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News

The global view: Opec sees need for \$2.4 trillion investment in crude capacity

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Oil producers need to pump \$2.4 trillion into projects to expand crude output capacity to meet future world demand and around \$680 billion will need to be invested by Opec members.

Nearly \$455 billion will need to be channeled into refining with Asia-Pacific region having the lion's share of capital expenditure, Opec says in its 2007 Oil Outlook.



"The estimate for upstream investment requirements accounts for not only the necessary net additional production capacity but also that which will be needed to compensate for natural declines in existing capacity in producing fields. Some of the investment needed would be to arrest such declines with workovers, for example, or new wells," said the

150-page report released last month.

The report noted that expansion of non-Opec capacity is, on average, two-to-three times more costly than for Opec with the gap widening over time. The highest cost region is the OECD which also experiences the highest decline rates.

The average cost in new capacity for North America is currently one of the highest in the world, at \$20,000 per b/d of capacity. Over the period to 2030, non-conventional oil, in the form of Canadian oil sands and US biofuels, will constitute an increasing share of total production. Reference case assumptions see the share of non-crude in US and Canadian oil supply rising from 14% in 2005 to 50% in 2030.

"Nevertheless, the annual investment requirements for incremental non-conventional oil, combined with the steady investment in conventional capacity dominated by the need to arrest decline rates, means the share of conventional oil in the overall investment scenario remains approximately constant for this region."

Costs in Western Europe are expected to rise gradually and remain the highest, reflecting the maturity of the fields.

For developing countries, offshore deepwater projects, which will increasingly account for additional production, point to an expected rise in both future average costs, as well as decline rates.

This also applies to China but given the high cost of onshore capacity, there is more of a balance in average cost movements as expansion gradually moves offshore. For the former Soviet Union, lower Russian costs are balanced by higher levels from the Caspian region, with longer term decline rates set to rise.

"The assessment of costs in Opec member countries is made in such a way as to be consistent with available data on medium-term expansion plans," the report says. "The average cost is thereby assumed to start at \$10,200 per b/d, eventually falling as the share of capacity expansion of Middle East member countries rises. Post-2020, it is assumed that this fall will not continue."

From 2006, total upstream investment requirements up to 2030, amount to \$2.4 trillion (in 2006 US \$). The OECD accounts for 38% of this figure.

In the downstream sector, Opec estimated investments until 2020 at \$455 billion. Of this, \$108 billion comprises the cost of known projects, \$112 billion encompasses further required process unit additions (revamps and de-bottlenecking/creep, as well as major new units) and \$235 billion covers ongoing replacement.

It shows the Asia-Pacific is projected to require the highest level of investment in new units to 2020, at a cost of \$35 billion for each of the known projects and additional requirements, plus another \$64 billion for replacement.

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China accounts for around 75% of the Asia-Pacific total. Following is the US and Canada with a total requirement of \$97 billion. Of this, 65% is for replacement, stemming from the large installed base of complex refining capacity.

In Europe , new unit investments are limited and focused mainly on desulphurisation for diesel. Replacement comprises over 75% of the total.

Latin America and the Middle East are projected to require appreciable capital investments, \$45 billion and \$72 billion respectively, with a higher proportion going towards investment on new facilities, rather than for replacement.

In the Middle East , existing projects account for more than 50% of the total projected investment, with only \$7.5 billion in required investments beyond the existing projects to 2020.

The former Soviet Union , including the Caspian region, and Africa , are projected to receive the lowest levels of investment at \$34 billion and \$20 billion, respectively.



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 Tel: +971 4 3910 830 | Fax: +971 4 390 4570 | E-mail - info@pipelinedubai.com