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Middle East risks fuel oil crunch period, says IEA

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Source: BI-ME and agencies

Published: 12 August 2007

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INTERNATIONAL. The International Energy Agency yesterday warned that the Middle East runs the risk of becoming a net importer of fuel oil at precisely the time worldwide output of the product could diminish.

Fuel oil demand in the region, which sits on nearly three-quarters of the world's proven reserves of crude oil, has reportedly spiked on the back of hefty power generation requirements as gas supplies become insufficient to meet electricity demand, the IEA said.

The region's rapid economic expansion coupled with the start of Summer has led to power shortages in Kuwait, where a power-rationing programme during peak hours is in place, and in the United Arab Emirates, where industrial users are reportedly turning to coal and rolling blackouts have occurred in the emirates of Abu Dhabi and Sharjah, the IEA added.

For some countries, such as Kuwait, Saudi Arabia or Iran, turning to fuel oil for power generation may make economic sense, especially where power plants are close to refineries.

Rather than upgrading refineries or processing lighter crude oil to reduce fuel oil output – whose value has sharply diminished as export markets have shrunk, notably in Europe – local refiners can process their readily available reserves of heavy crude to produce large volumes of fuel oil, which in turn can replace direct crude burning for power generation. This excess, more valuable, crude can then be exported.

Nevertheless, if fuel oil demand sharply increases, the region will arguably be obliged to become a net importer, just when the worldwide supply of fuel oil is expected to diminish as a large amount of upgrading capacity comes on stream by the end of the decade, the agency said.

Demand for oil products in the Middle East remains high on the back of low retail prices, solid economic growth and young and growing populations, the International Energy Agency said in its monthly oil market report, released yesterday.

Middle East oil demand, unchanged in the new report against expectations in June, is seen reaching 6.6mn bpd this year, up 4.5% on the year, and almost 7 million bpd next year.

This forecast remains contingent on several factors that may influence demand, most notably the potential reduction of fuel subsidies.

The report stresses that its forecast figures for the region don't incorporate the effects of a gasoline rationing scheme in Iran launched in June following a 25% hike in retail prices.

"Given the lack of detailed data, we believe it is premature to make an adjustment to the country's gasoline demand outlook for 2007 and the years ahead. Nevertheless, we will adjust our figures as new information becomes available," the agency said.

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