

How Real is the Oil Market Rebound?

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- What are the things that might be different moving forward?
- Myth: Cost structure/Price Structure Cannot Come Down
- Myth: Demand Growth Will Return at the Same Pace as soon as Economy Bounces
- Myth: Saudi Policy will be the Same
- Myth: Green Policies Cannot Change the Energy Mix or Limit Demand

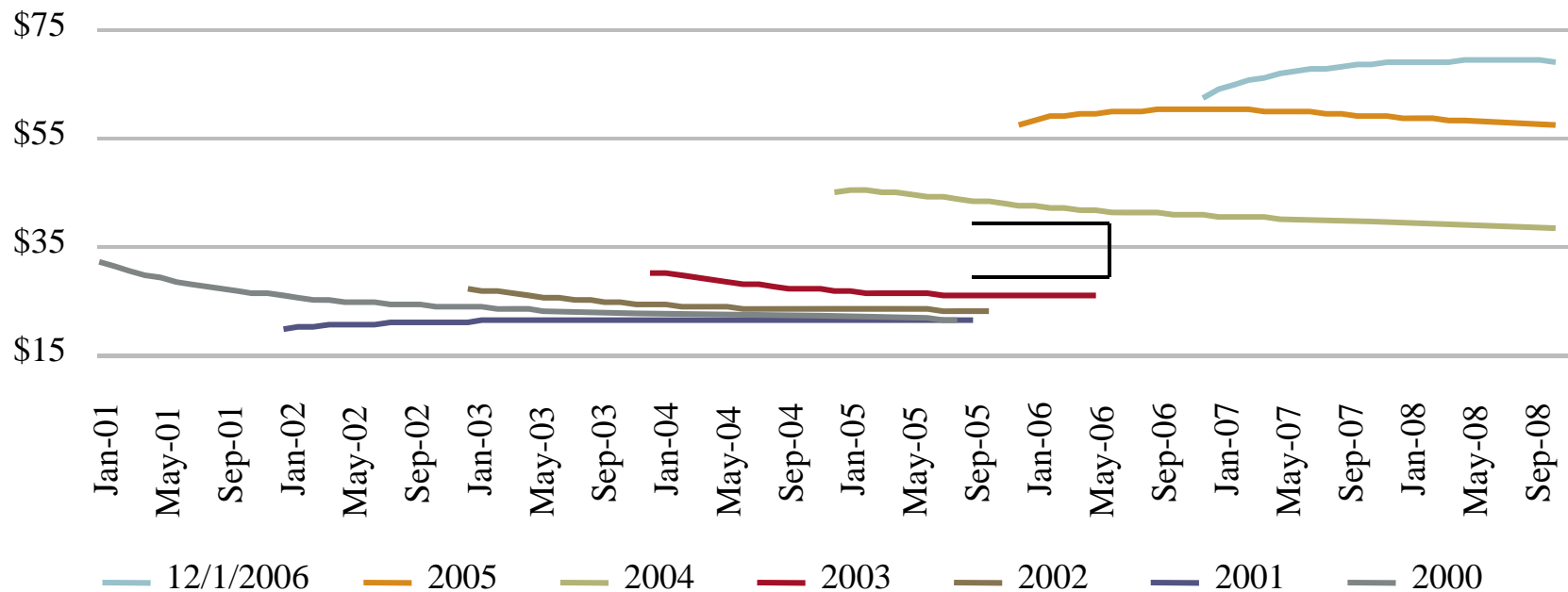
Why did the long oil price move upwards?

- Pessimism about NOC investment in new capacity
- Access restrictions for/lack of spending by IOCs
- Terror Premium created permanent change in attitudes about price floors
- F&D cost inflation
- China demand "story"

What's Changed?

- New Finds in 2000 meters off Brazil, Eastern Mediterranean, Angola, other Africa, etc.
- New Plays such as Shale Gas
- Energy Efficiency A New and Higher Priority

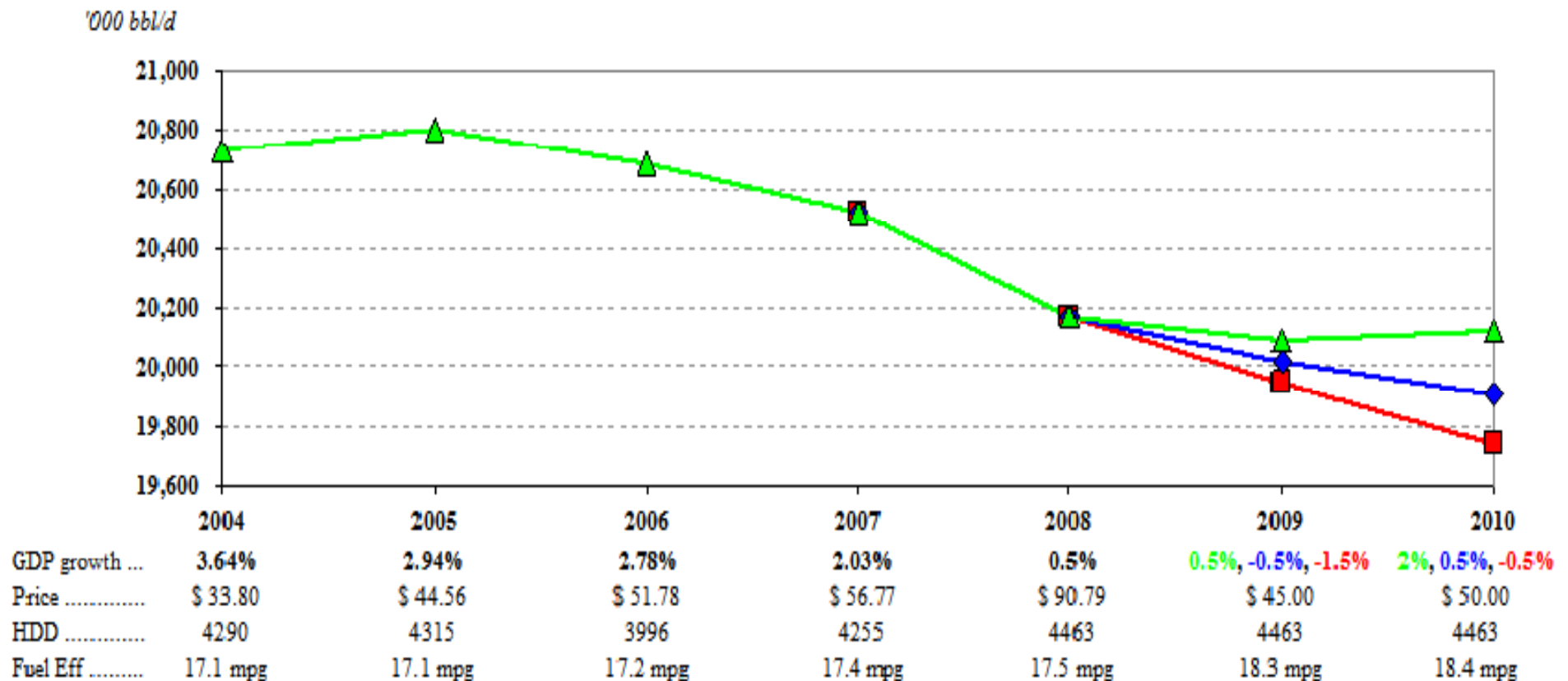
The Long Oil Price Didn't Move Until 2004



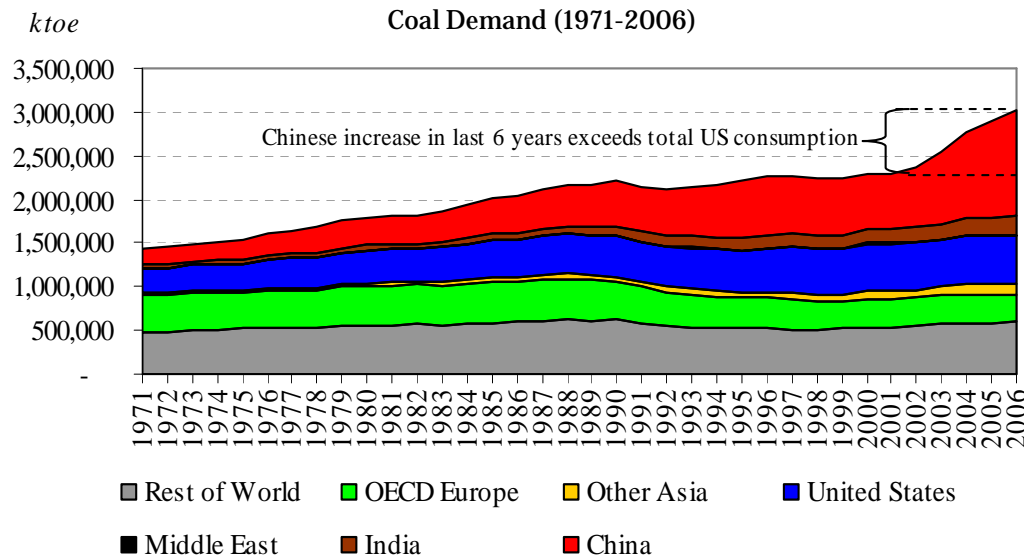
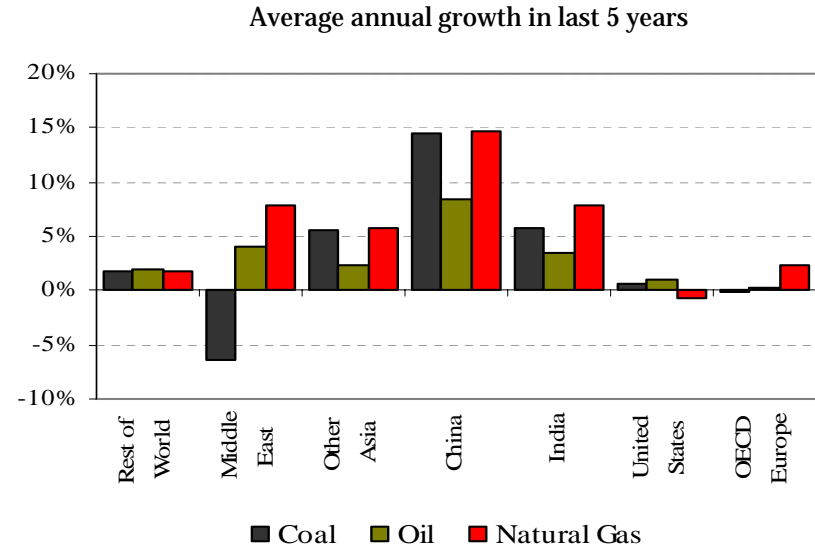
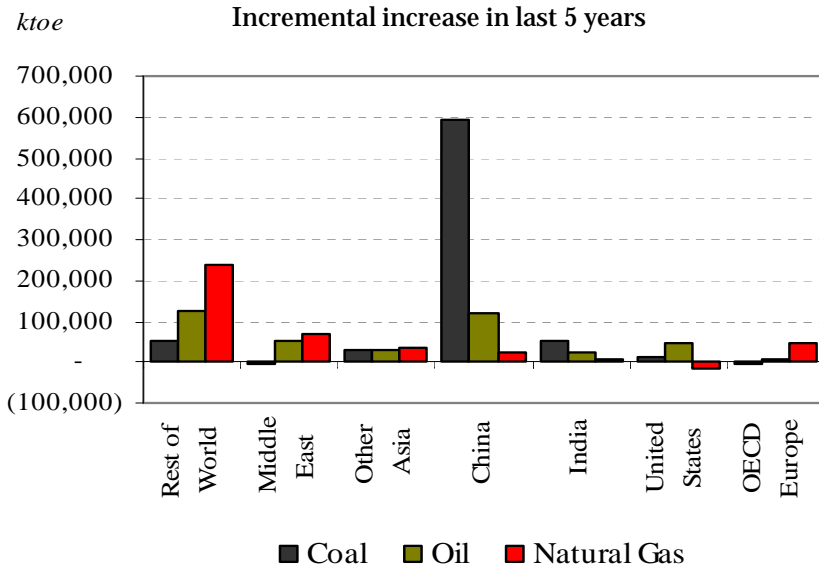
1. Forward curve on December 1, every year.

US Oil Demand

- The last four years and what we might expect for 2008-2010...
- Pre-1973, global demand grew at 7.6% per annum; Post Iranian Revolution, growth slowed to 2% per annum. We assume this 2% will return, but other factors are at play...
- ExxonMobil projects that over 180 million boe of demand will be eliminated by energy efficiency gains by 2030



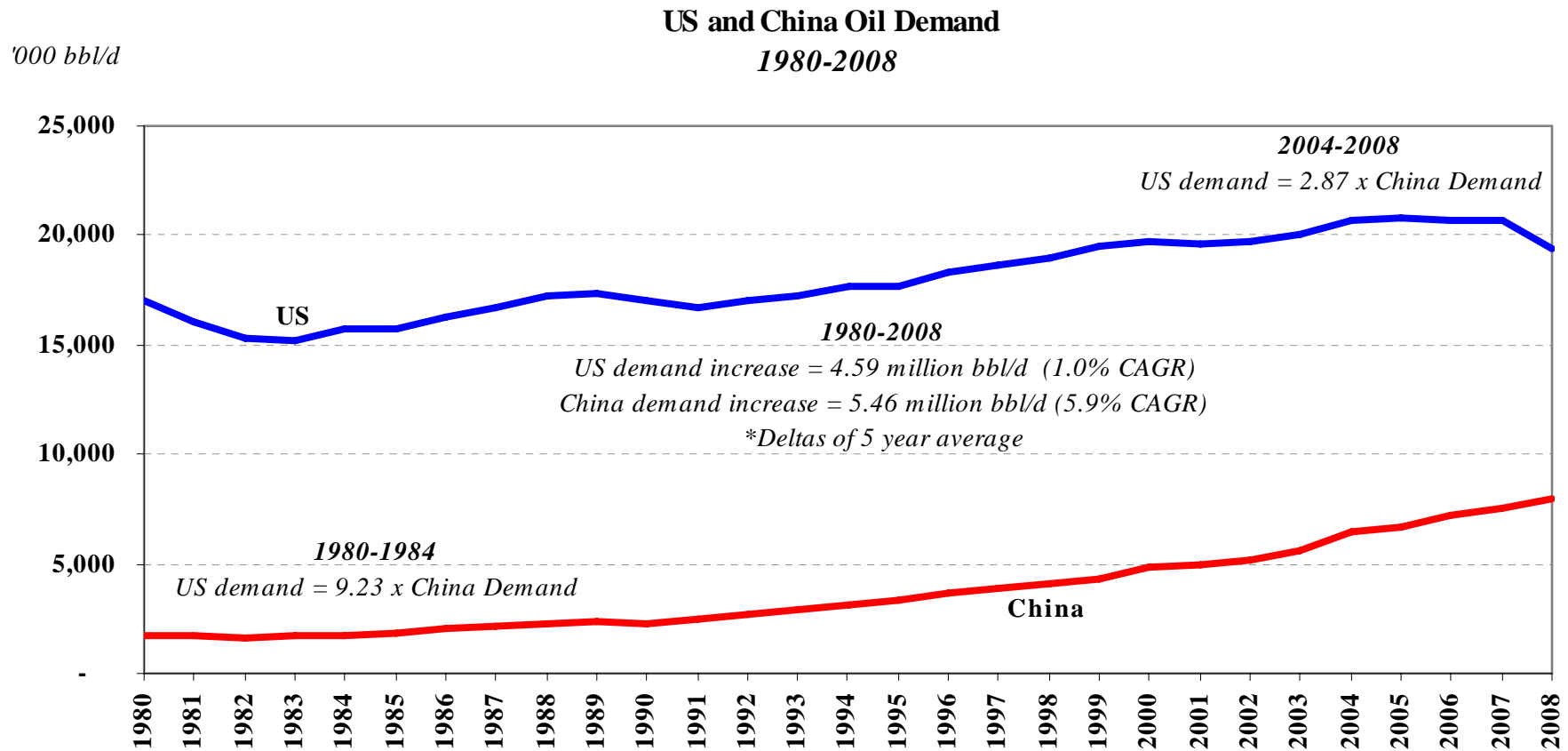
The "Savior" Factor of China and India



- China demand growth is very strong, for all energy commodities
- Coal demand growth has been especially robust
- Current market rally on China buying and expectations

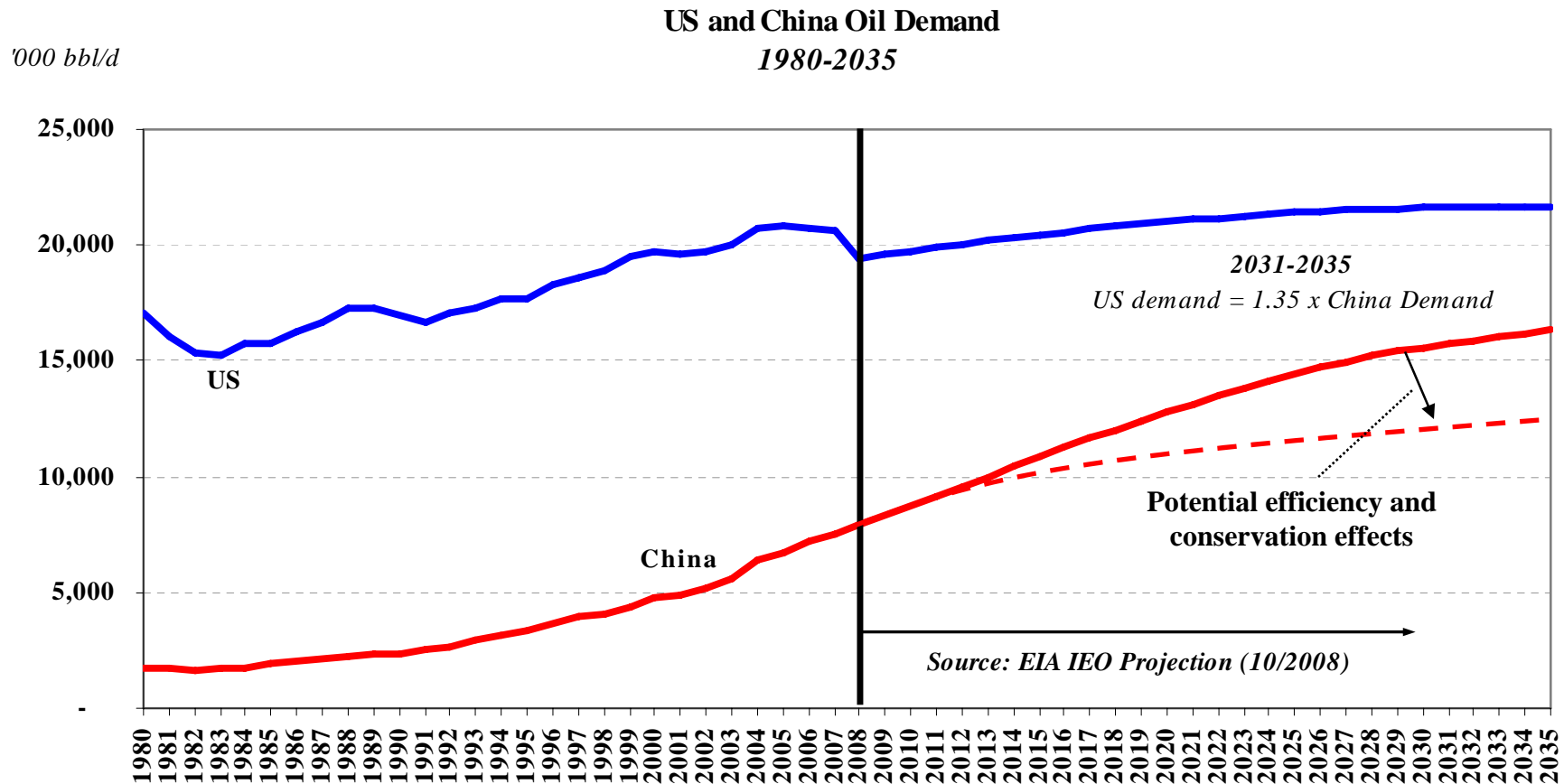
How Long Will It Be When Chinese Consumers Are Actually as Important as U.S. Consumers?

- Myth: China has replaced the US as a “driving” force in oil demand
- 250 million U.S. vehicles vs China’s 26 million civilian cars on the road



Growth rates in China Could Moderate

- ... but where will we be in another 28 years?
 - The forecast is credible, but we must use caution... road petroleum use in China accounts for about 1/3 of total. In U.S., it is about 60%. In the 1980s and 1990s, the U.S. saw flattening industrial demand, and reduced demand in all sectors except transport. Could the same thing happen in China? If so, shave the forecast by about 4.5 million bbl/d...



New U.S. Efficiency Standards Will Reduce U.S. Oil Demand

- Green advocates are influential in the Obama administration and are focused first and foremost on “efficiency” improvements (ala state of CA)
- Core Obama administration officials favor electric plug-in cars; CA pushing for electric car agenda
- Similar trends hold in many countries. Obama Administration may push auto efficiency as part of global climate agreement
- Policy can be multi-pronged in its approach
 - A technological breakthrough, such as with plug-in hybrid vehicles, could push demand lower into the future. Once these alternatives are adopted, the market is forever changed
 - Biofuels can induce even further reductions in demand

