



## Will OPEC increase supply in the 2nd half of 2007? Or has Ghawar peaked?

Posted by [Rembrandt](#) on June 21, 2007 - 11:00am in [The Oil Drum: Europe](#)

Topic: [Supply/Production](#)

Tags: [crude oil](#), [demand](#), [eia](#), [iea](#), [opec](#), [supply](#) [[list all tags](#)]

Concerns about a gap in crude oil demand/supply in the 2nd half of 2007 increased in the past months. The International Energy Agency (IEA) and its sister organisation, the Energy Information Administration (EIA), have both told the OPEC cartel that OPEC must increase supply to avert rising oil prices. Presently the agencies expect a crude oil demand/supply shortfall of 1 million barrels per day towards the end of the year. However the OPEC cartel is of the opinion that oil markets are well supplied and therefore there is no need to increase supply at the moment.

This discussion, as shown below, boils down to the expectation for non-OPEC supply and world demand in the 2nd half. If the IEA and EIA projections are correct, we will soon find out what is going on in Saudi Arabia with the production of the supergiant oilfield Ghawar.

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### The Statements by the EIA and OPEC

Since March the Energy Information Administration has given warnings to OPEC that it must increase supply:

[“OPEC must increase oil production by more than a million barrels per day if a rise in prices is to be avoided in the coming months, the Energy Information Administration said.”](#)

Analysis from the International Energy Agency leads to a similar conclusion:

[“OPEC needs to raise its crude oil output in the coming months to ensure an adequate supply, the head of the International Energy Agency said Monday.”](#)

OPEC does not agree and released a press statement on June 14 stating that:

[“OPEC notes oil markets remain well supplied and market fundamentals do not require any additional supply from the Organization at this time ... A combination of current high inventory levels and increasing OPEC spare capacity, which is expected to reach around 15% in the second half of this year, means there are adequate supplies available to cope with any upward revisions to oil demand forecasts.”](#)

### Demand and Supply expectations

The difference in the OPEC vs. IEA/EIA discussion can be seen in both supply and demand. OPEC expects non-OPEC supply to increase with 1 million b/d from the 1st to the 4th quarter of this year. The EIA expects an increase of 800.000 b/d and the IEA an increase of 500.000 b/d.

<a href="http://www.theoil Drum.com">www.theoil Drum.com</a>	Supply 2007			
	1st qrt	2nd qrt	3rd qrt	4rd qrt
<b>Non-OPEC (total liquids)</b>				
EIA	49.50	49.70	49.80	50.30
IEA*	50.30	50.10	50.10	50.80
OPEC	50.27	50.30	50.46	51.39
<b>OPEC NGL + unconventional</b>				
EIA	4.60	4.50	4.50	4.50
IEA*	4.80	4.80	4.90	5.00
OPEC	4.26	4.40	4.48	4.62
<b>Total supply excl. OPEC crude</b>				
EIA	54.10	54.20	54.30	54.80
IEA*	55.10	54.90	55.00	55.80
OPEC	54.53	54.70	54.94	56.01
<b>OPEC Crude</b>				
EIA	30.00	30.10	31.00	31.70
IEA*	30.20			
OPEC	29.98			

\*IEA figures from oil market report released on 11 may 2007

*Chart 1 - Supply expectations shown for IEA/EIA and OPEC respective categories. Data comes from the most recent freely available IEA, EIA and OPEC monthly reports*

World demand expectations differ by 400.000 to 500.000 b/d in the IEA/EIA forecasts from the OPEC forecast for the 4th quarter.

<a href="http://www.theoil Drum.com">www.theoil Drum.com</a>	Demand and Balance 2007			
	1st qrt	2nd qrt	3rd qrt	4rd qrt
<b>World Liquids Demand</b>				
EIA	85.60	84.60	85.90	87.40
IEA*	85.34	84.25	85.76	87.49
OPEC	85.65	84.19	85.58	87.00
<b>Call on OPEC Crude</b>				
EIA	31.50	30.40	31.60	32.60
IEA*	30.24	29.35	30.76	31.69
OPEC	31.12	29.49	30.64	30.99
<b>Potential Shortfall</b>				
EIA	-1.50	-0.30	-0.60	-0.90
IEA*	-0.04	n/a	n/a	n/a
OPEC	-1.14	n/a	n/a	n/a
*IEA figures from oil market report released on 11 may 2007				

*Chart 2 - Demand and Oil Market Balance expectations shown for OPEC/IEA and EIA in respective categories. The call on OPEC crude shows the difference between world demand and non-OPEC production. The expected shortfall from the EIA is calculated by subtracting expected non-OPEC and OPEC production from expected worldwide demand. Data comes from the most recent freely available IEA, EIA ad OPEC monthly reports*

Based on the figures above, OPEC thinks that there is no need to increase production based on their expectations for supply and demand. The IEA thinks that OPEC should increase production with 1.50 million b/d from present levels of 30 million b/d. The EIA figures are even more drastic, requiring OPEC to increase production with 2.60 million b/d from present levels. In their forecast they already have incorporated the rosy expectation that the cartel increases production with 1.7 million b/d!

## Current inventory levels

Regarding high inventory levels the OPEC cartel is correct. Total OECD crude oil stocks reside at a level of 960 million barrels. Quite near the highest level in the past five years of 996 million barrels reached in march 2006 and far above the lowest level in the past five years of 842 million barrels reached in September 2002. Currently crude oil demand and supply are in balance, which makes the IEA demand/supply projections for the 1st quarter the most likely. But, this does not imply that a similar situation can be expected for the 2nd half of the year.

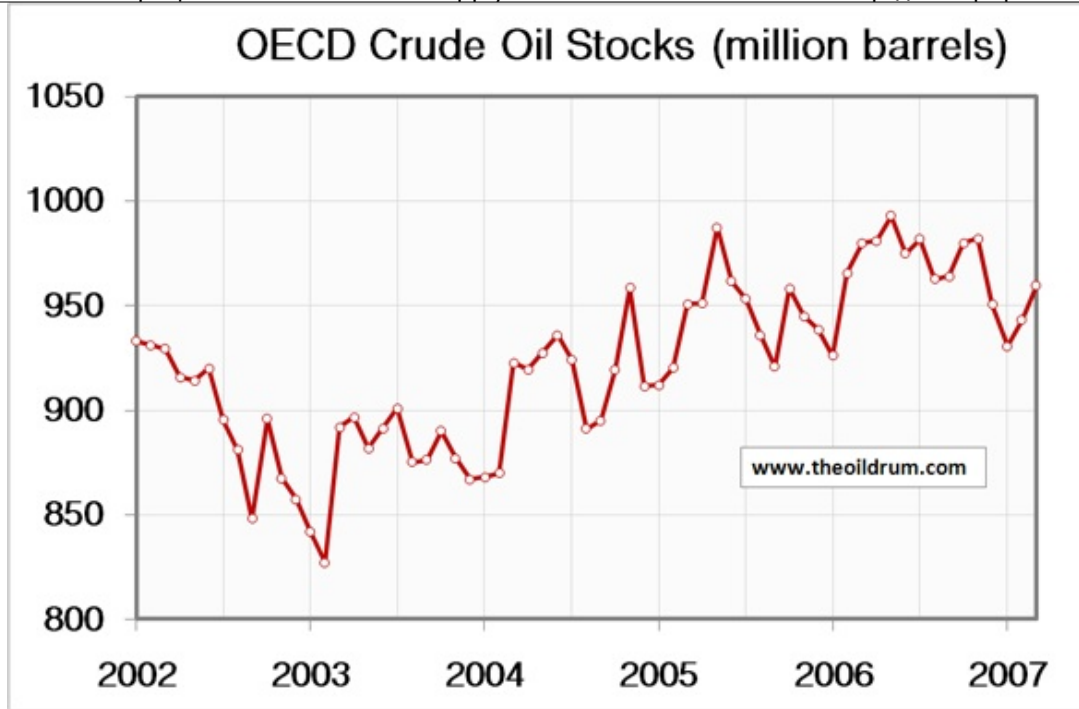


Chart 3 - OECD Crude Oil Stocks, data taken from the International Energy Agency

### Can OPEC increase production?

The suggestion that OPEC can pump up 15% extra is dubious at best. This would amount to an increase of 4.5 million barrels per day from current crude production of 30.1 million barrels per day. All countries within OPEC except Saudi Arabia are pumping crude near maximum. Maybe, with the best of efforts, these countries could increase production with a total of 500,000 b/d. This means that most of the needed increase in crude oil production from OPEC must come from Saudi Arabia.

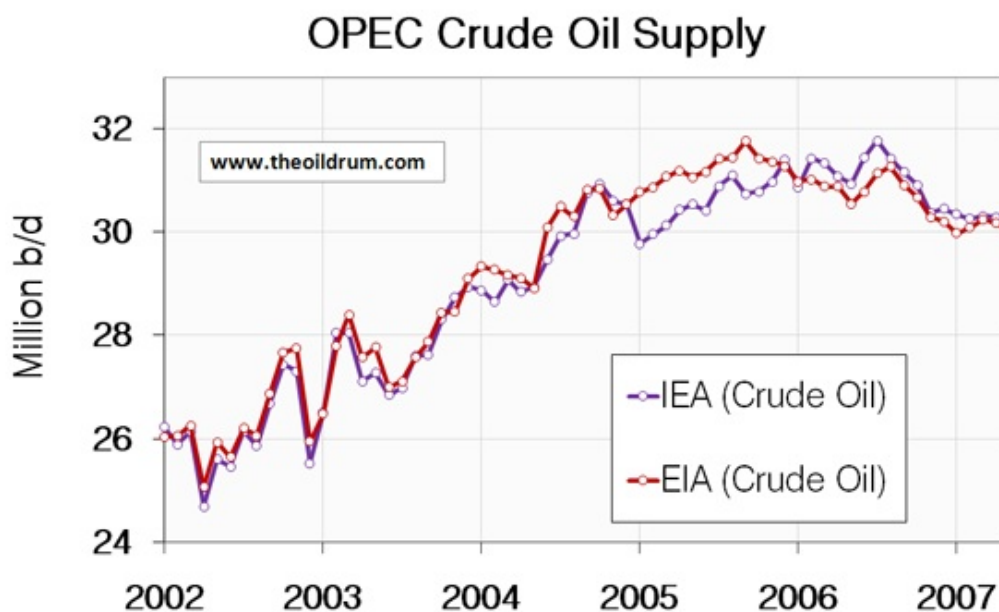


Chart 4 - OPEC Crude Oil Production excluding lease condensates, data taken from the IEA and EIA

Whether Saudi Arabia is able to increase production significantly remains speculation. Crude oil

The Oil Drum: Europe | Will OPEC increase supply in the 2nd half of 2007? On <http://www.theoilbarrel.com/node/2670>  
production in the country dropped from 9.52 million b/d in march 2006 to 8.61 million b/d in may 2007. The cause of this drop could either be an artificial lowering by the national oil company of Saudi Arabia, or due to the peak in the supergiant oilfield Ghawar. This discussion has already been taking place on the oil drum for several months, of which the culmination came from [Stuart Staniford](#) and [Euan Mearns](#) with their articles on the status of Ghawar.

While we currently do not know the exact cause, it looks like we are about to find out in the 2nd half of this year, if the IEA & EIA projections for demand and non-OPEC are correct.



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