

An aerial photograph of an oil field. The landscape is a mix of brown and green, with numerous small, circular structures (wells) scattered across the terrain. A network of roads and pipelines crisscrosses the area. The top right corner shows a blue sky and a body of water.

# The Oil Battle

## Explaining the Fight for a Slowing Market



Ramón Espinasa, PhD  
October 2015 | Asociación Colombiana del Petróleo

# Conclusion and Reasons

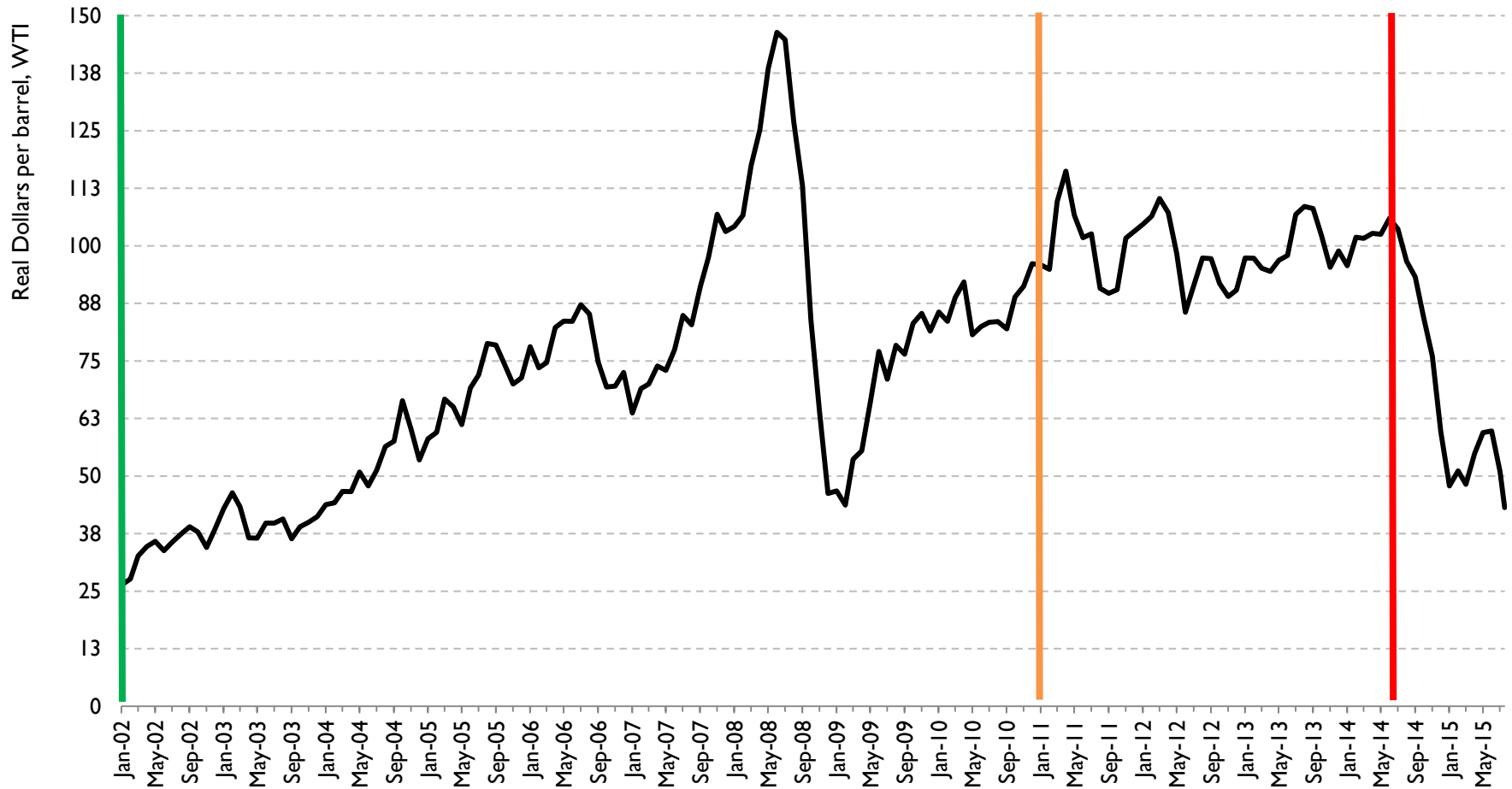
Price will settle at the **marginal price of production of non-conventional crudes in the US**, well below the price averaged 2011 to mid-2014

# Conclusion and Reasons

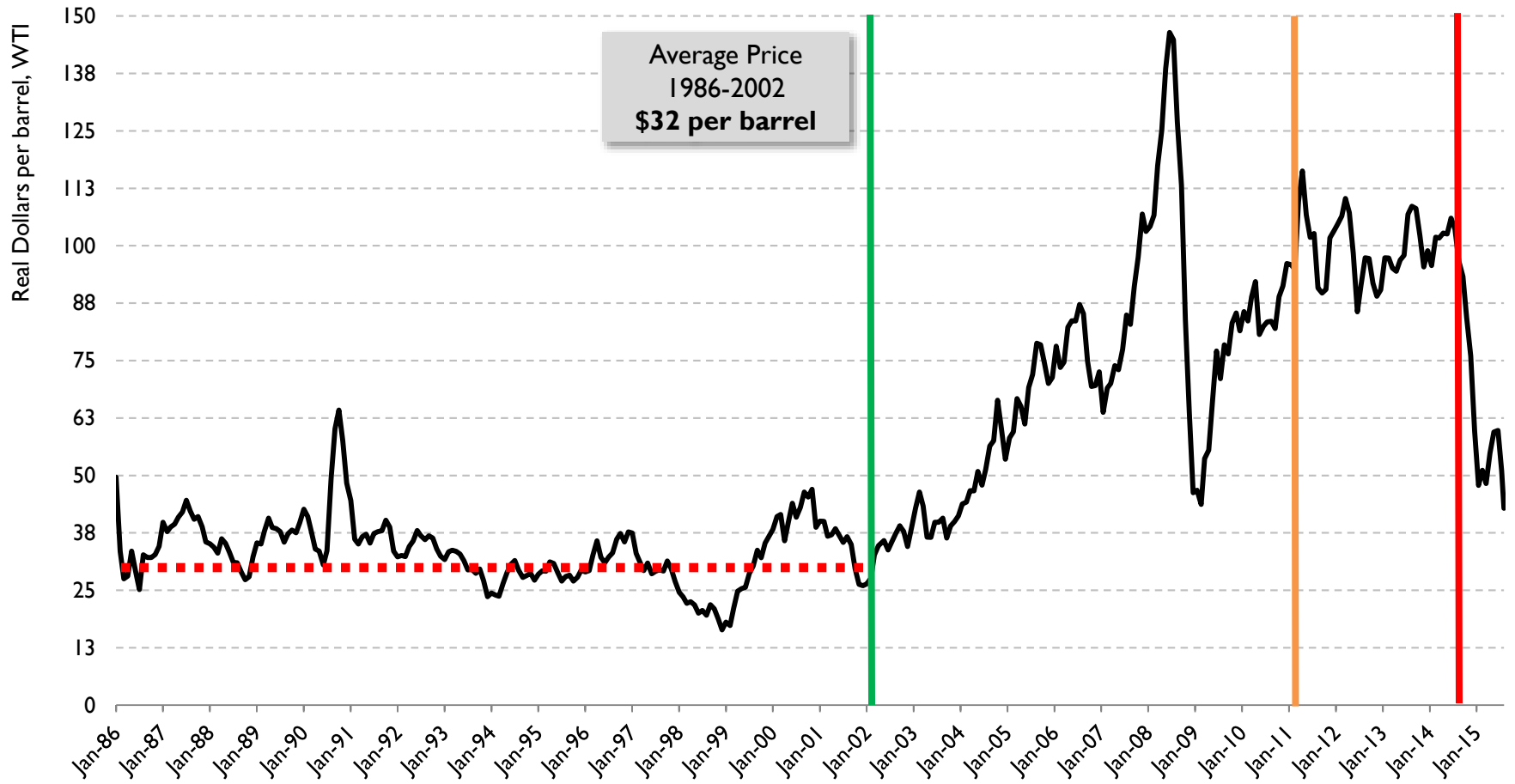
Price will settle at the **marginal price of production of non-conventional crudes in the US**, well below the price averaged 2011 to mid-2014

1. Productivity increasing in non-conventional oil in U.S. basins with huge reserves
2. Saudi Arabia increases production
3. Countries such as Libya and Iran with shut-in capacity will increase production as soon as those factors disappear
4. Other large producers (Iraq) are increasing production to regain market share.

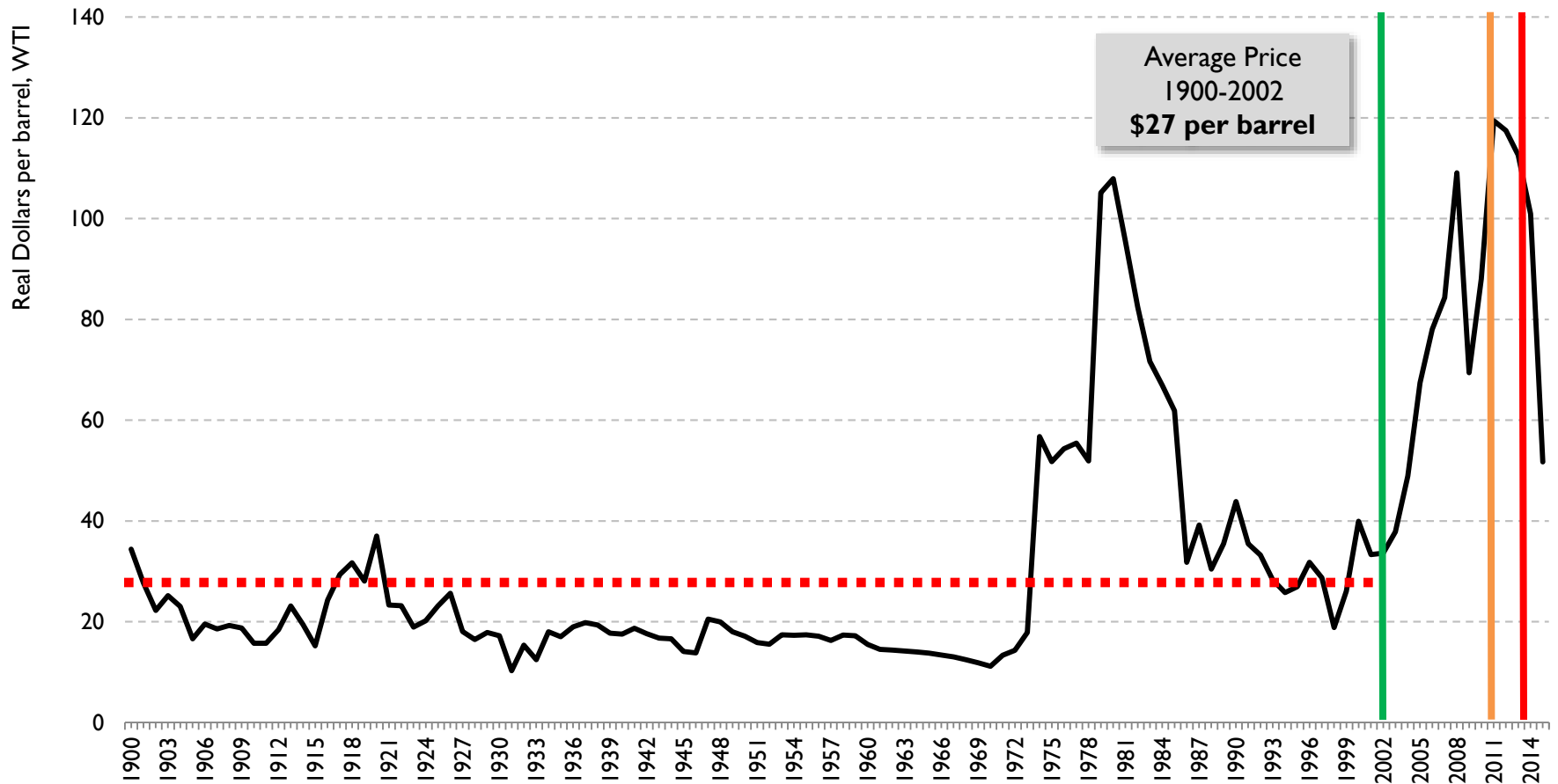
# Crude oil price, real - since 2002



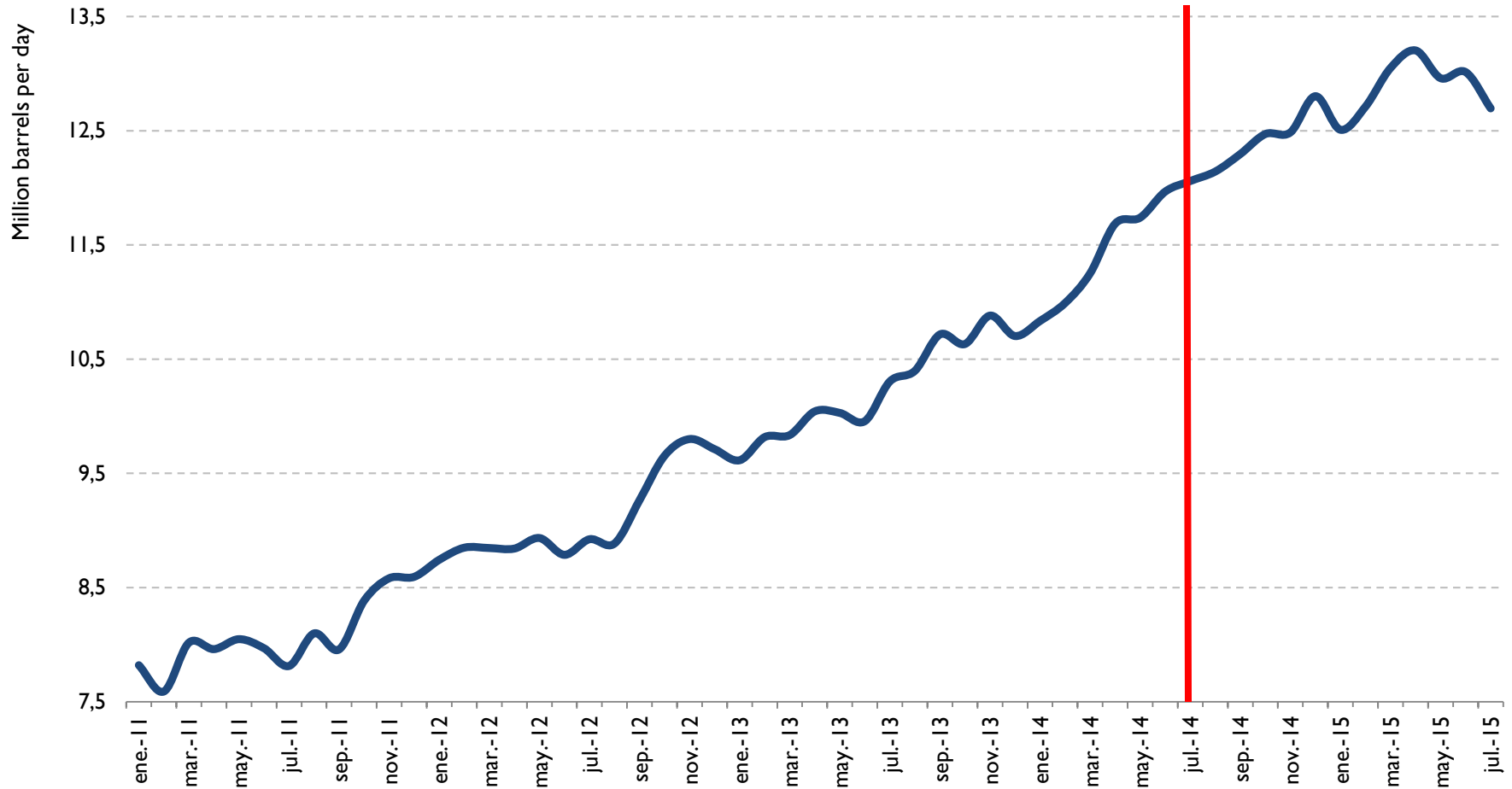
# Crude oil price, real - since 1986



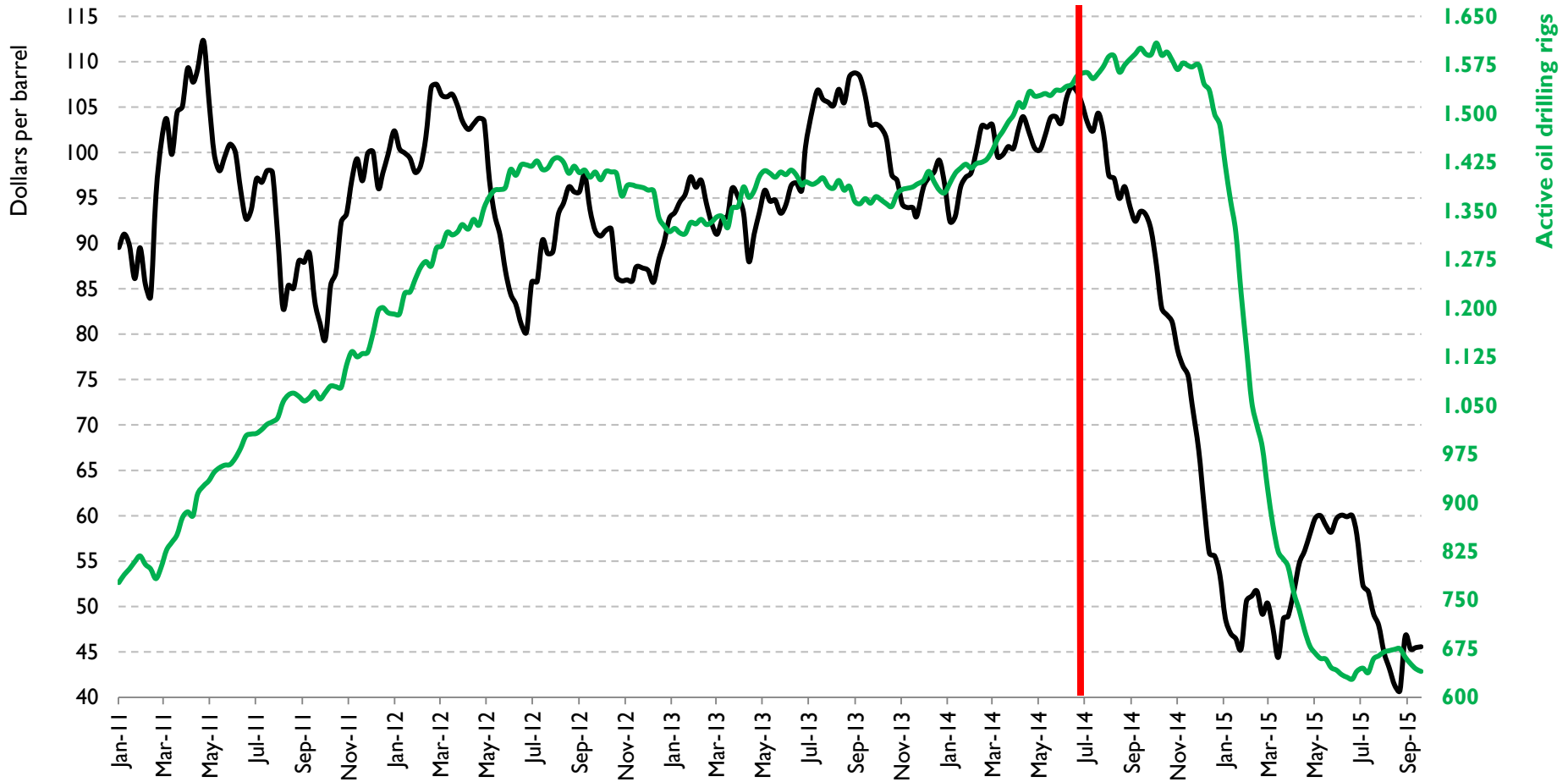
# Crude oil price, real - since 1900



# Production, USA



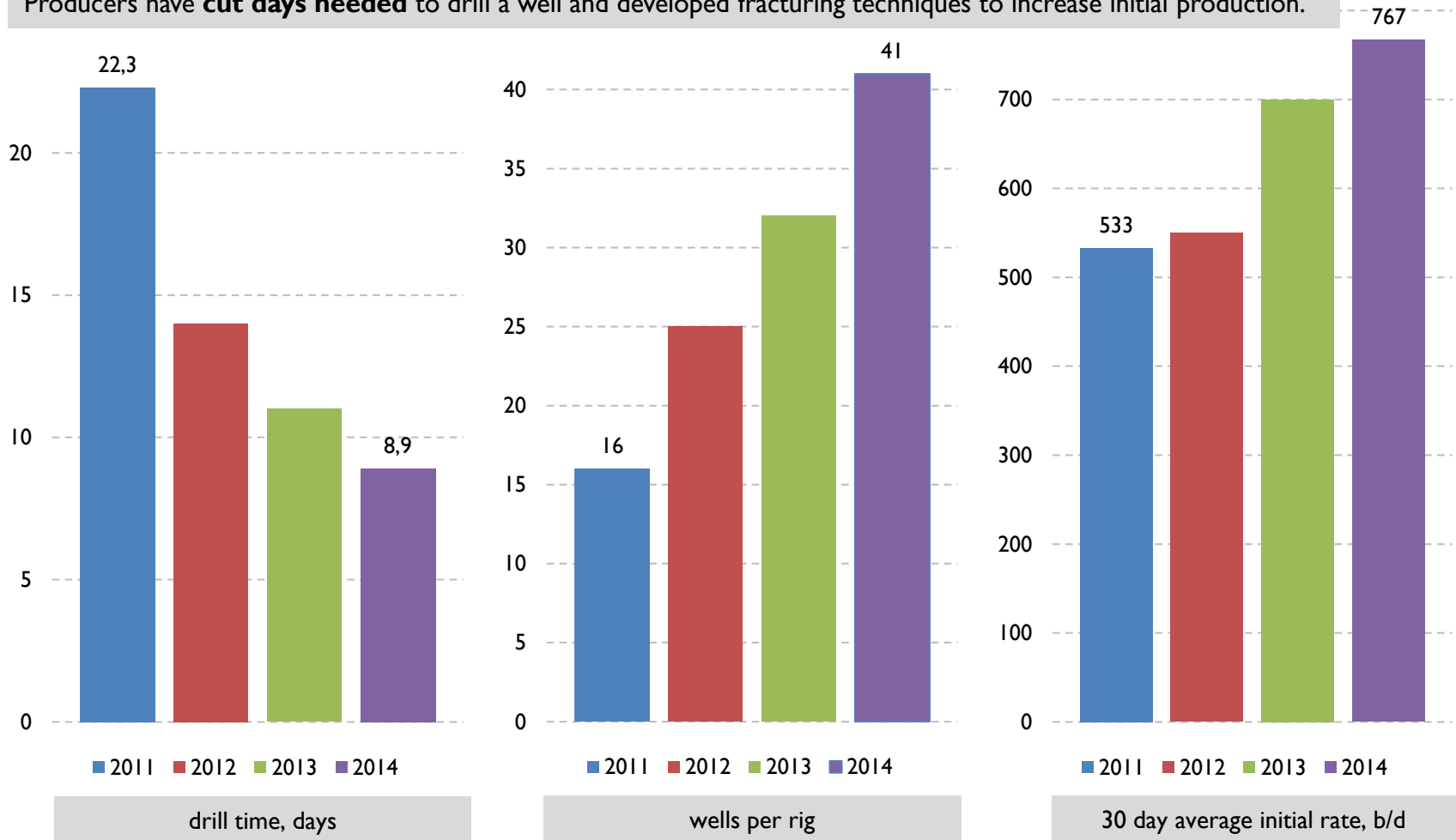
# Drilling & Price, USA



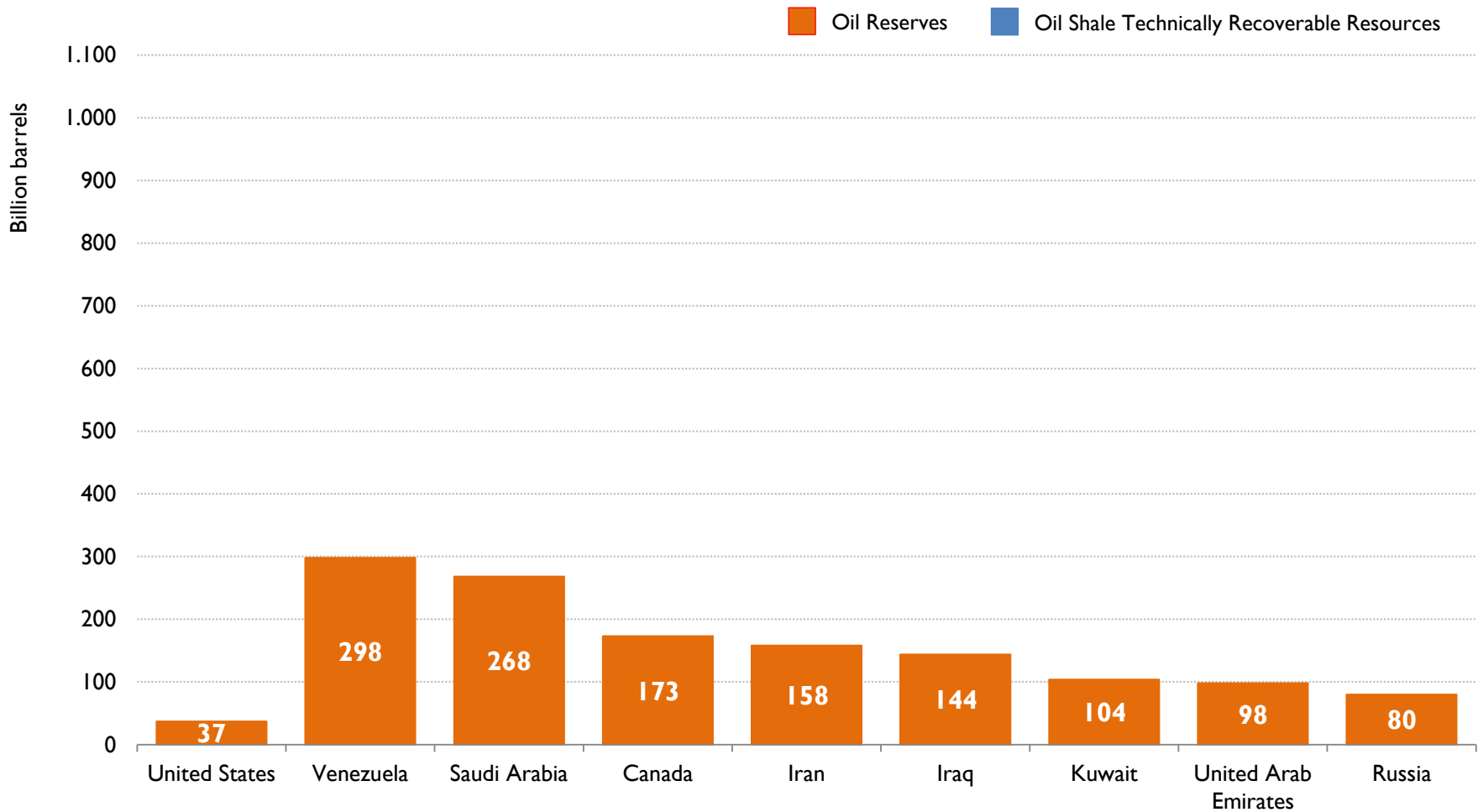


# Shale productivity, Eagle Ford

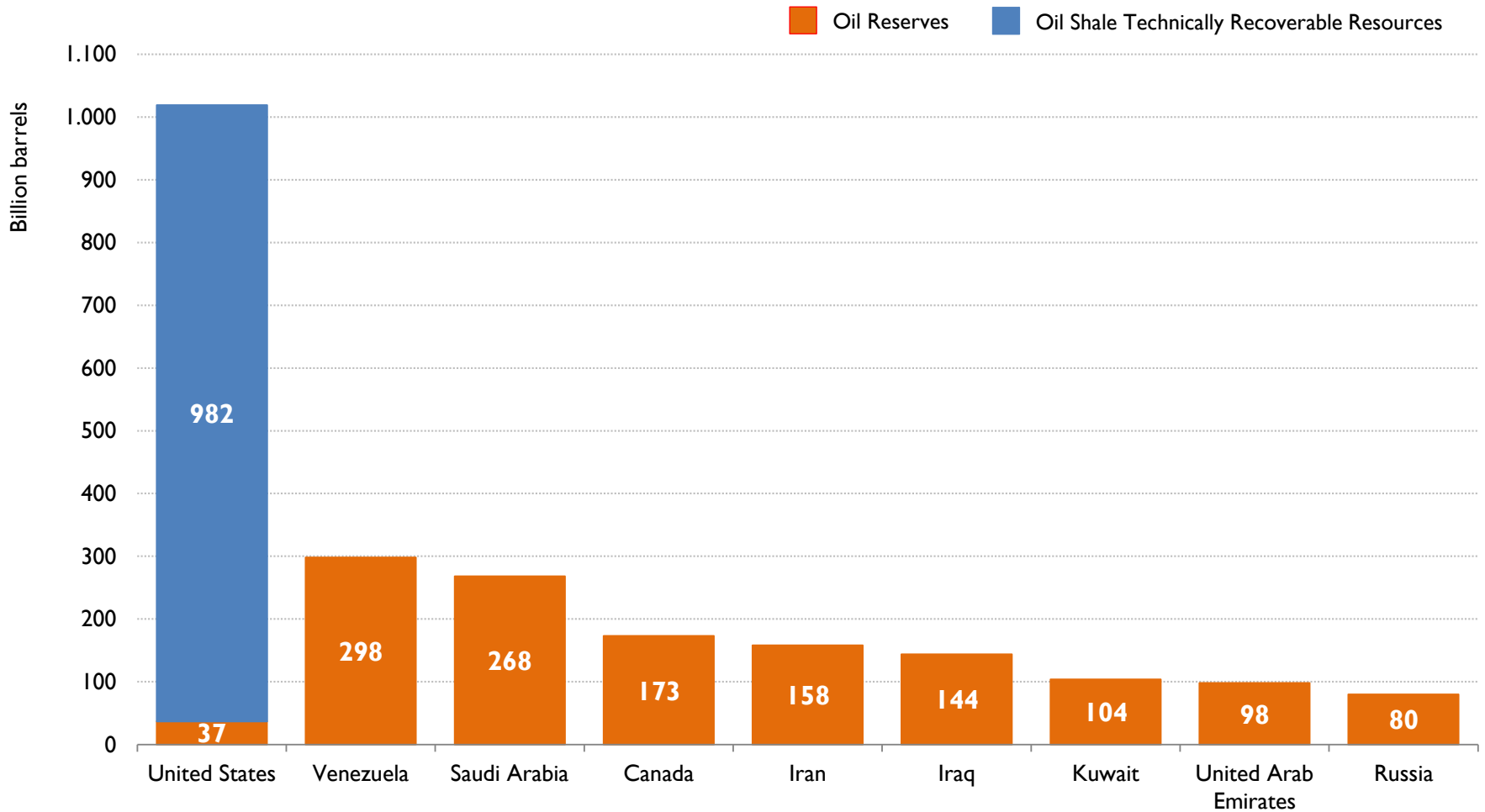
Growth in US production result of important **gains in productivity** in shale formations as **technology matures**. Producers have **cut days needed** to drill a well and developed fracturing techniques to increase initial production.



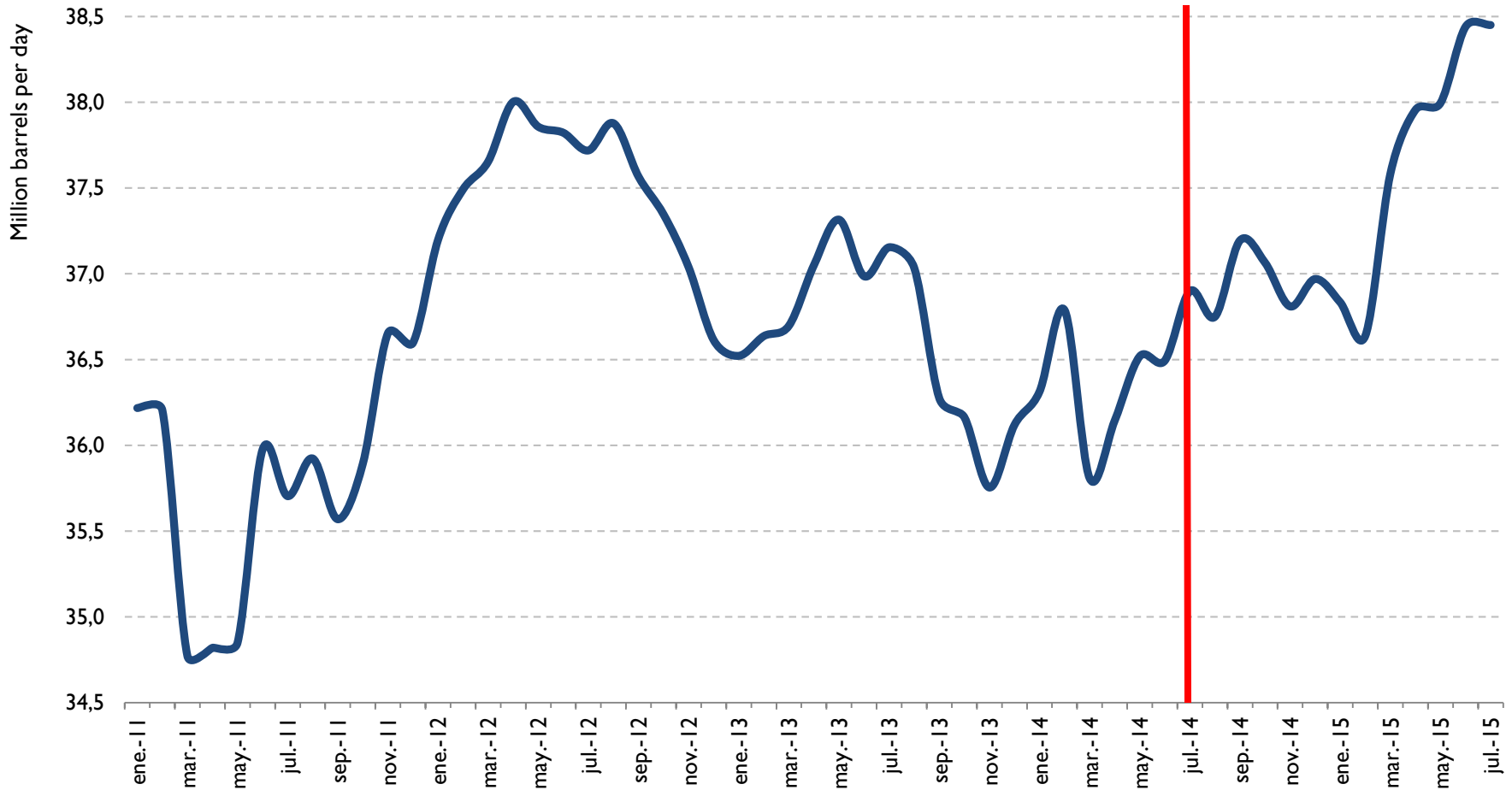
# Shale reserves



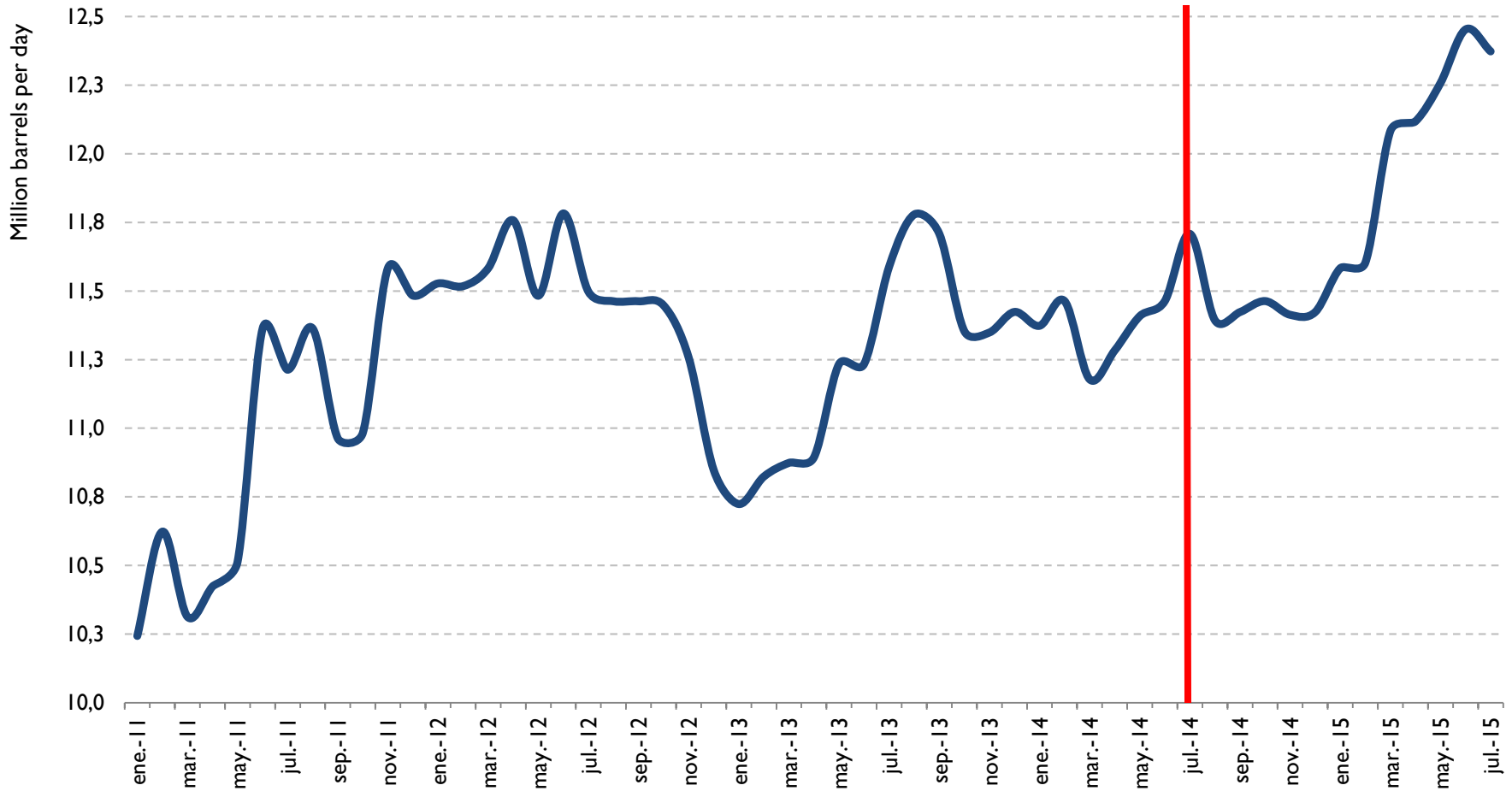
# Shale reserves



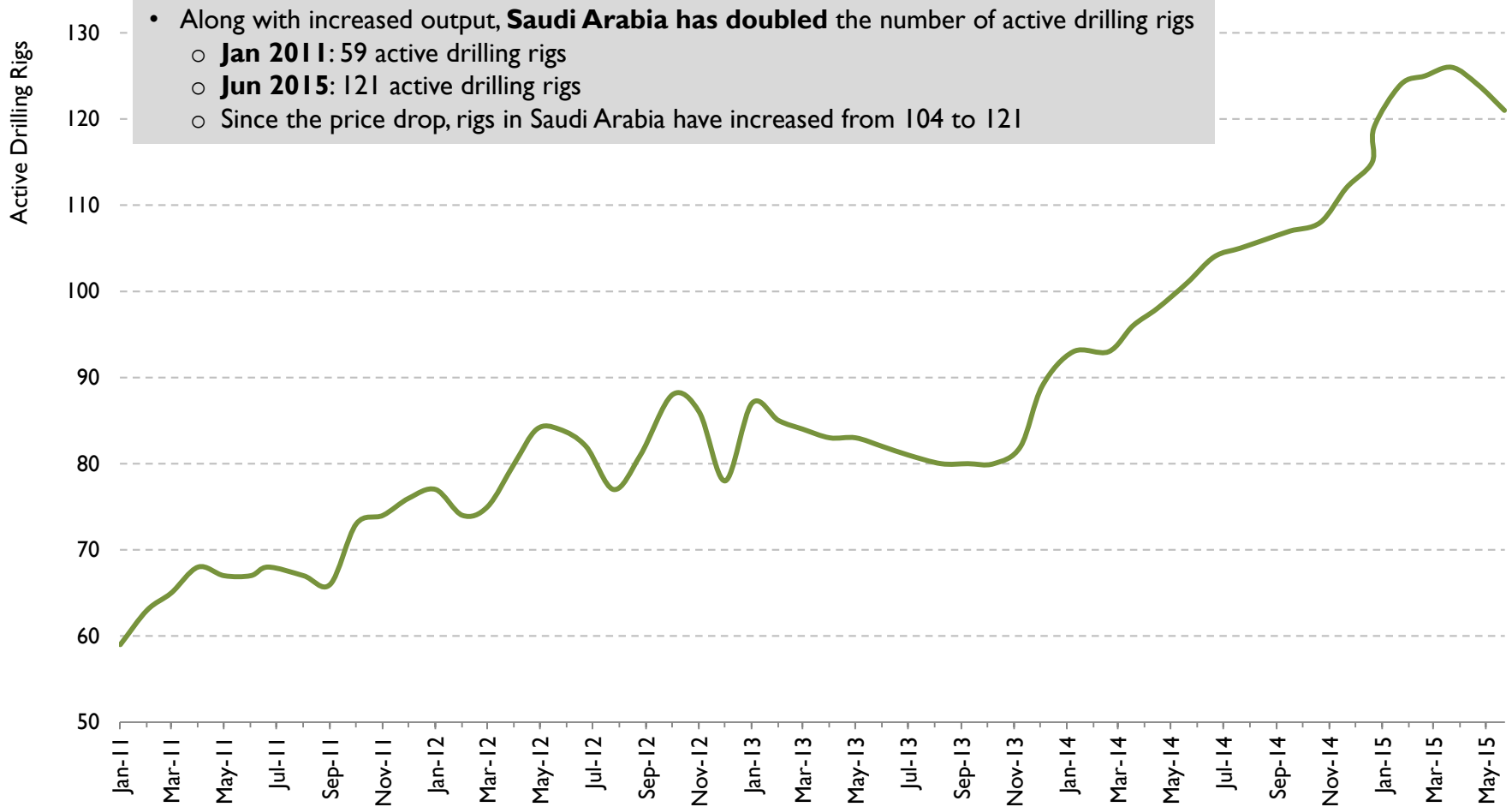
# Production, OPEC



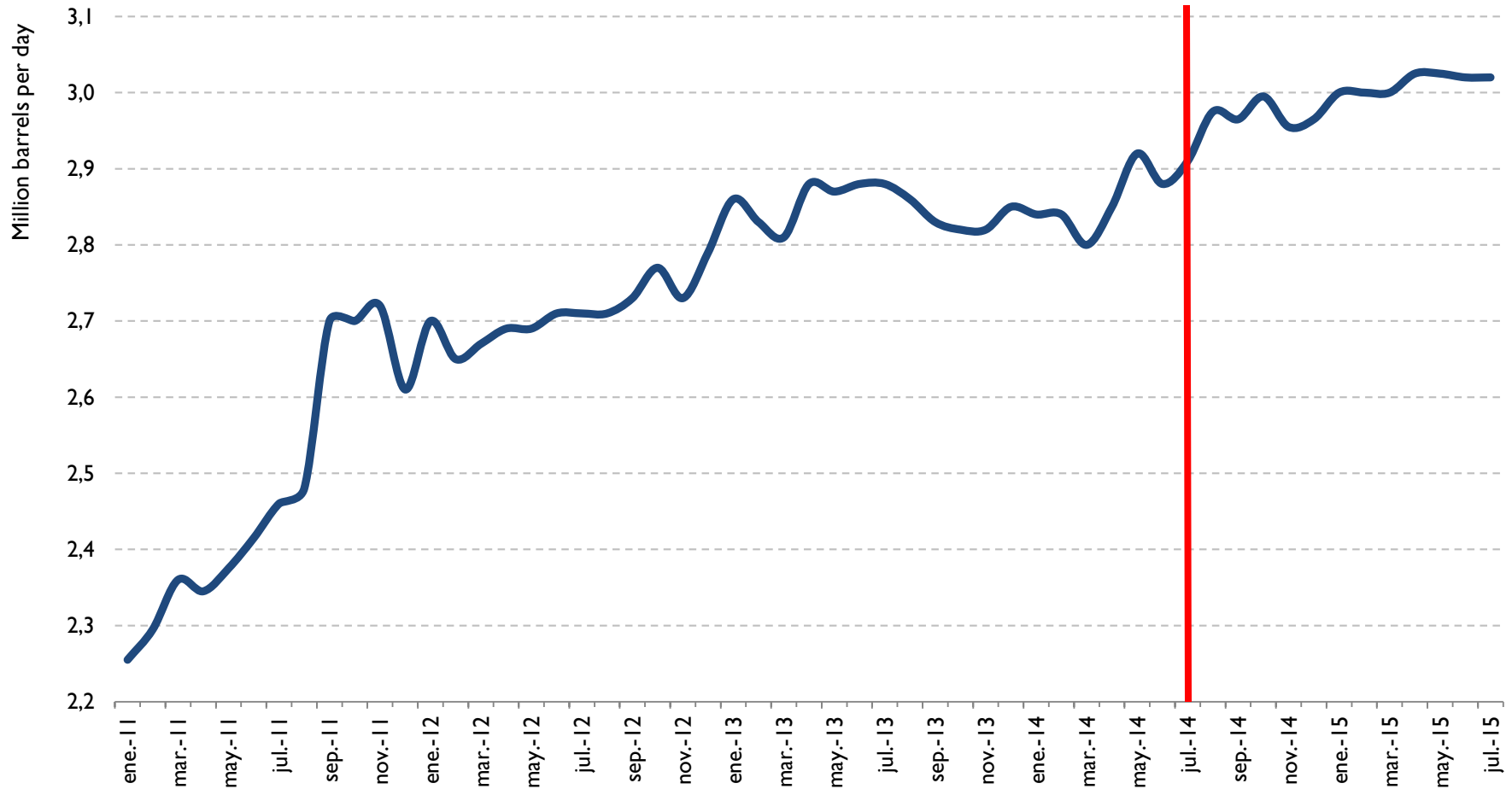
# Production, Saudi Arabia



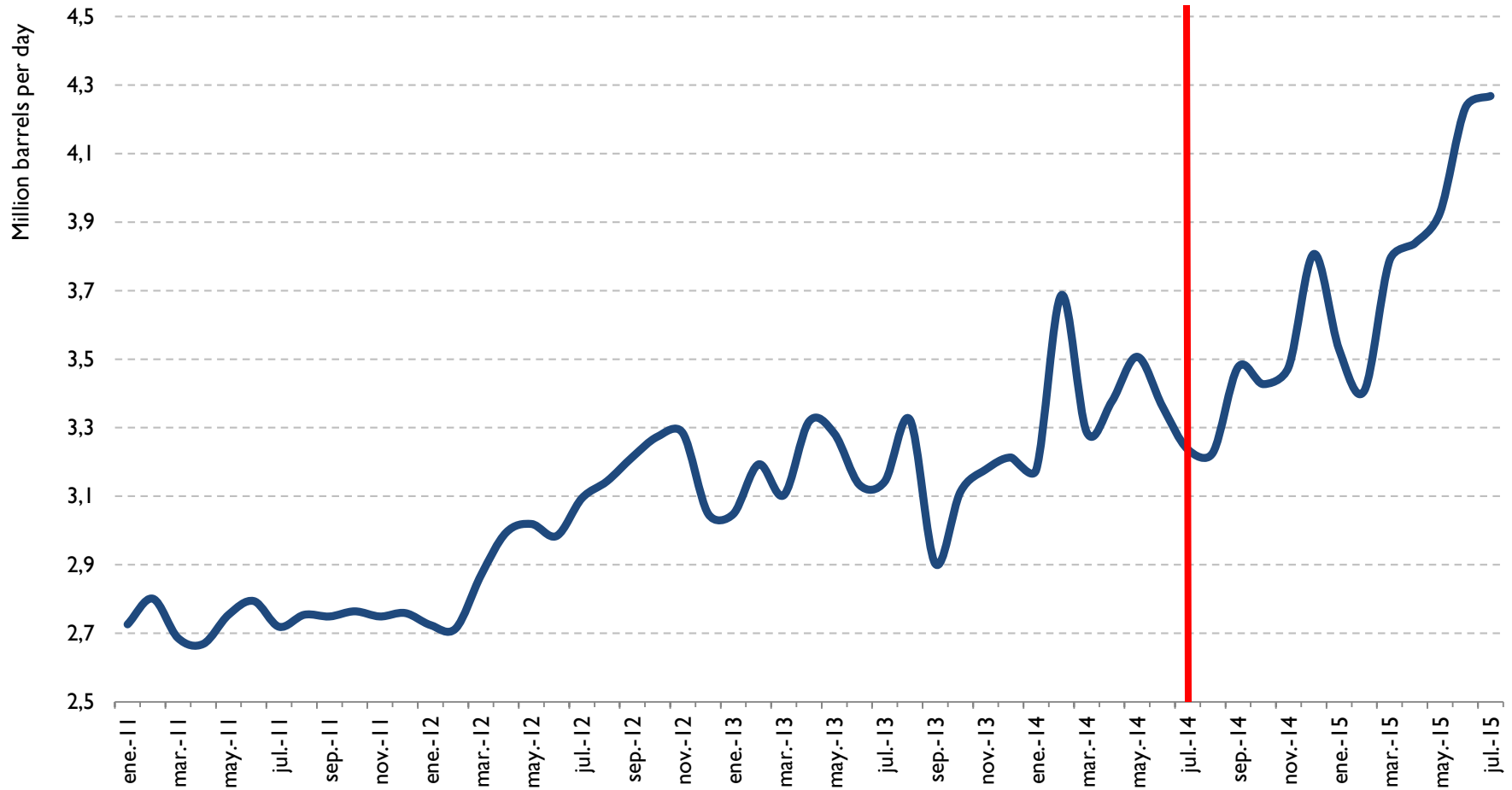
# Drilling rigs, Saudi Arabia



# Production, Kuwait



# Production, Iraq

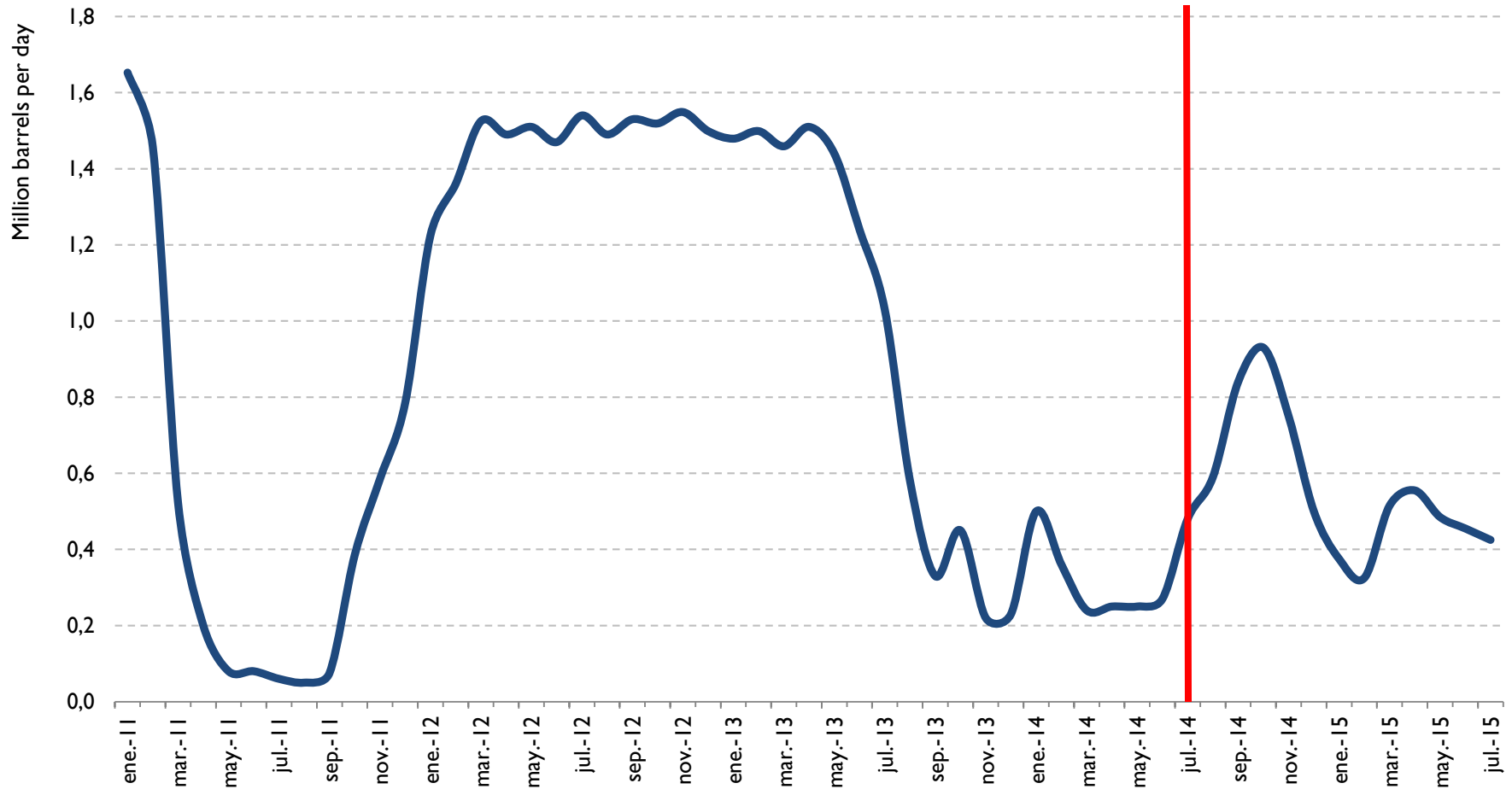




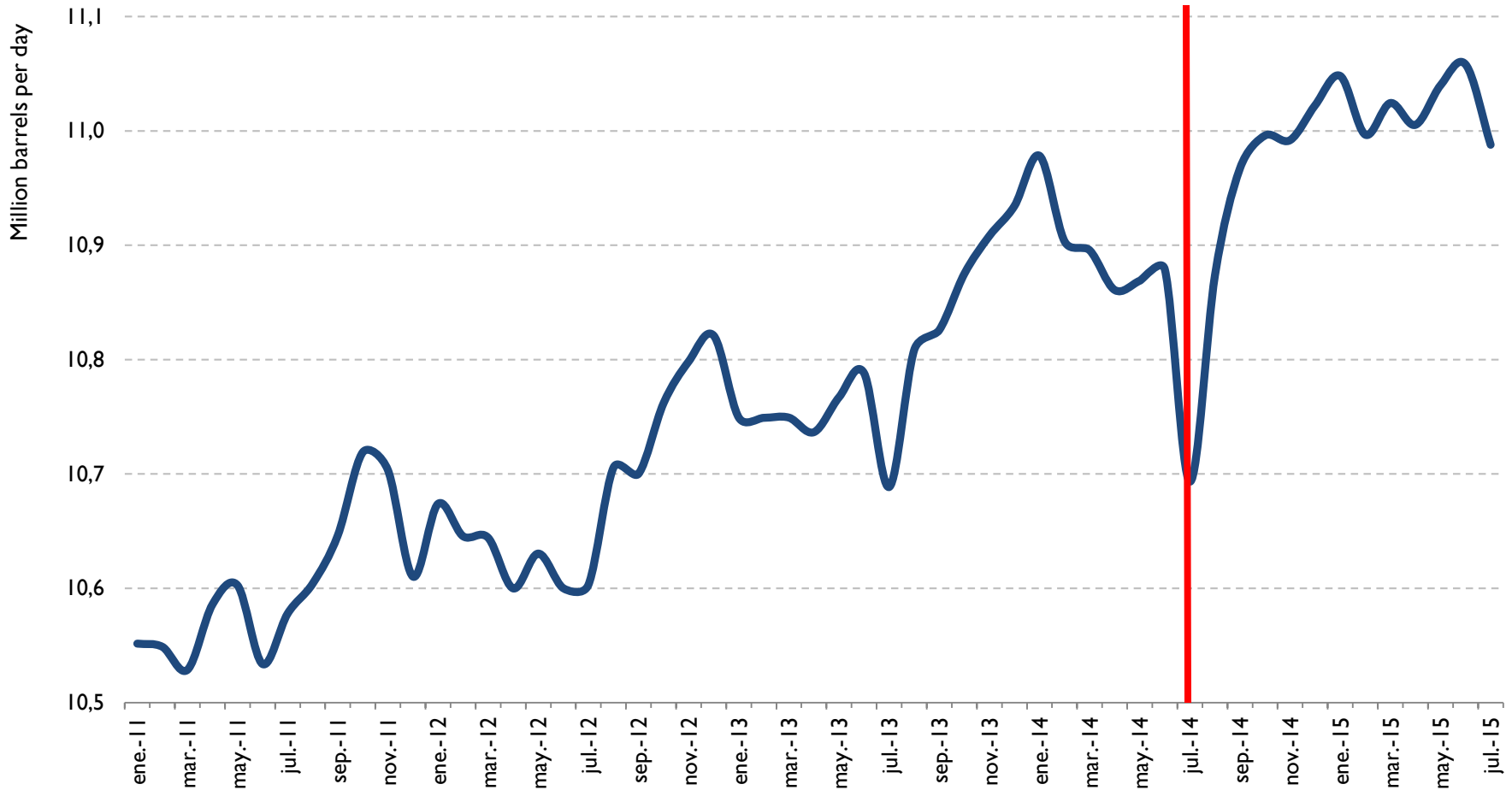
# Production, Iran



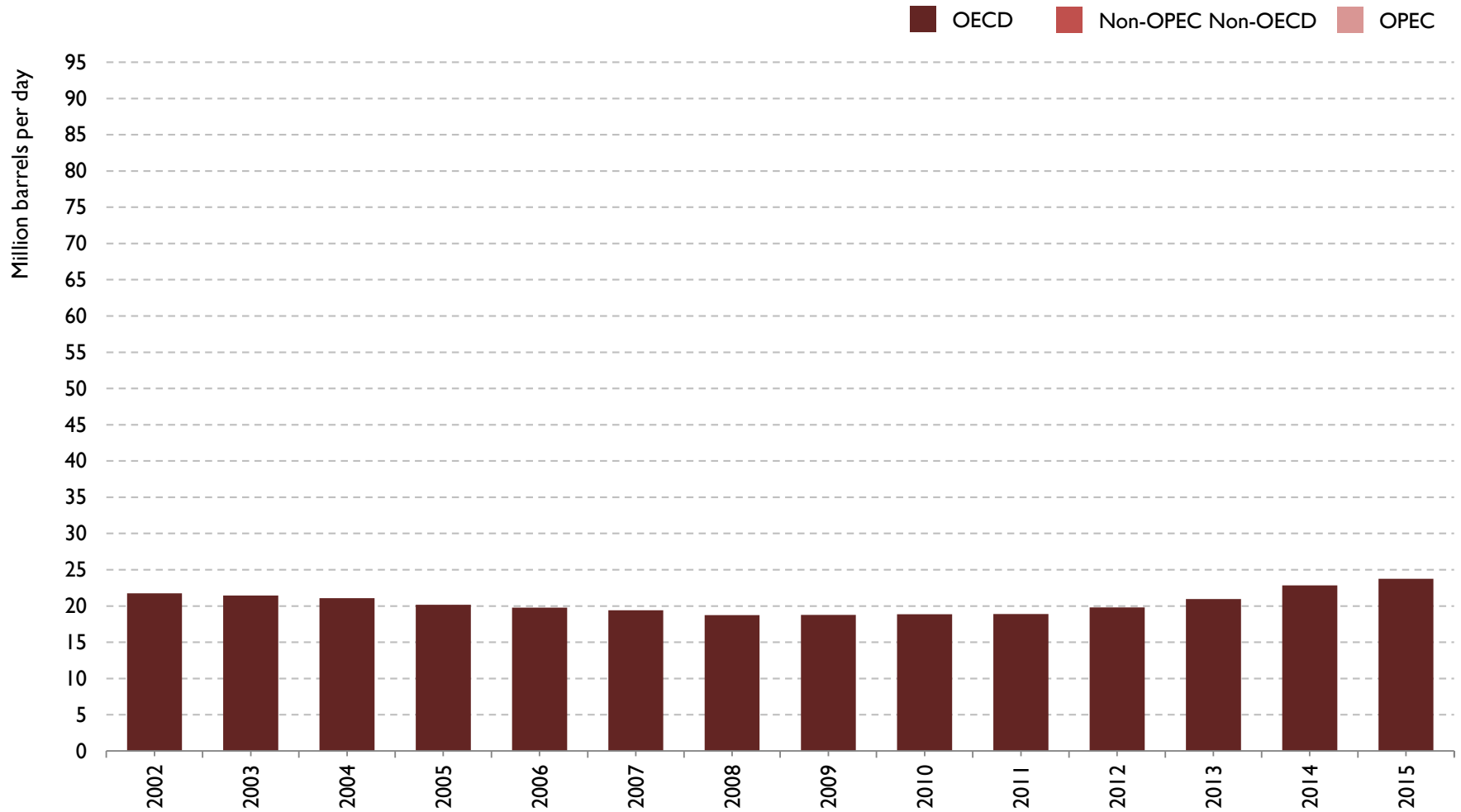
# Production, Libya



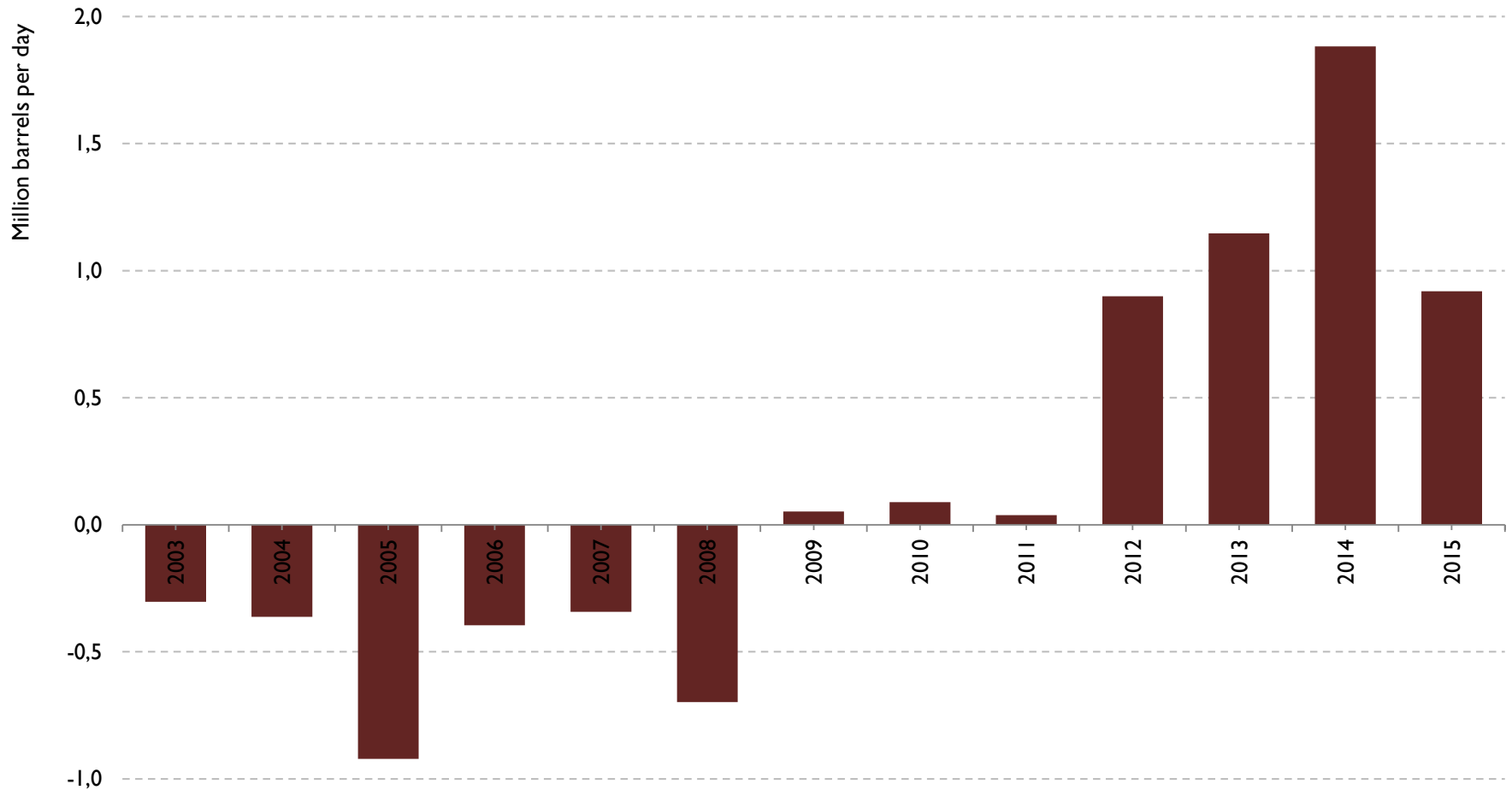
# Production, Russia



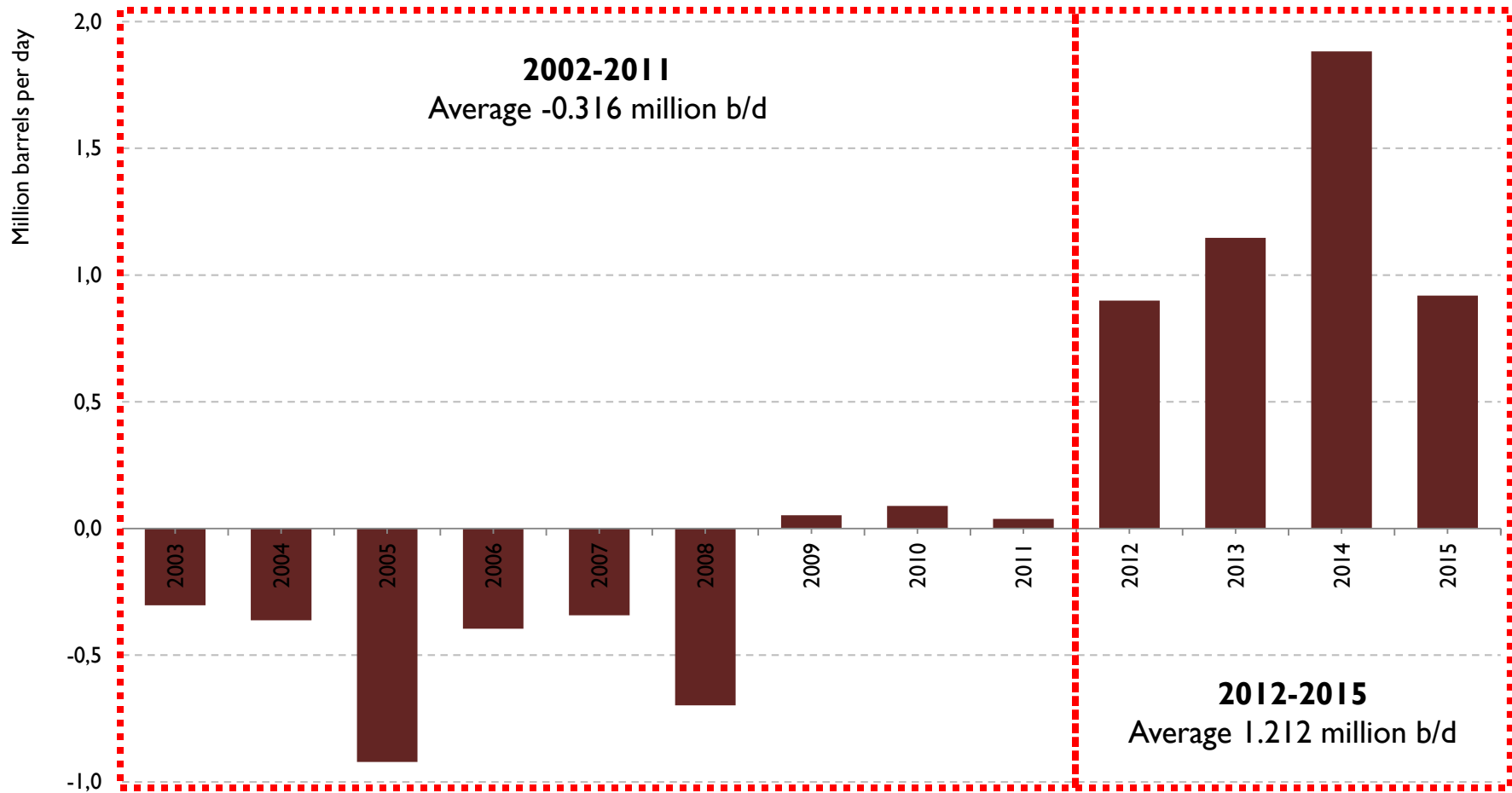
# Supply, absolute



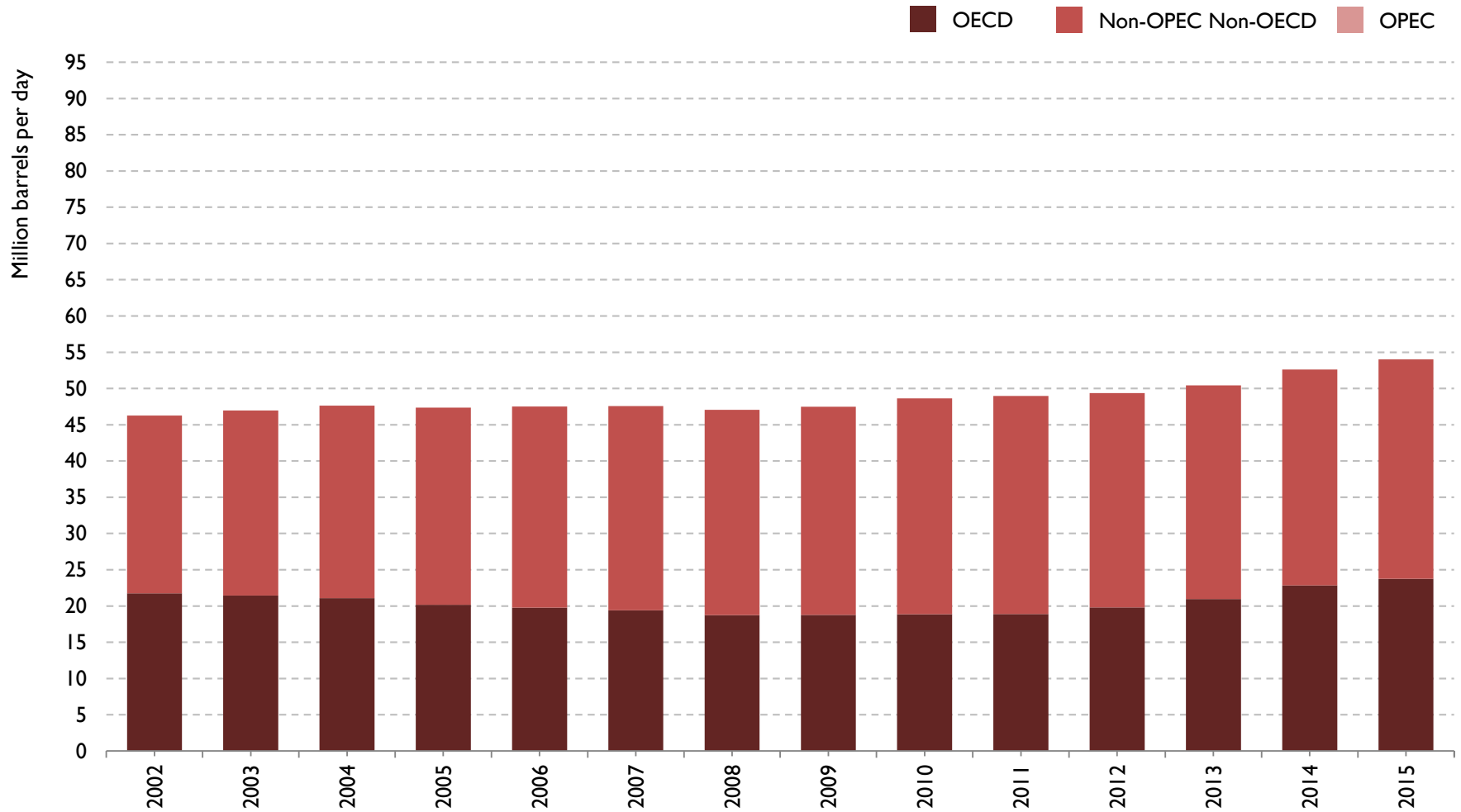
# Supply, changes OECD



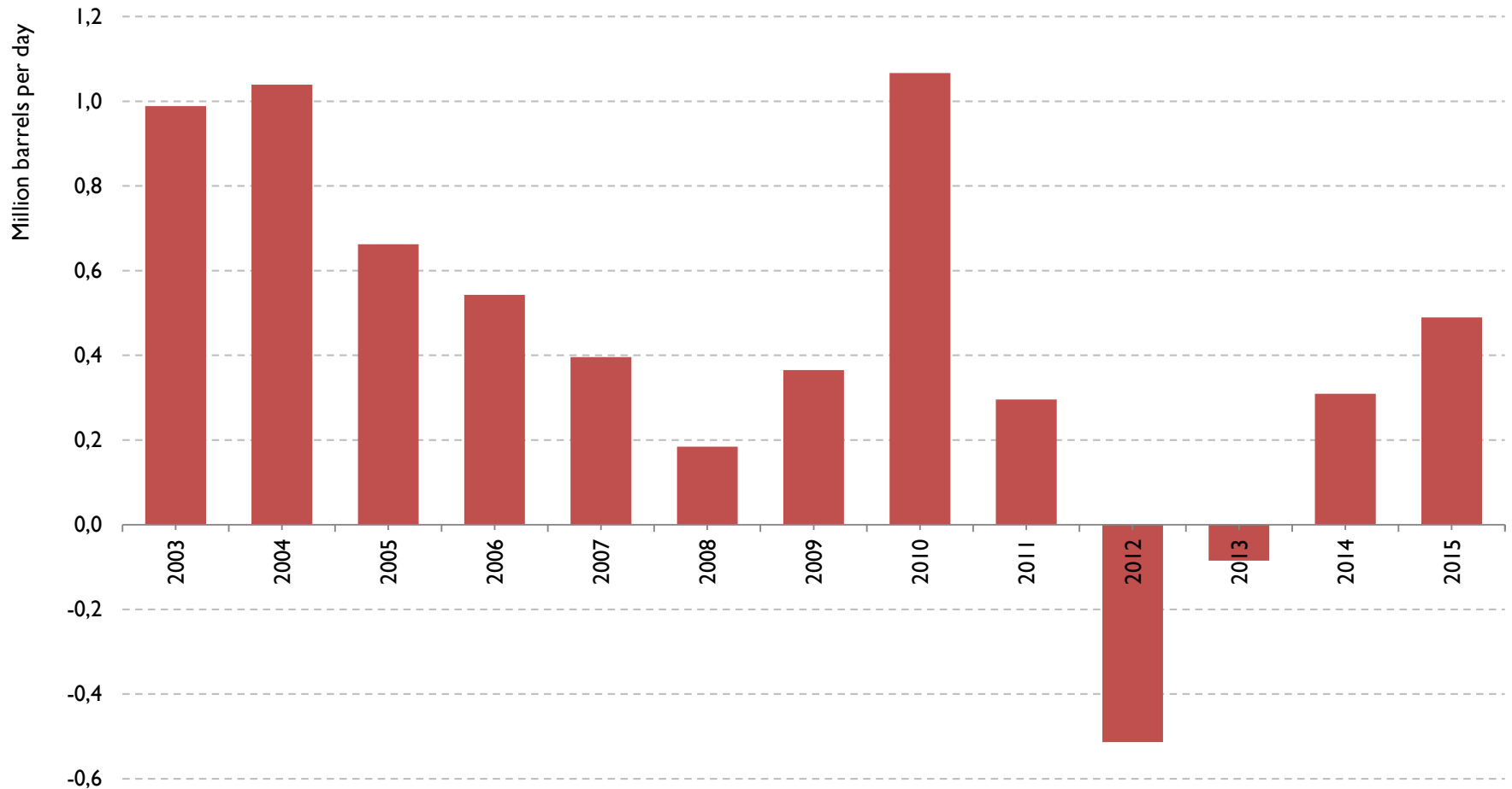
# Supply, changes OECD



# Supply, absolute

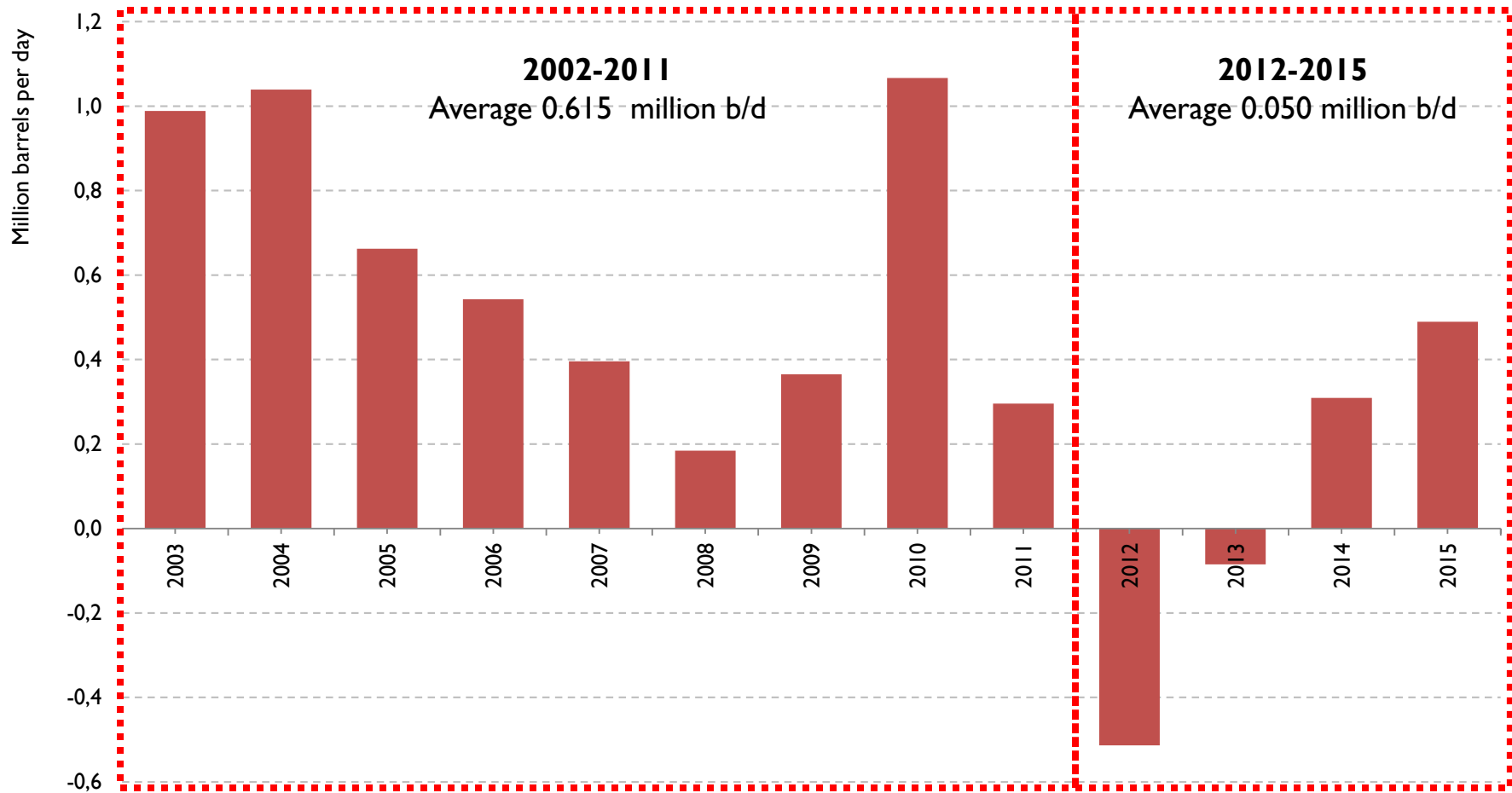


# Supply, changes No OPEC/OECD

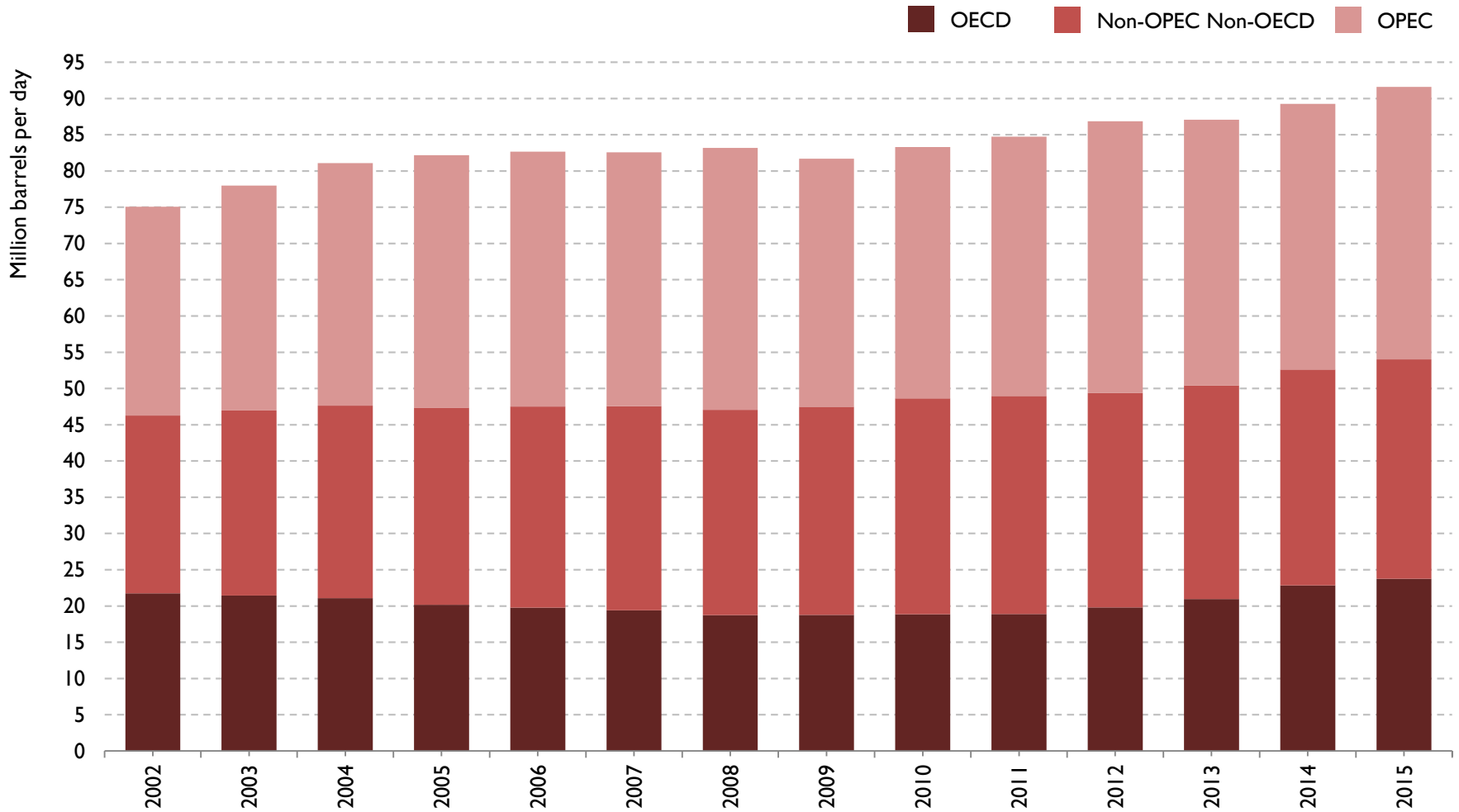




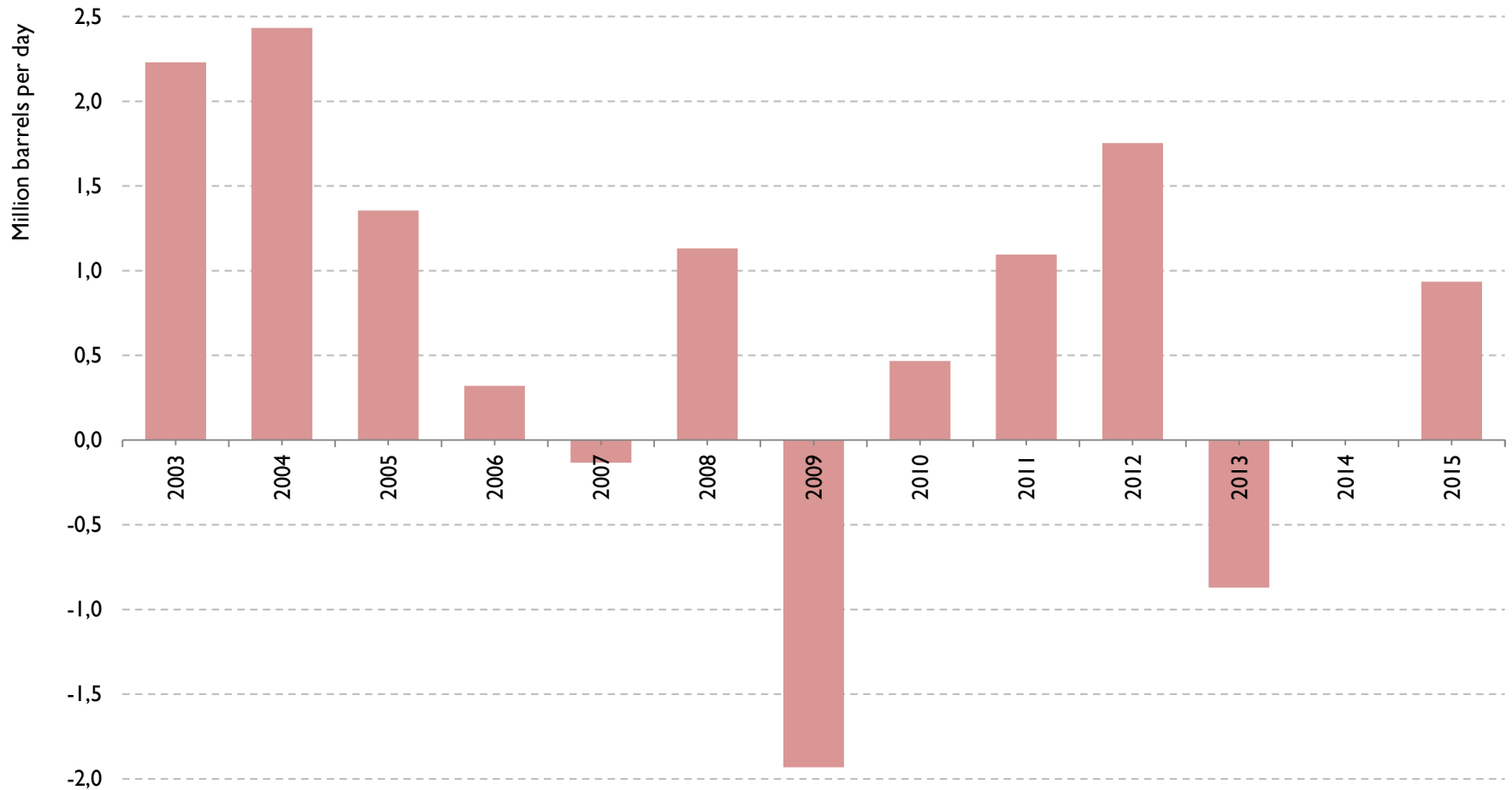
# Supply, changes No OPEC/OECD



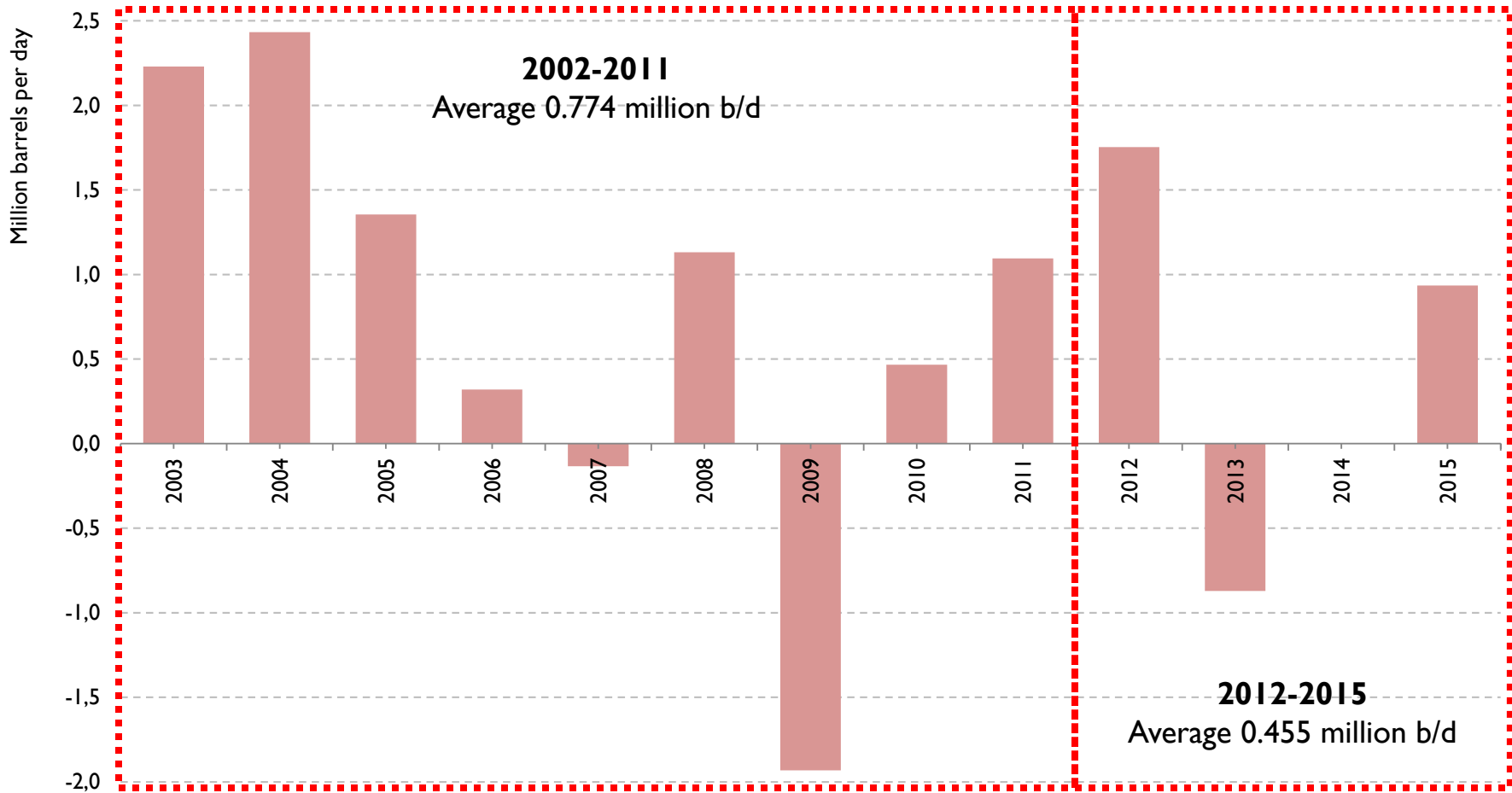
# Supply, absolute



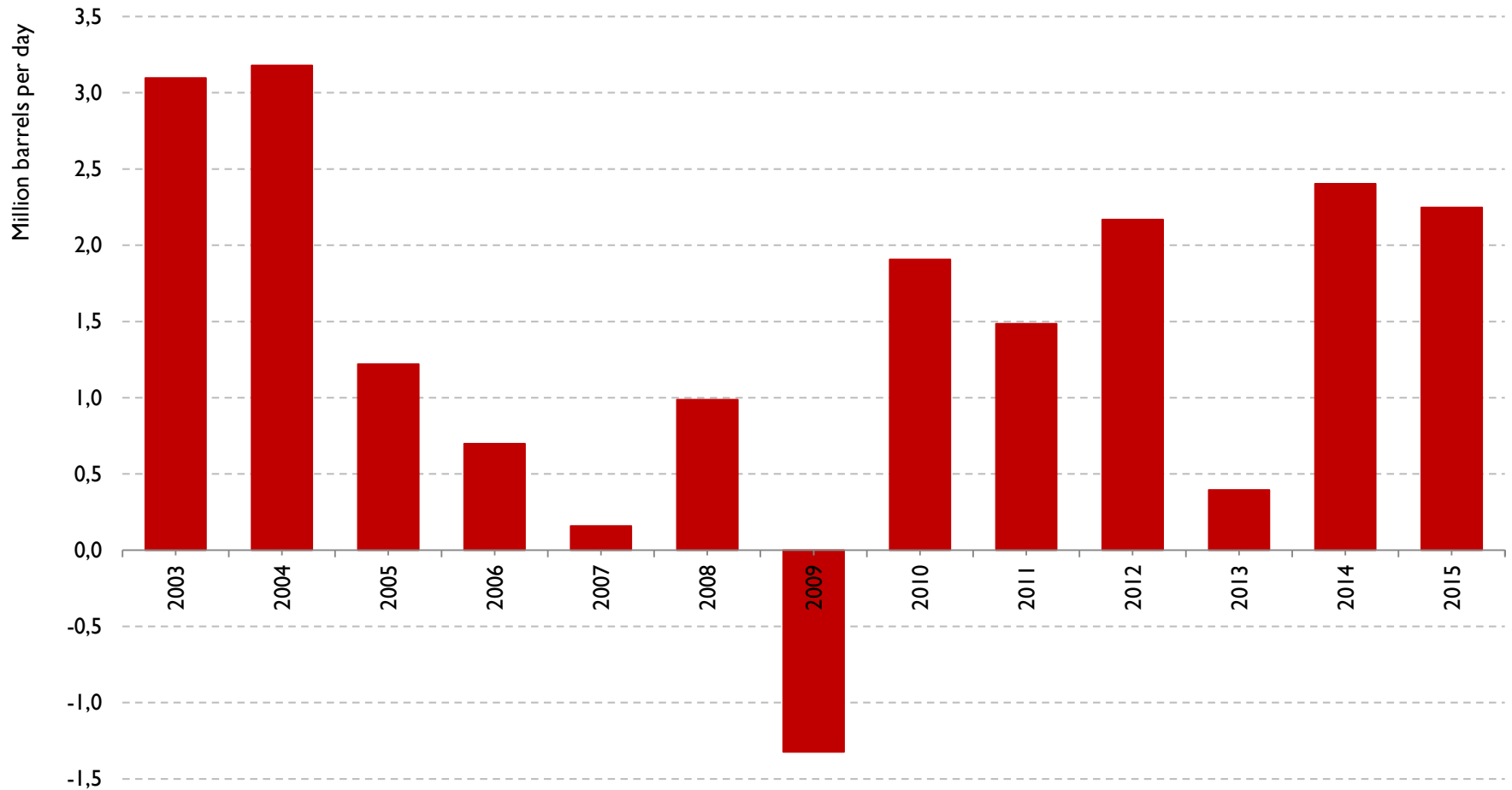
# Supply, changes OPEC



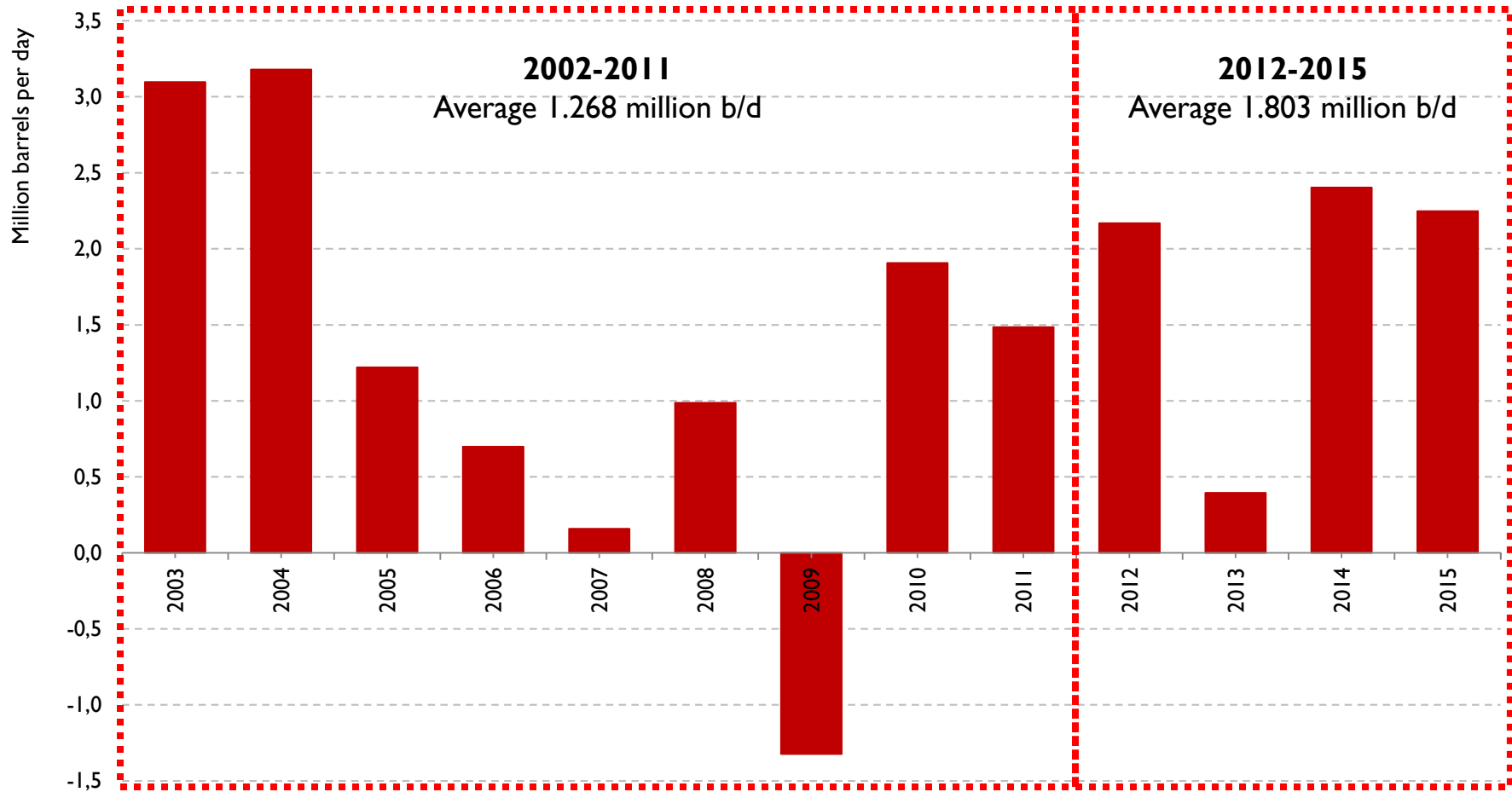
# Supply, changes OPEC



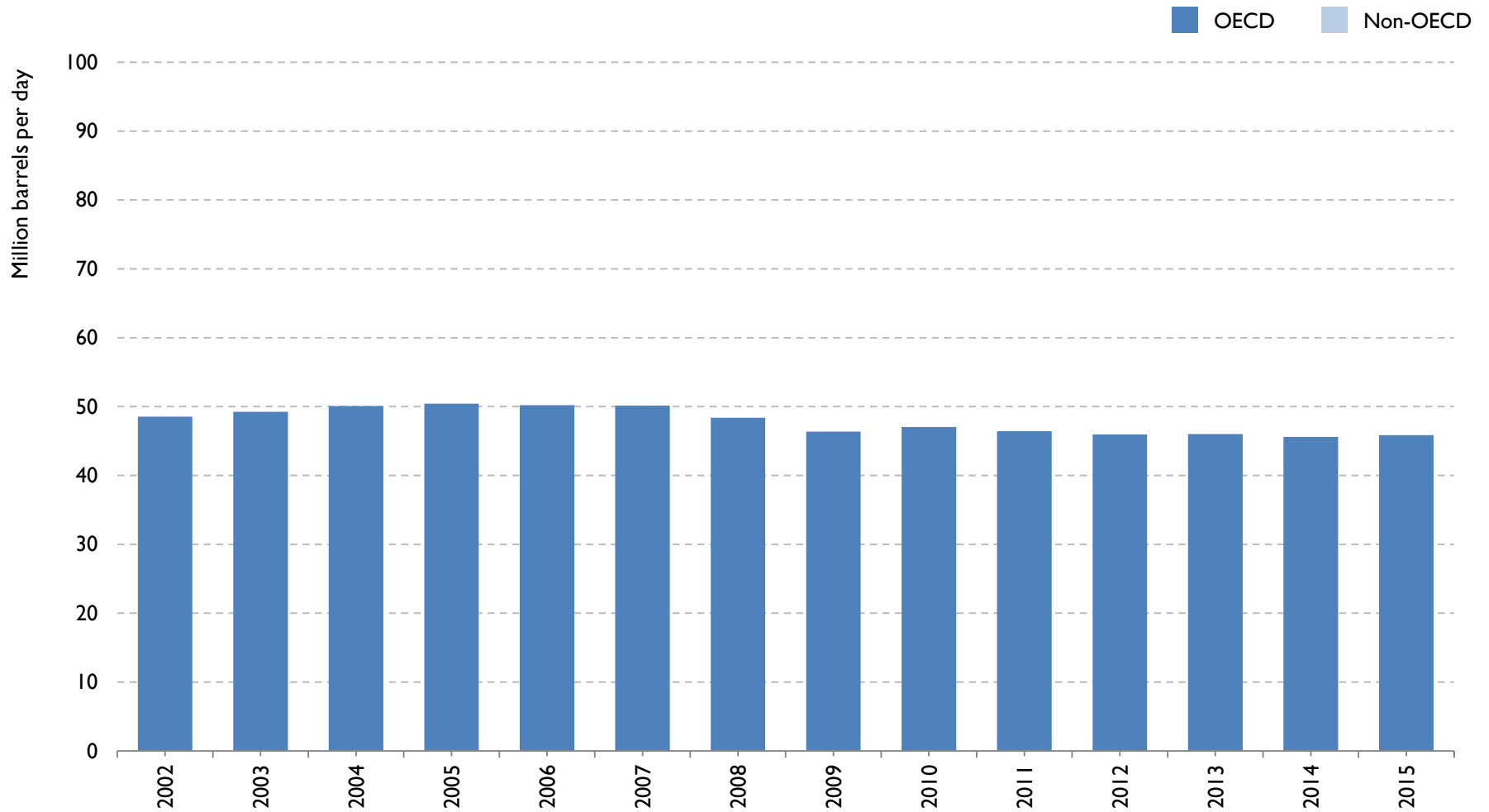
# Supply, changes



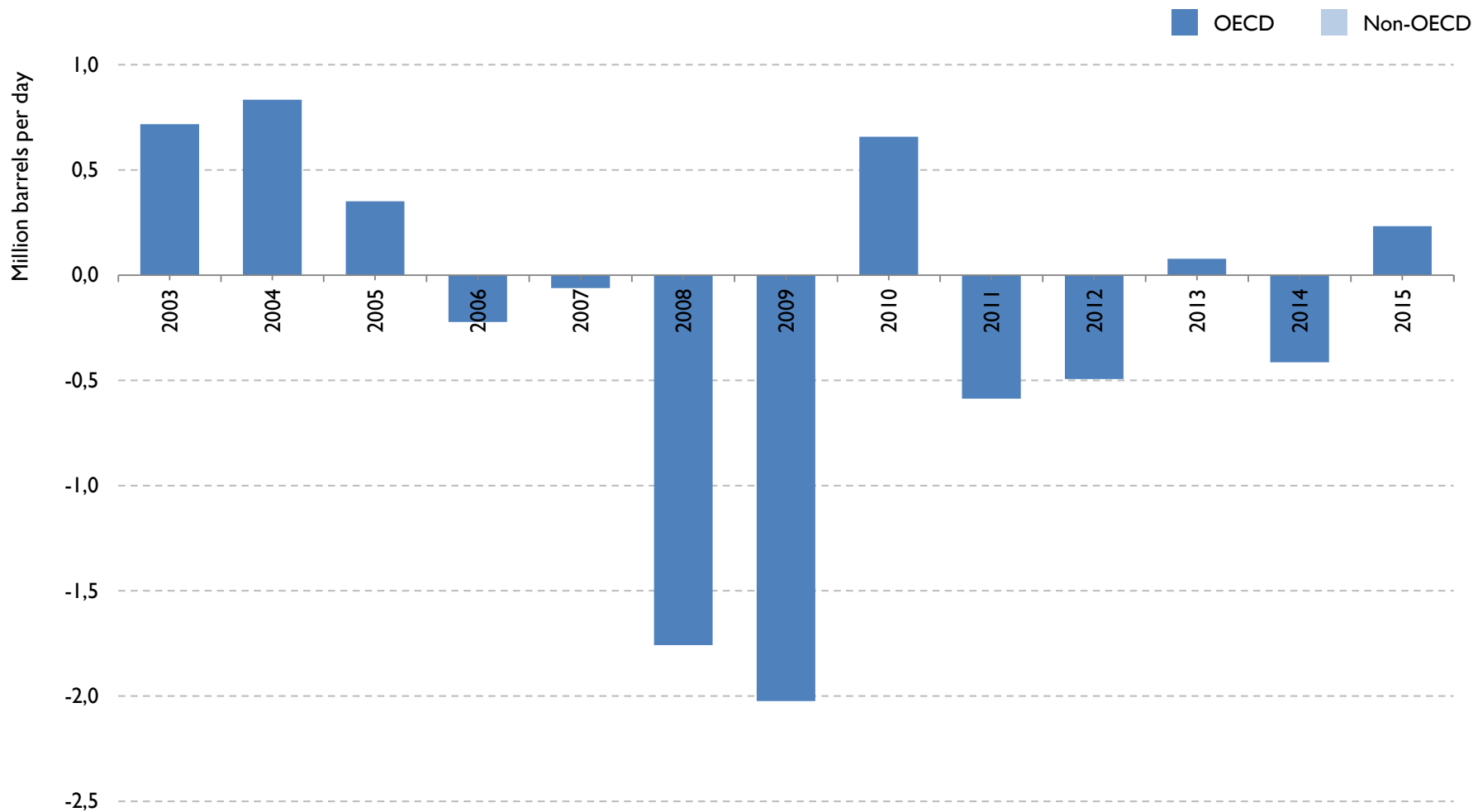
# Supply, changes



# Demand, absolute

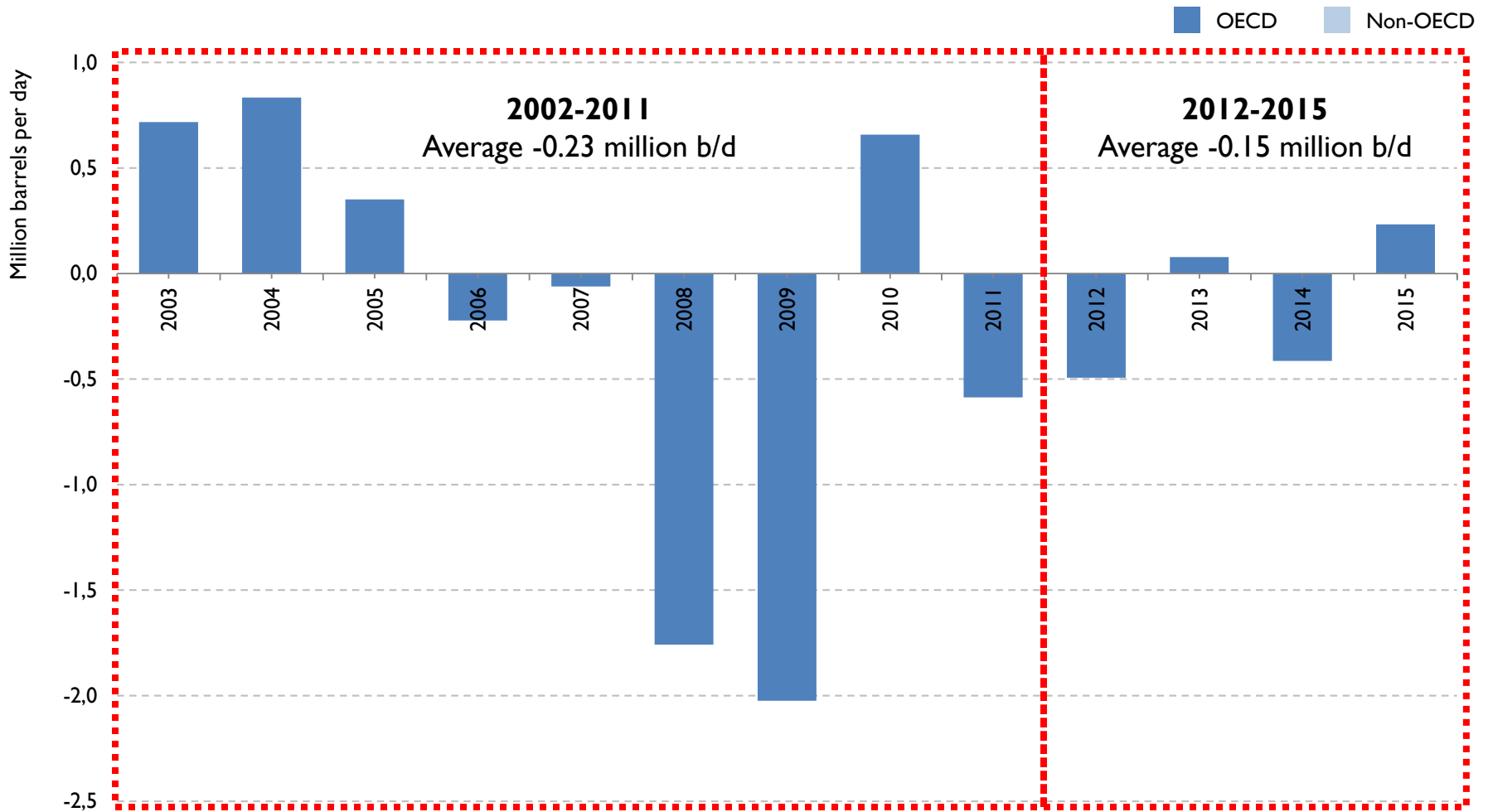


# Demand changes, OECD

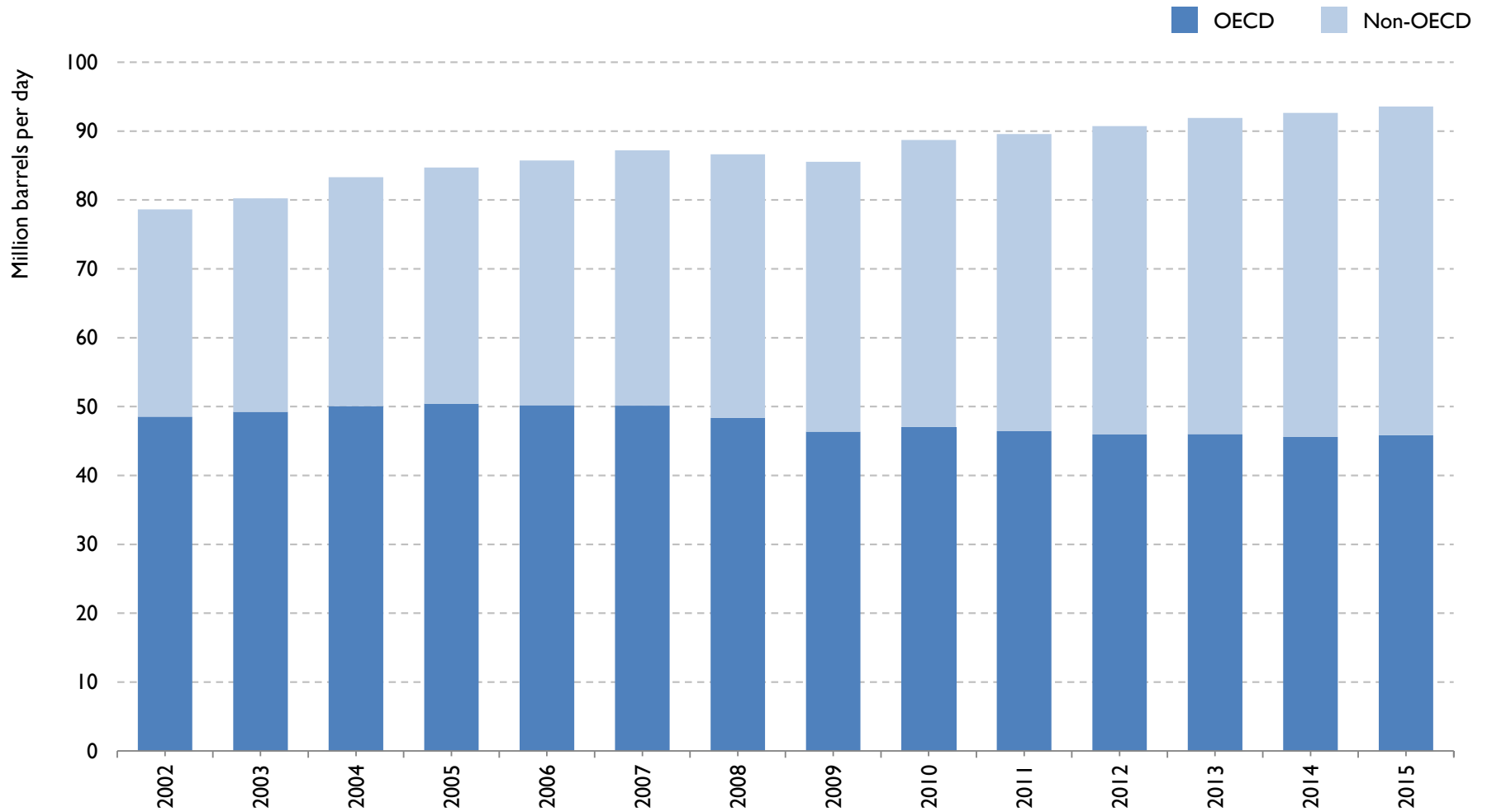




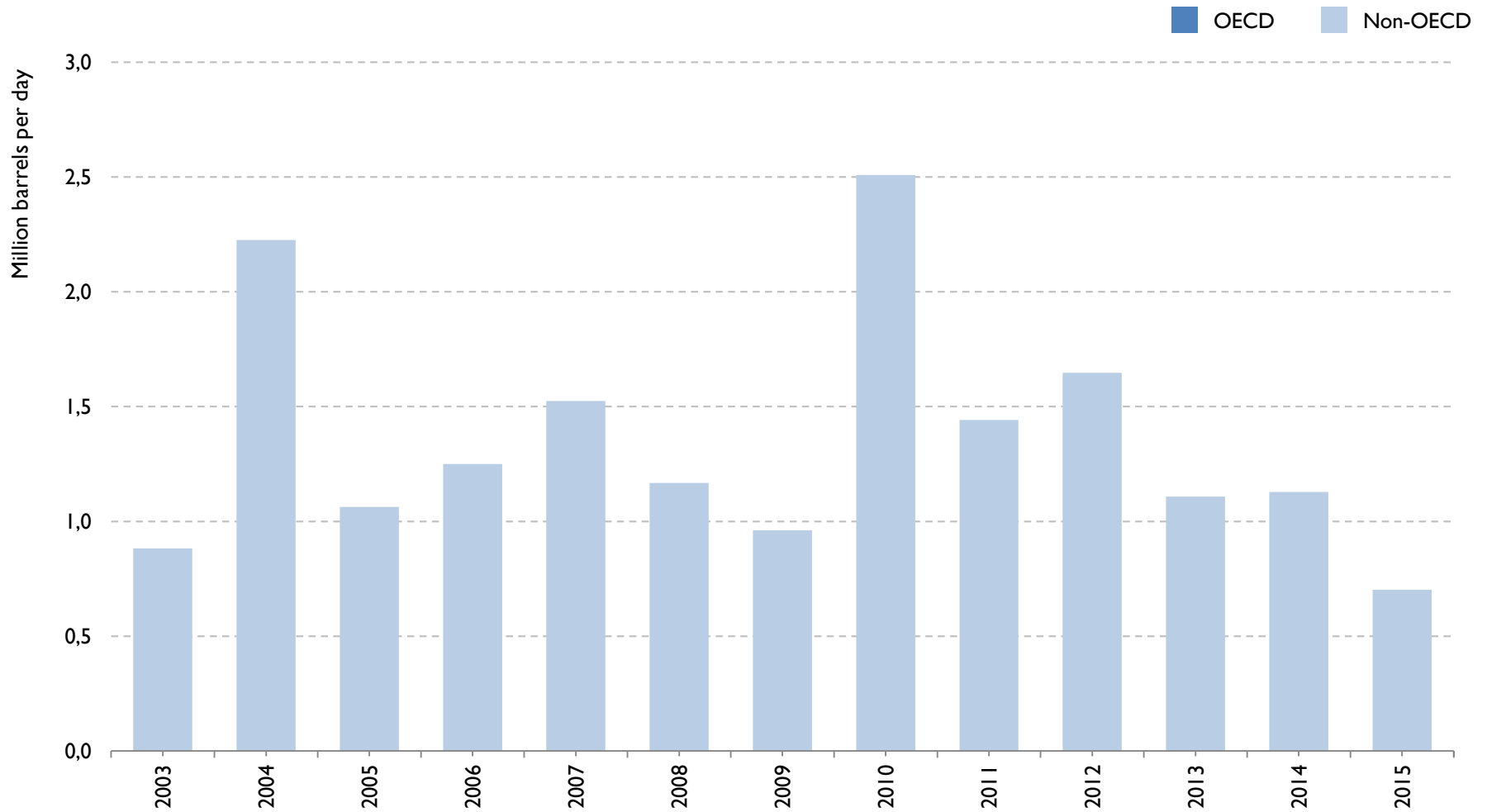
# Demand changes, OECD



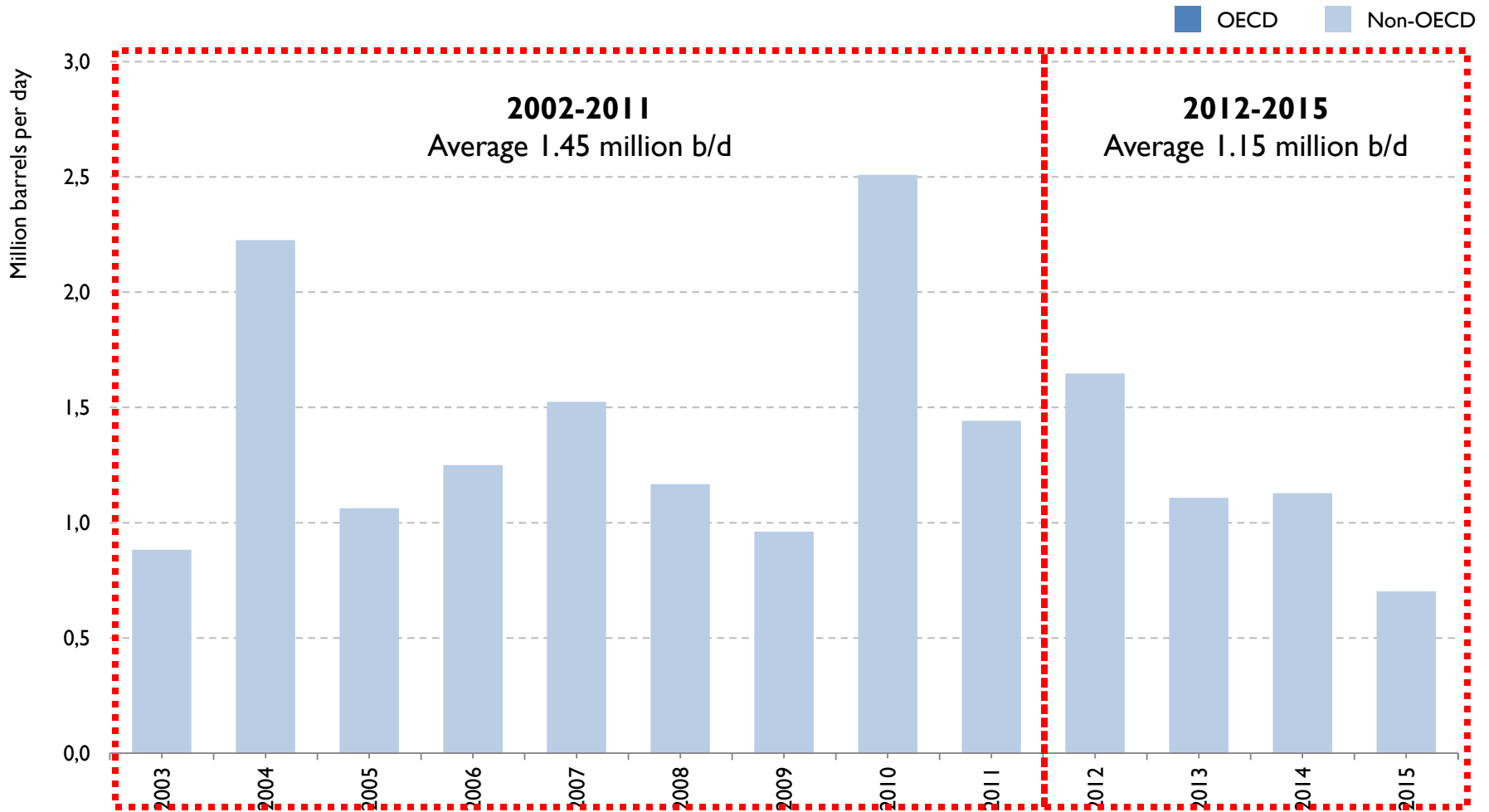
# Demand, absolute



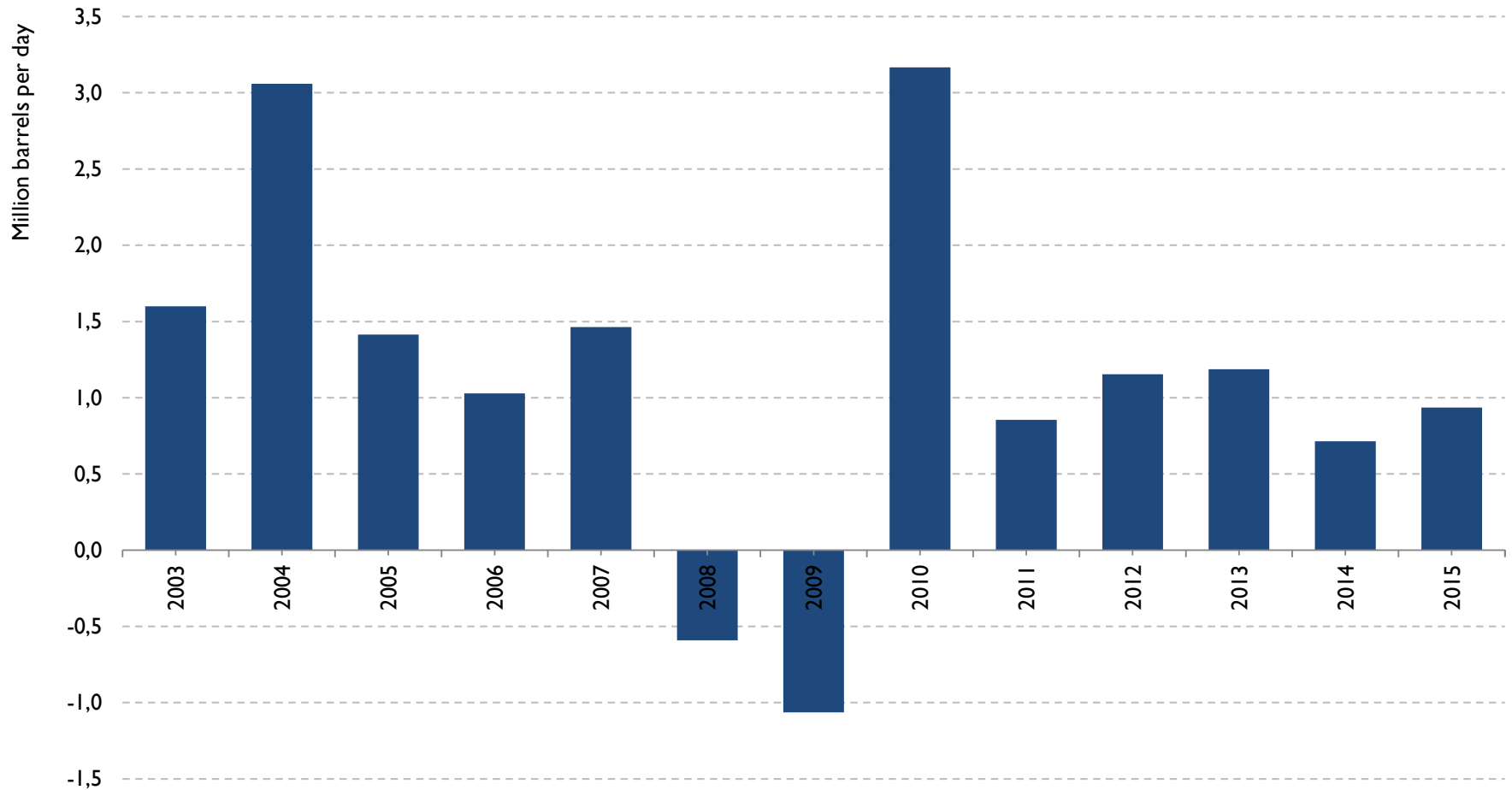
# Demand changes, Non-OECD



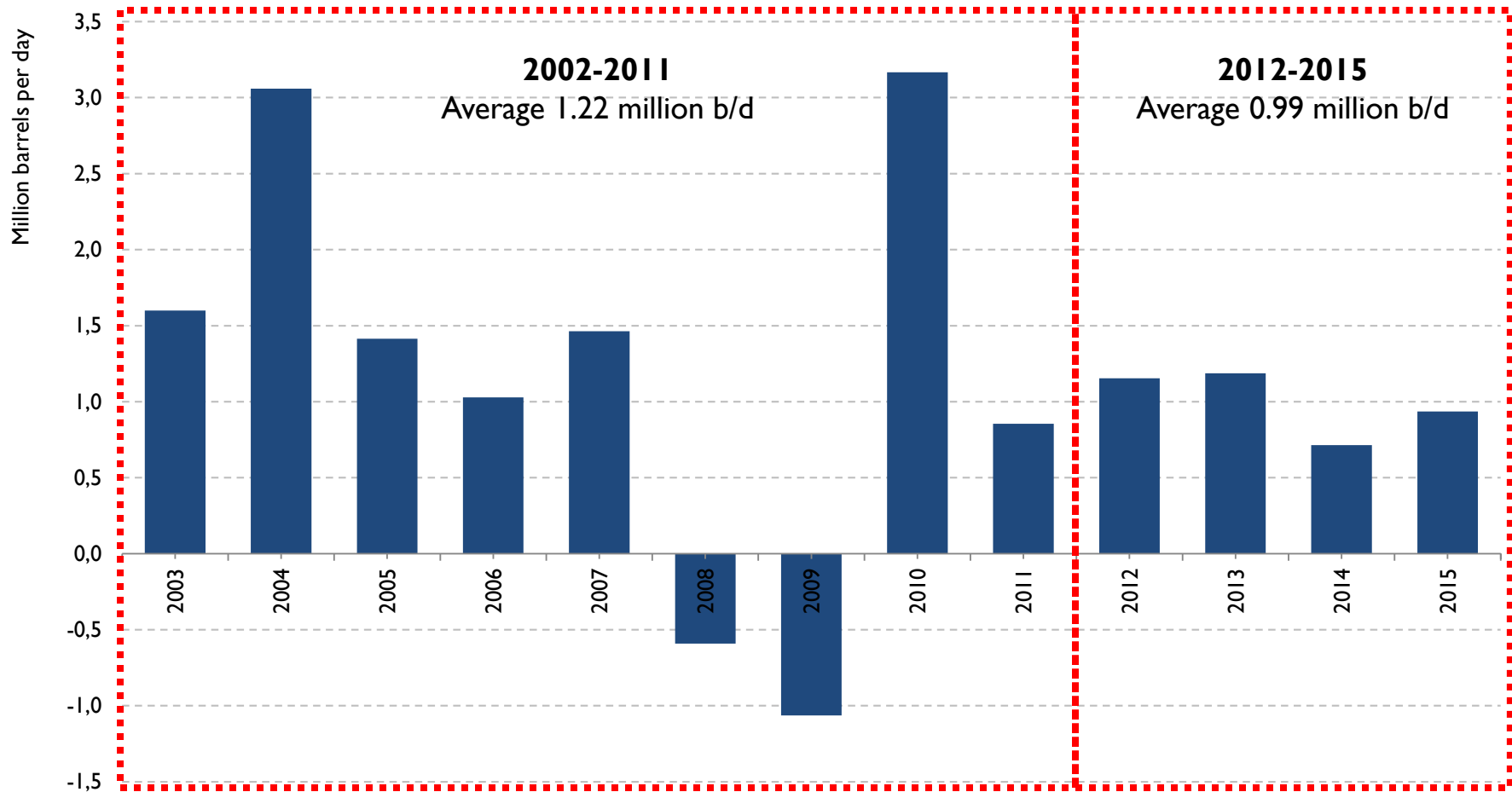
# Demand changes, Non-OECD



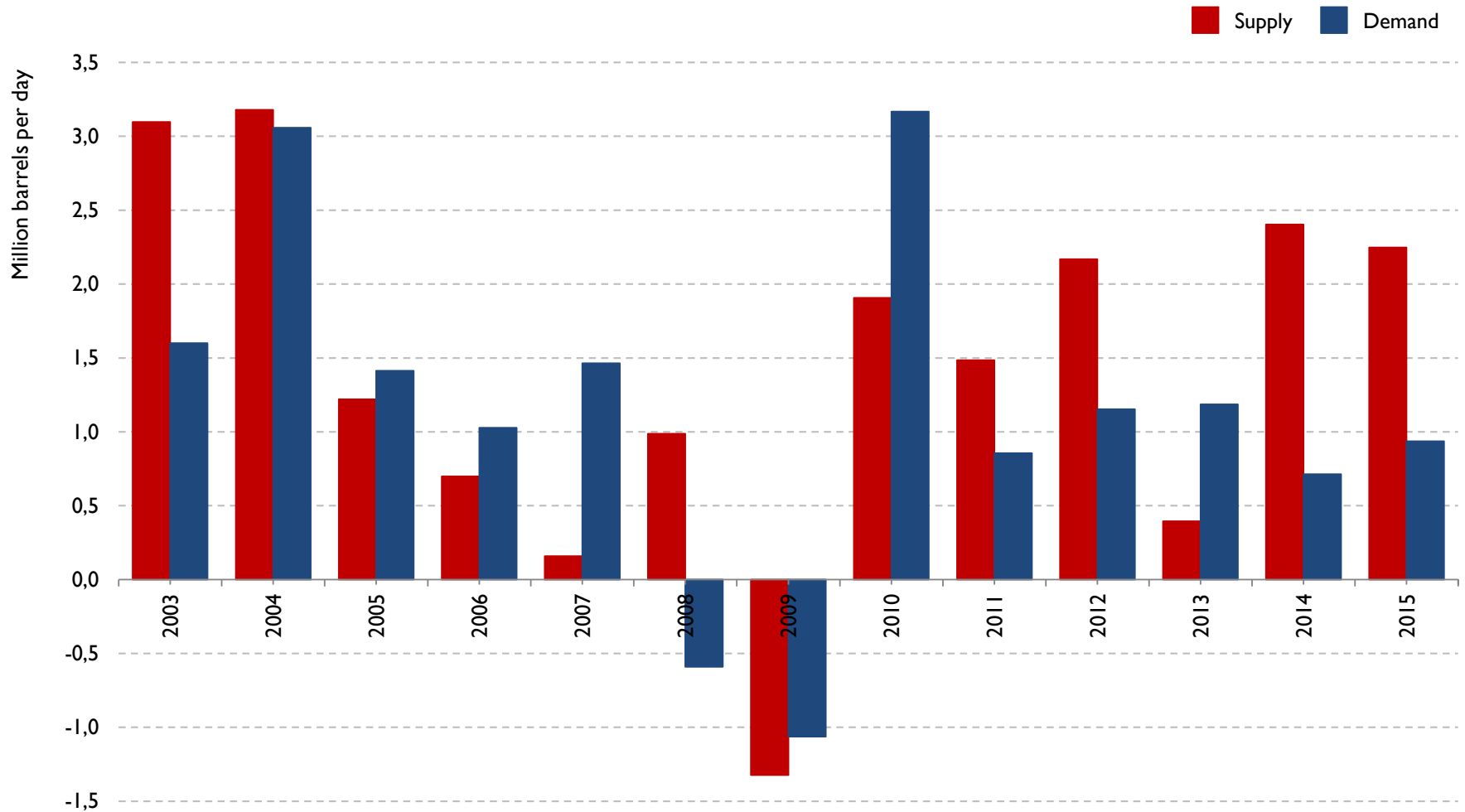
# Demand, net changes



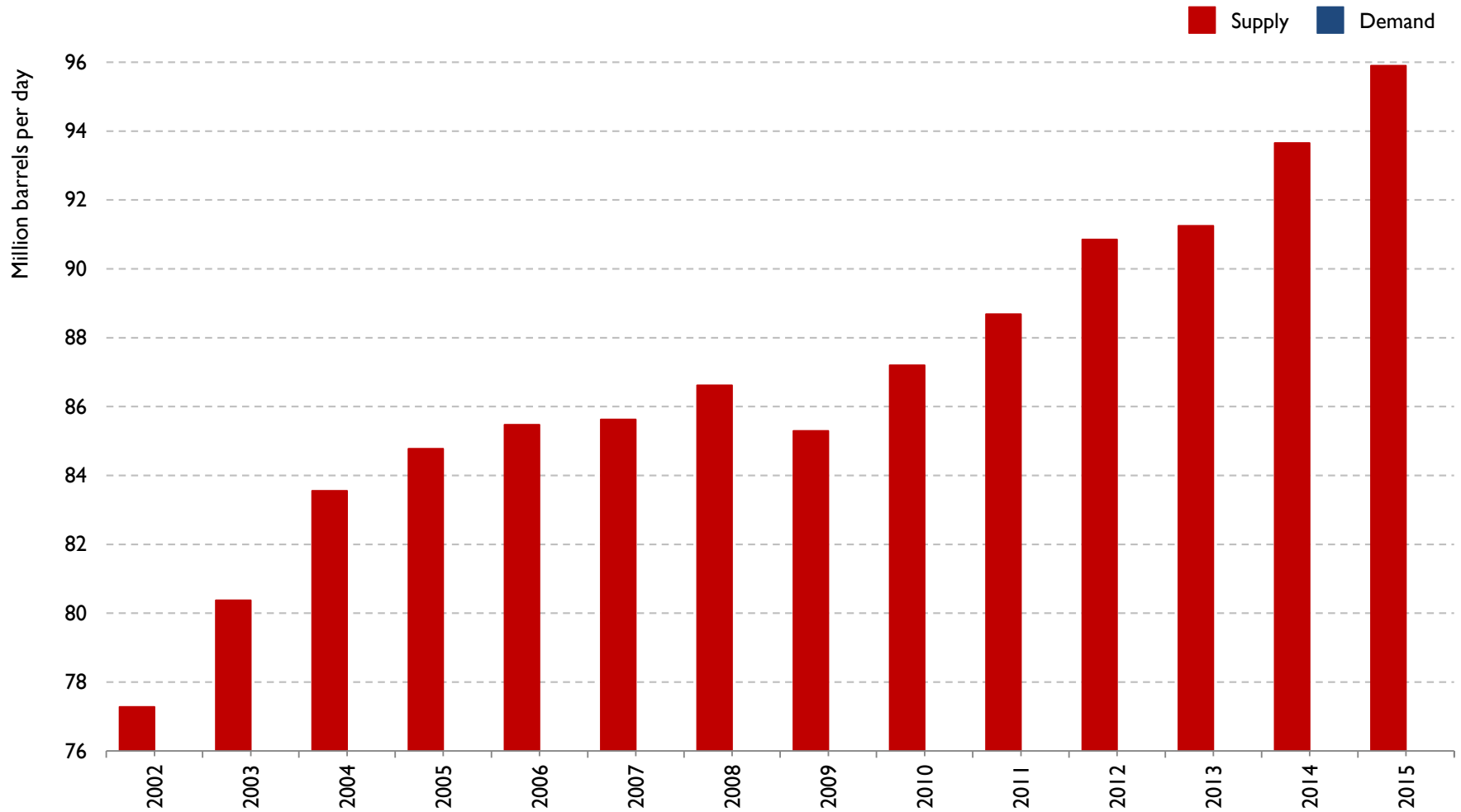
# Demand, net changes



# Supply & Demand, changes

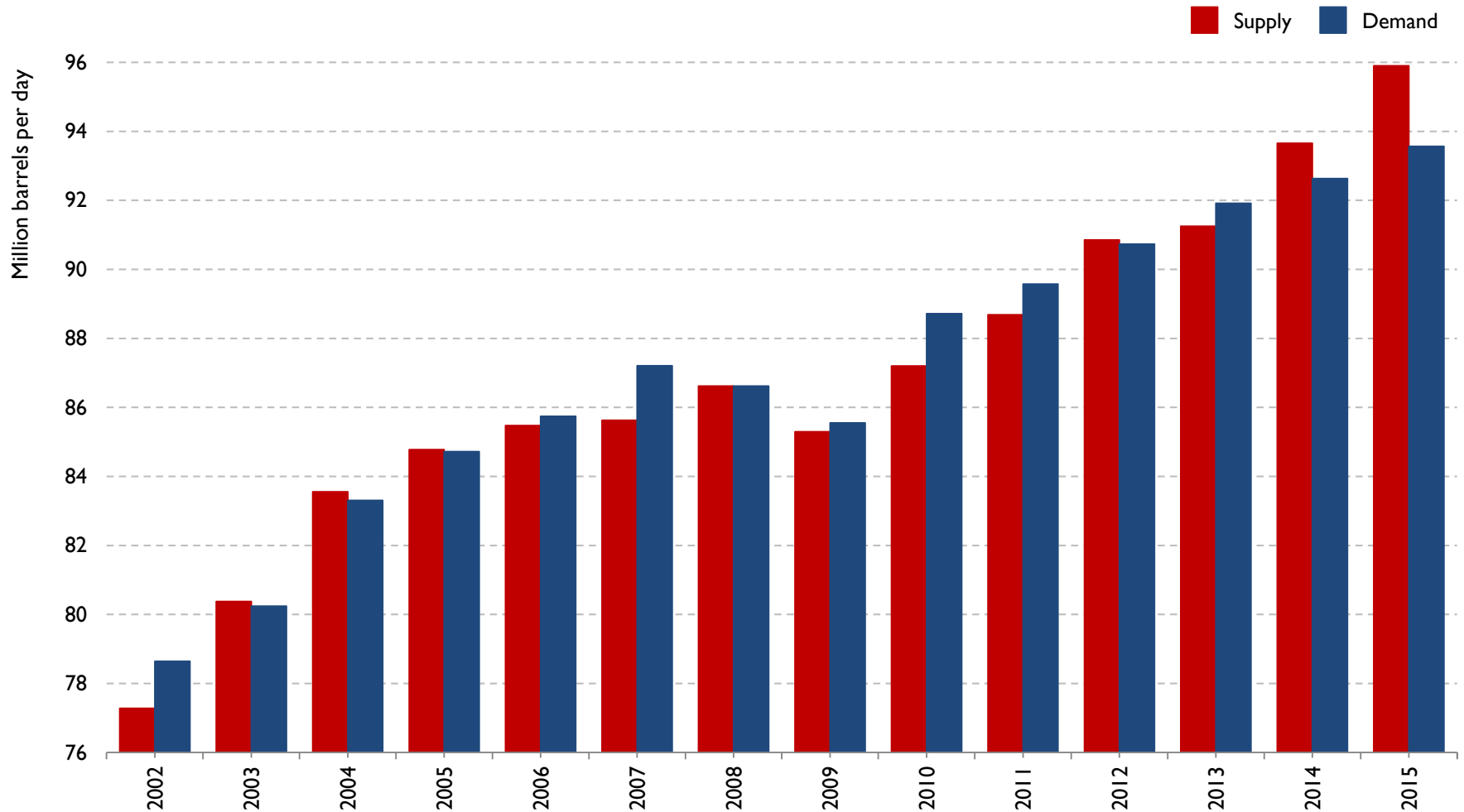


# Supply & Demand, absolute

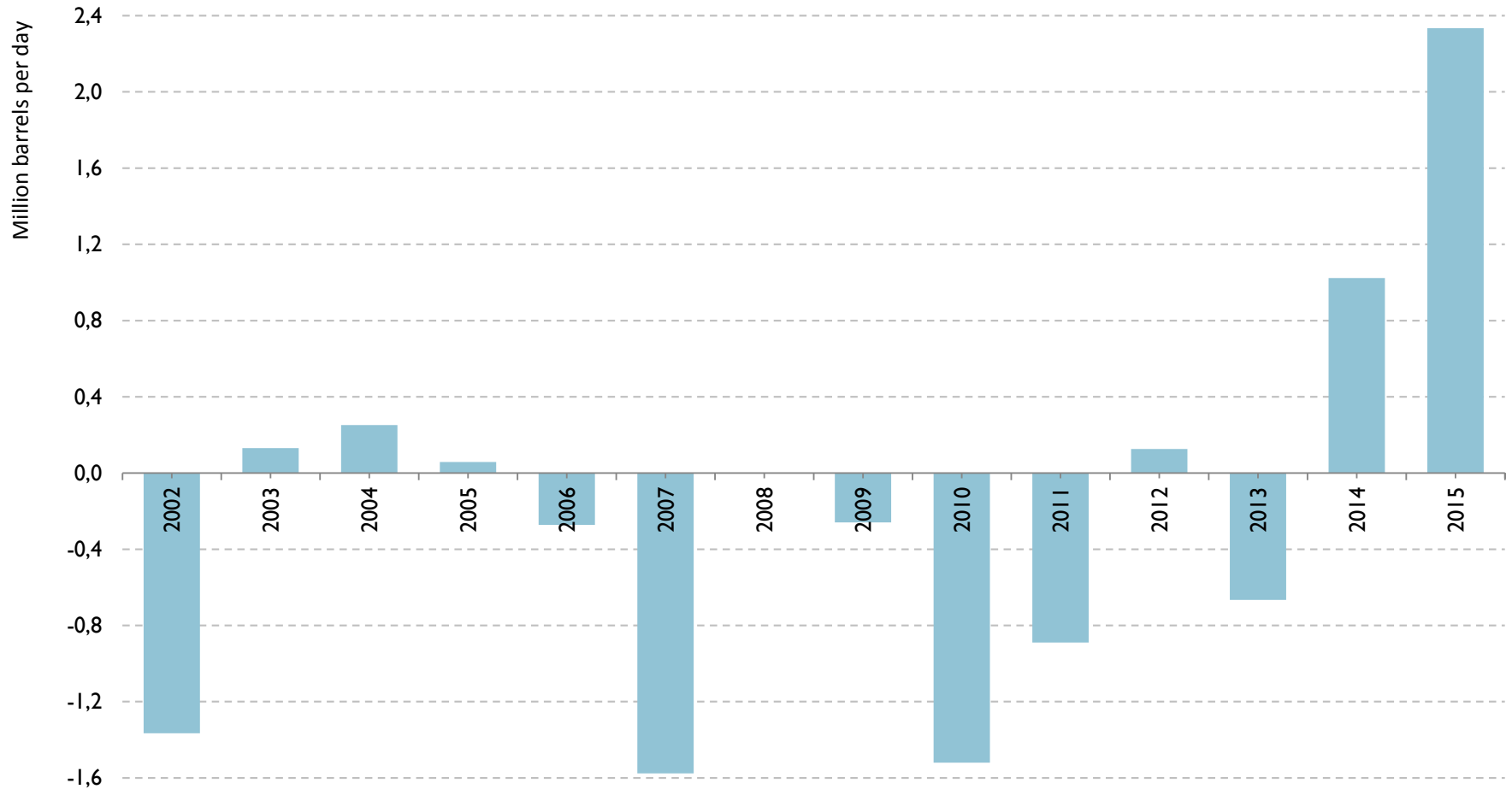




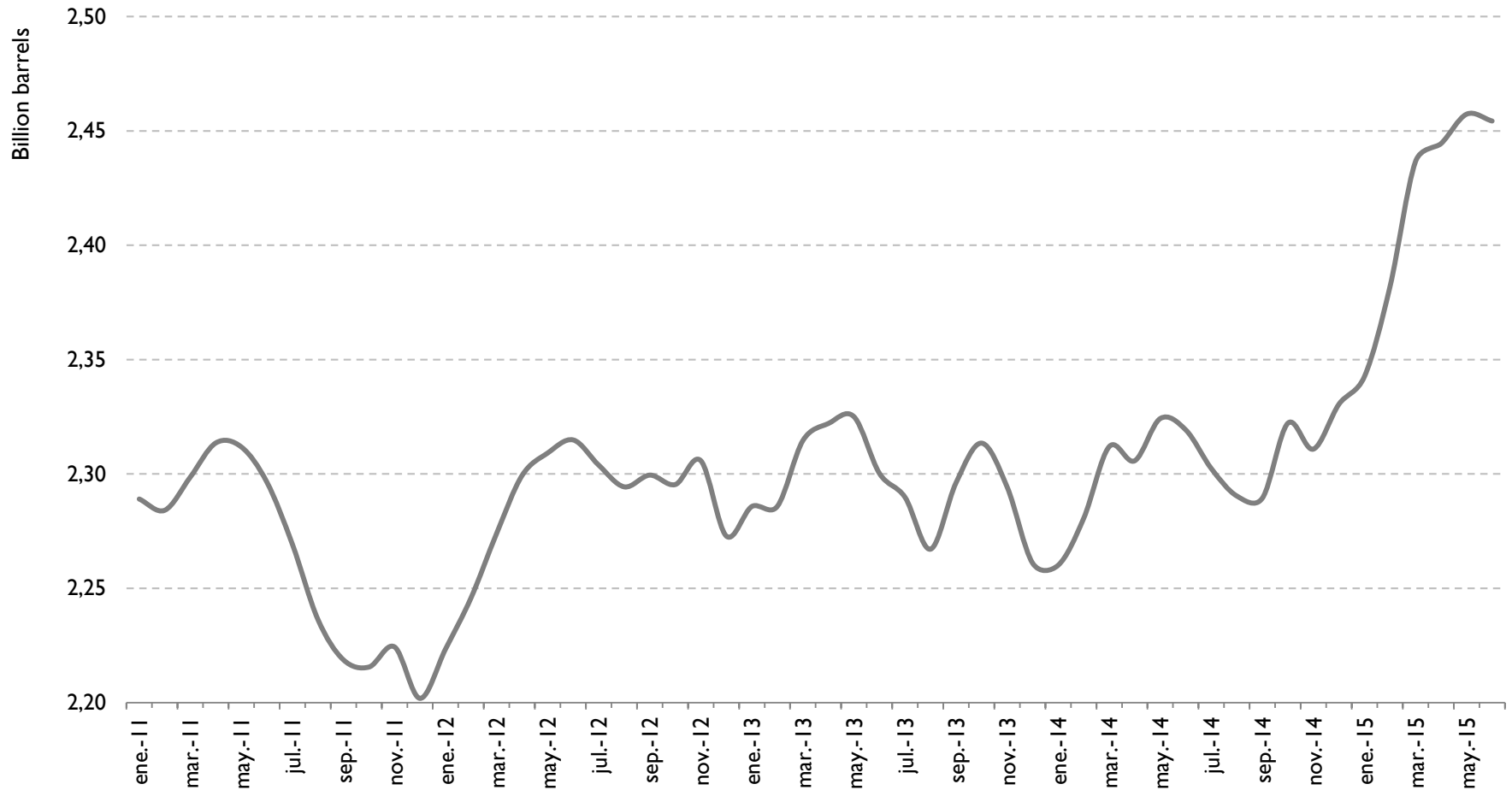
# Supply & Demand, absolute



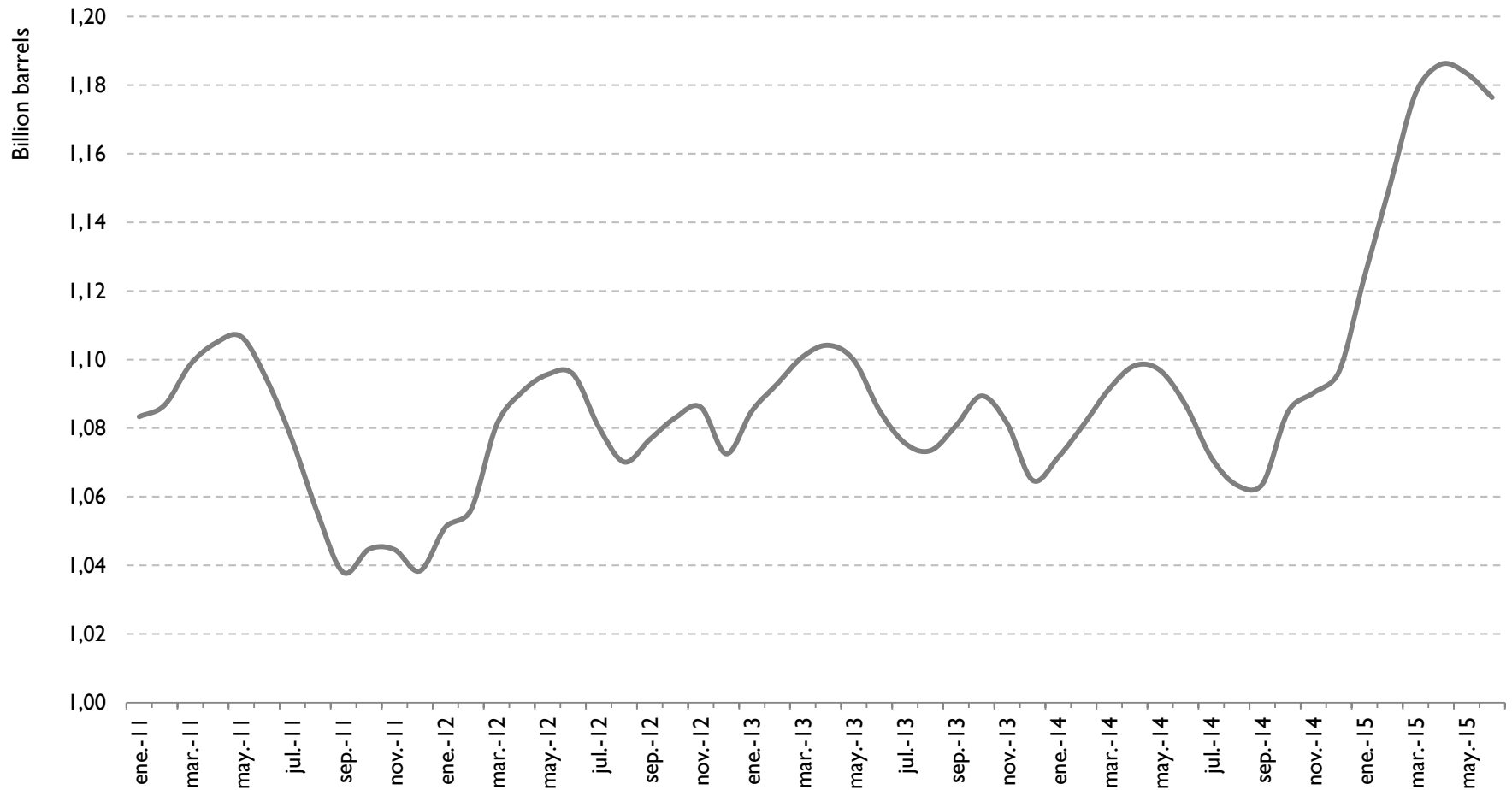
# Supply & Demand, balance



# Stockpiles, OECD



# Stockpiles, USA



# Closing perspectives

- Market is in a **competitive process** to find an **equilibrium price** set by the cost of production in the **marginal production areas**
  - Price setting mechanism is developing
  - External non-economic factors that can affect price still remain
- Large **spare capacity in OPEC**, for non-economic reasons, will be re-introduced at almost any price
- Demand **growth from Non-OECD is sluggish** at best
- Process of finding a competitive equilibrium price **may lead to seemingly very low prices**
  - In historical context these prices are not so low



**IDB**

**Inter-American  
Development Bank**