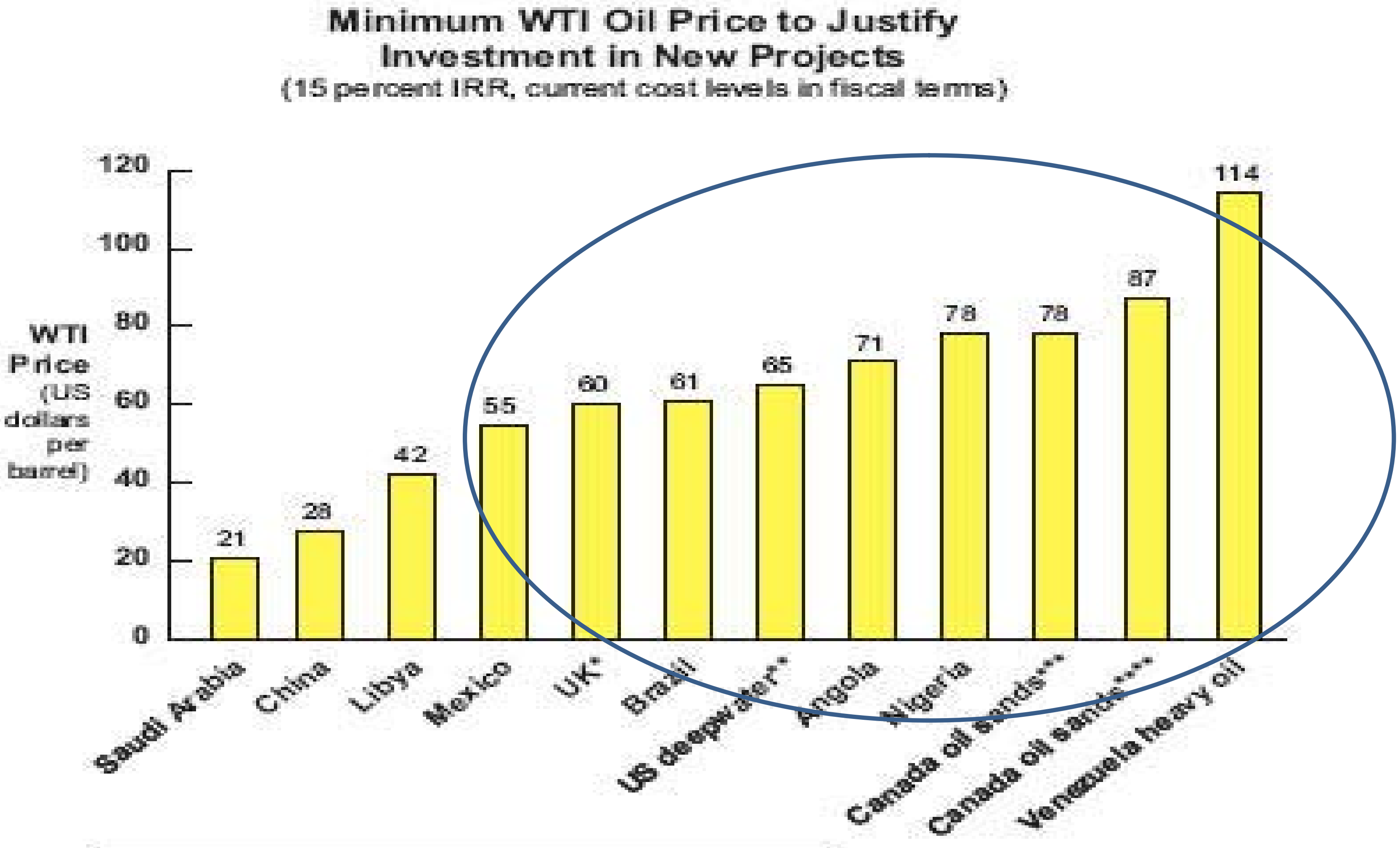
Impact on Oil Supply

Long –Term Impact on Non-OPEC Supply



Impact on Investment

Feasibility of New Investments



Source: Cambridge Energy Research Associates.

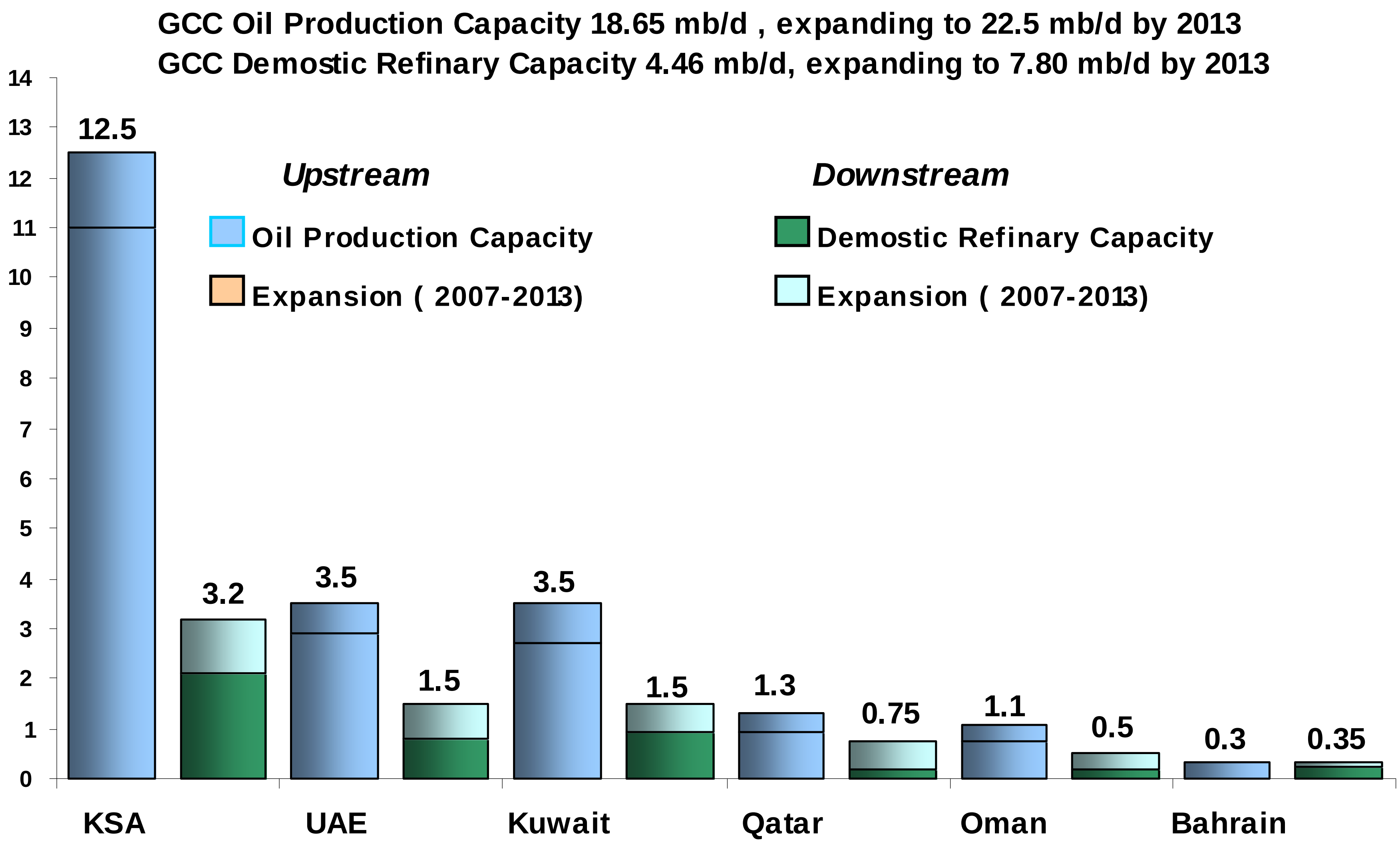
Impact on Middle East Investment

- Of the Planned Energy Investment of $450 in MENA, Approx. $280 Bn in Upstream and Downstream Oil |& Gas and Power
- $310 Bn of the investments are in GCC countries
- Some of the previously Planned Investments in downstream have been delayed or put-off. Upstream Oil and Gas investment still underway

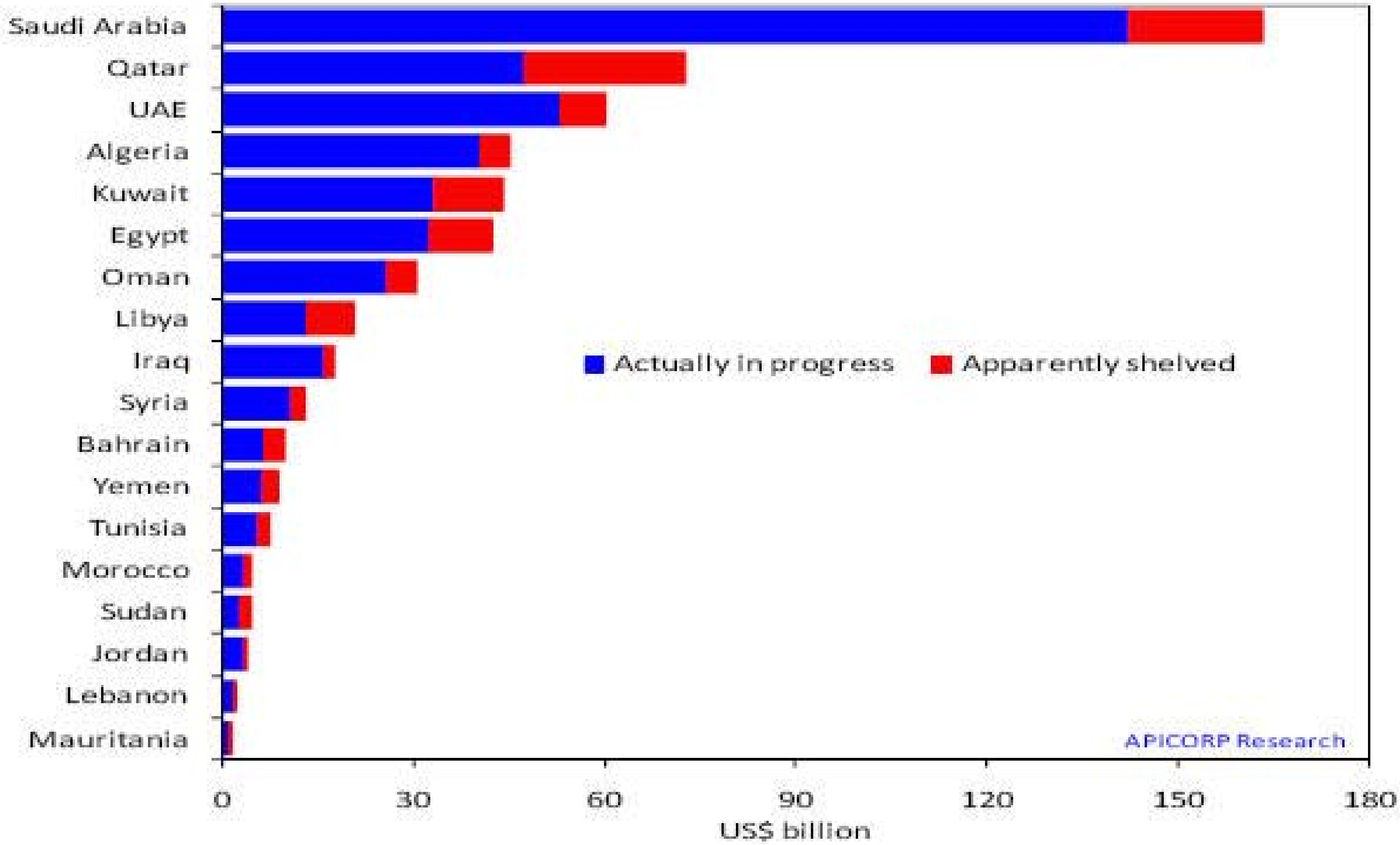
Arab world	Actual capital US$ billion	Capital Structure	Equity	Debt
Oil supply chain				
. Upstream	83	18%	100%	0%
. Midstream	12	3%	100%	0%
. Downstream	115	26%	35%	65%
Gas supply				
. Upstream	54	12%	90%	10%
. Midstream	13	3%	100%	0%
. Downstream	96	21%	40%	60%
Power link				
. Generation	77	17%	30%	70%
Total	**450**	**100%**	**57%**	**43%**

APICORP Research

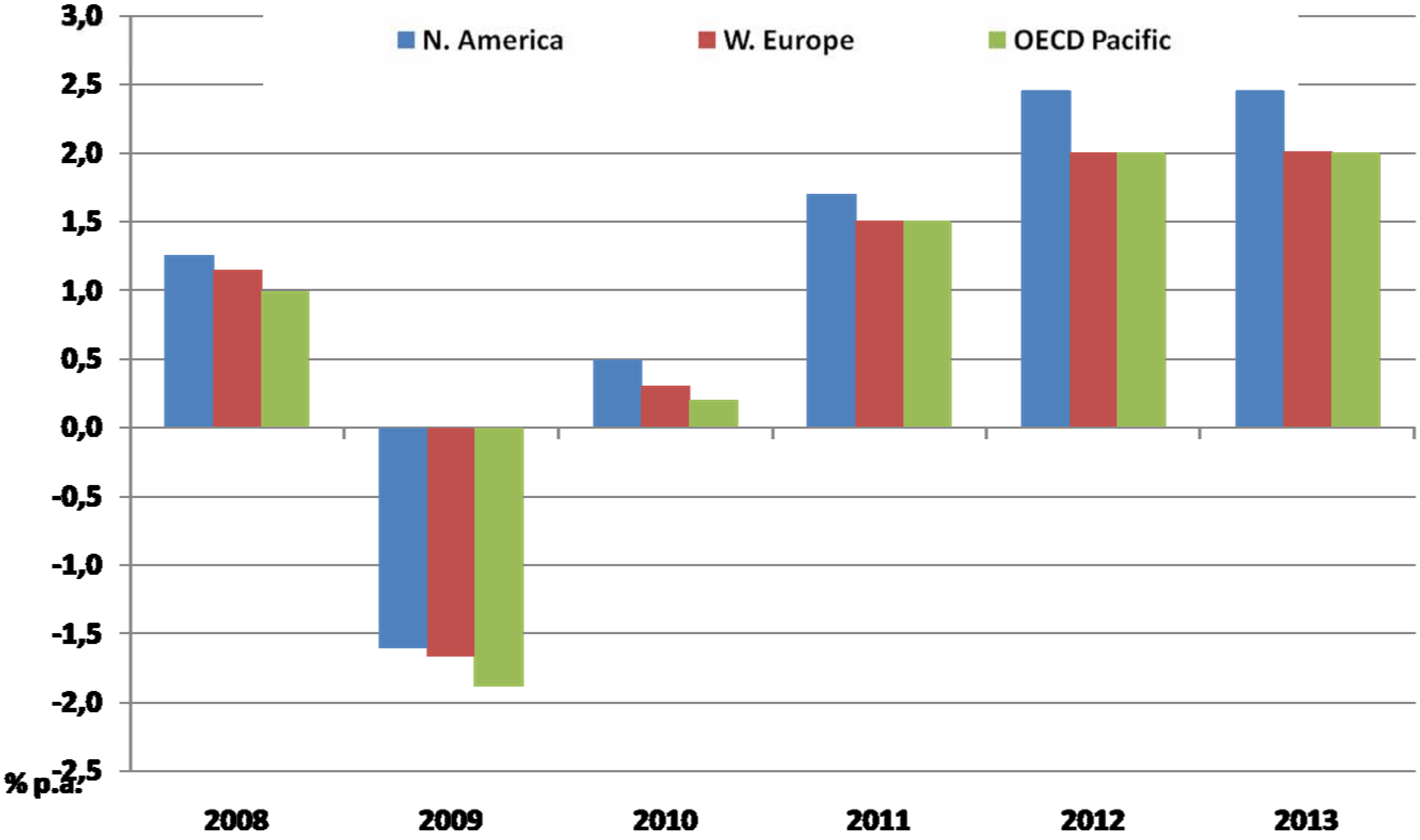
GCC Upstream & Downstream Expansion Plans



Most of the GCC investments are in progress

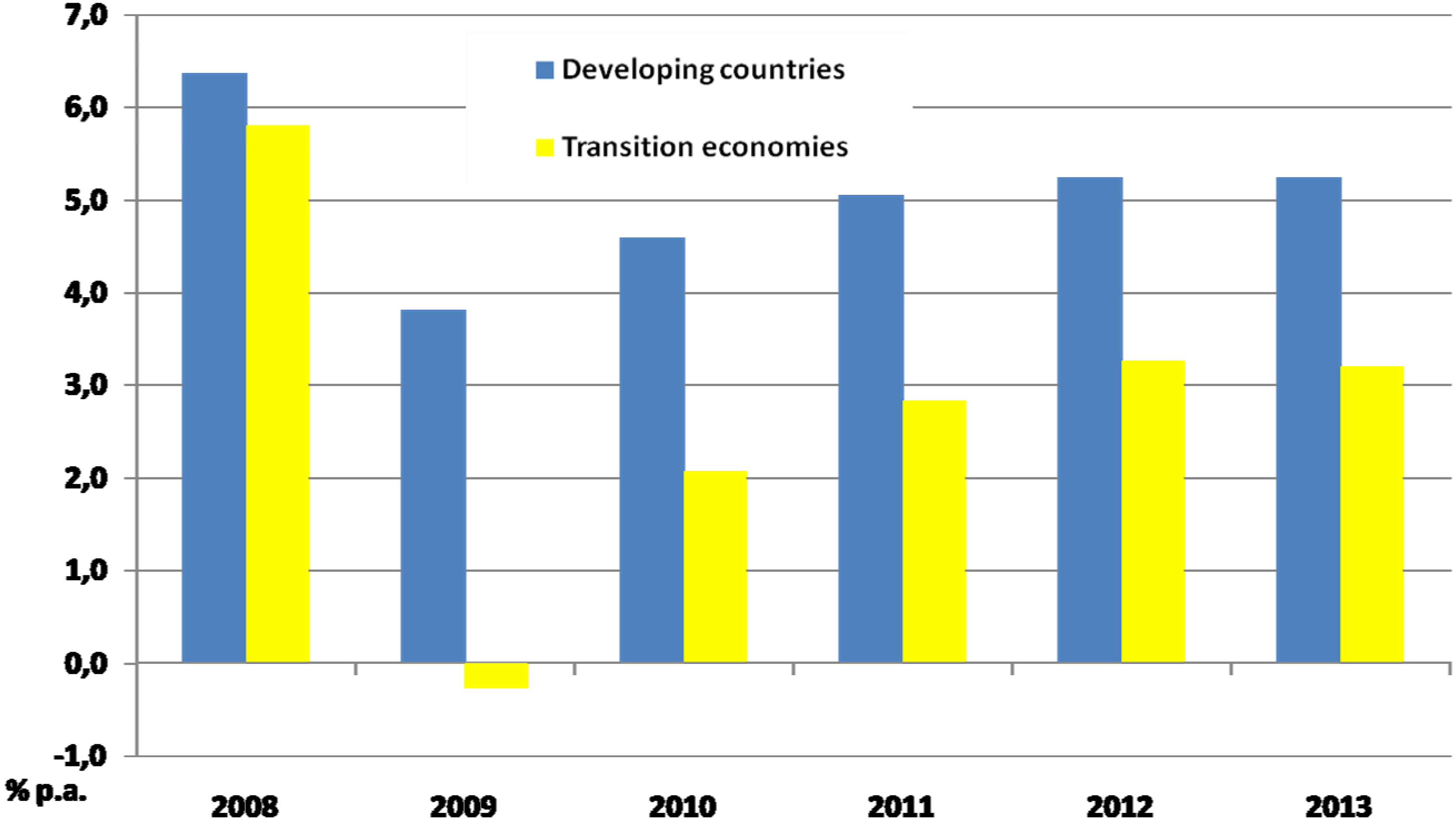


Medium Term Outlook



Medium Term Outlook

Hard economic landing for non-OECD countries too

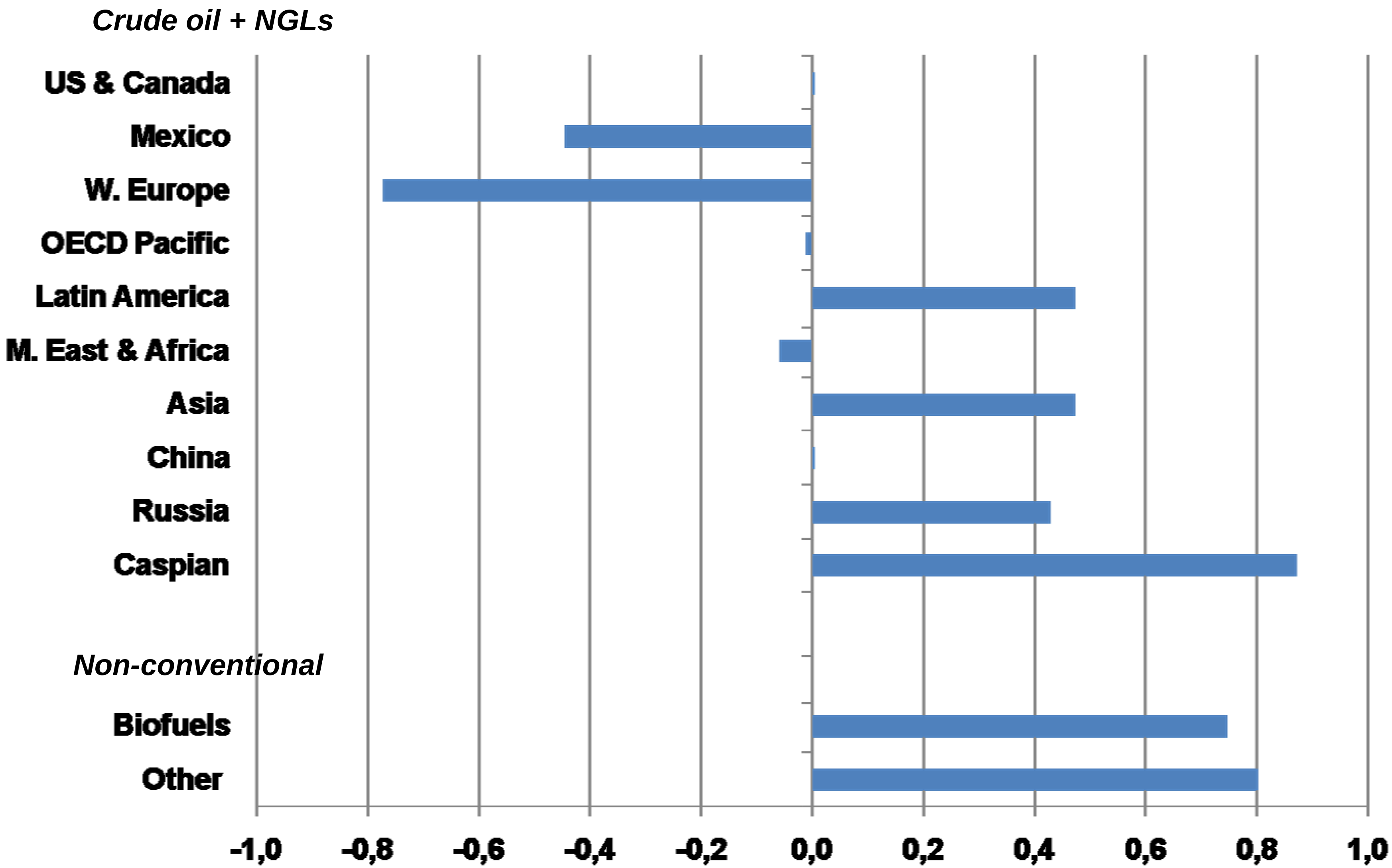


Medium Term Outlook

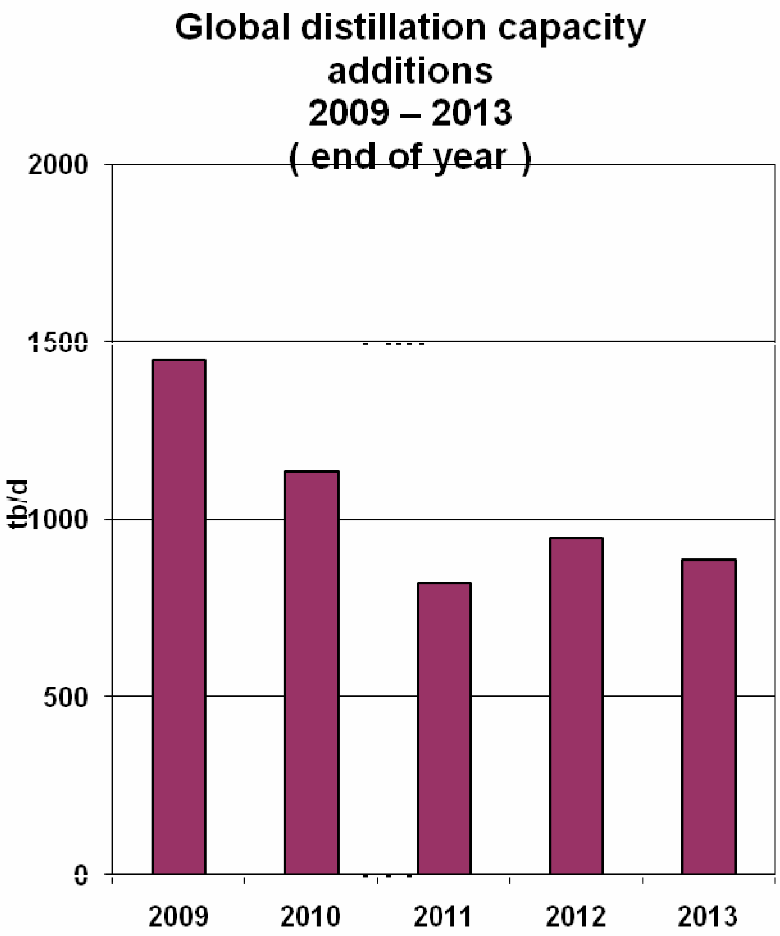
	2008	2009	2010	2011	2012	2013
World Demand	**85.7**	**85.0**	**85.5**	**86.2**	**87.2**	**88.4**
OECD	47.6	46.2	45.7	46.0	46.0	46.0
DCs	33.0	33.5	34.4	35.4	36.4	37.5
Transition economies	5.1	5.1	5.1	5.2	5.3	5.3
Annual growth	-0.2	-0.6	0.5	1.0	1.2	1.2

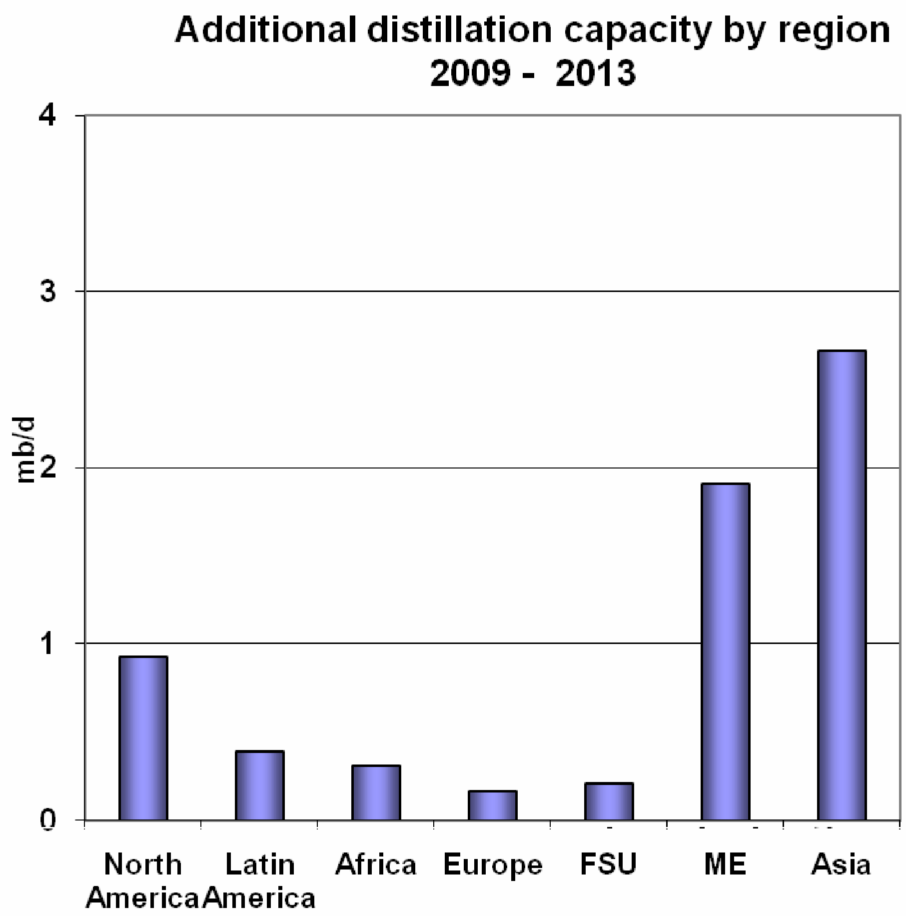
	2008	2009	2010	2011	2012	2013
World supply	**85.8**	**85.1**	**85.6**	**86.6**	**87.7**	**88.9**
OECD	19.6	19.5	19.4	19.5	19.4	19.5
DCS, excl. OPEC	16.1	16.6	16.9	17.1	17.3	17.4
Russia	9.8	9.7	9.6	9.8	10.0	10.2
Caspian & other Europe	2.9	3.2	3.5	3.6	3.7	3.8
non-OPEC	**50.3**	**50.9**	**51.5**	**52.0**	**52.5**	**53.1**
of which: non-conventional	3.1	3.3	3.6	3.9	4.4	4.7
OPEC NGLs/non-conventional	**4.4**	**5.0**	**5.5**	**5.9**	**6.4**	**6.8**
OPEC crude	**31.0**	**29.0**	**28.2**	**28.3**	**28.7**	**29.0**

Growth in non-OPEC supply 2008-2013, mb/d



Distillation capacity will increase





Around 5 mb/d of distillation capacity will be added to the global refining system

Concluding Remarks

- Medium Term outlook impacted by the current crisis via two channels: impact of declining demand in OECD and of slowdown of high cost projects
- Some downstream projects worldwide will be postponed due to their changing economics
- Upstream investments in GCC are not impacted since they are in advanced implementation stage and the financial positions of Governments and NOCs of the region are much better than other producers
- Many high cost upstream projects will be reexamined and or shelved due to change in current and projected prices
- Excess OPEC upstream oil production capacity (mostly in GCC) will increase and starts declining after 2012
- Many Short and Long Term uncertainties remain and the outlook is most likely to be revisited periodically

Thank you

Medium Term Implications of the Crisis?

- **Growing cushion of** crude spare capacity

  → Downward pressure on prices

- **Lower earnings, tight credit and costs further decline**

  → Delays and cancellations of projects

- **Refinery utilization rates are set to decline**
  - Distillation capacity expected to increase 2008-2013 by over 5 mb/d while demand increases by just over 3 mb/d (projects under construction in India, Saudi Arabia, China, Vietnam, USA, Mexico)
  - Increased risk of delays or termination of proposed projects
    - Lower refining margins expected compared to past years
    - Credit freeze