**What Price for Oil in 2017 ?**

**Jean-Pierre Favennec, Professor, WDCooperation, Phone 33 6 08 49 19 15, Mail** [**jpfavennec@yahoo.fr**](mailto:jpfavennec@yahoo.fr)

**Overview**

The paper reviews the fall in the price of oil since June 2014, examines the different factors, details the consequences and forecasts a possible situation next year

**Methodology**

Analysis of articles, review of media, direct contacts with executives and managers of the industry

**Results**

The lack of investments should reduce production, while low prices will encourage consumption. The need for cash of the producing countries will make an increase in price necessary.

**Conclusions**

The price of oil will probably significantly increase in 2017

**What Price for Oil in 2017 ?**

1. **The collapse of oil prices**

The collapse of oil prices from $115 per barrel in June 2014 to less than 30 at the beginning of 2016 before a recovery to 45 by April/May has been largely discussed and the reasons are clear. Oil production increased in the US, each year, by one million barrels par day because of the development of shale oil (Light tight oil). The production of LTO was – about – 1 Mb/d in 2010, 2 in 2011, 3 in 2012, 4 in 2014 and 5 in 2015 . The total increase of oil production in the US was a bit more important beause of the development of the oil production in other regions (Gulf of Mexico for instance. Taking into account the increase in the production of oil sands in Canada, the development of the production of liquids (crude oil, natural gas liquids, some biofuels …) in North America should allow the continent (Canada, US, Mexico) to become self sufficient for oil. A huge change compared to 2005 when 2/3 of the oil consumed in the US was imported from abroad (Canada, Mexico, Venezuela and of course Middle East and West Africa)

In addition, the production in Saudi Arabia and Russia the two largest oil producers with the US remain healthy and is on the rise. All the same, the production of most countries in the Gulf, starting with Iran (after lifting of the sanctions), Irak and even United Arab Emirates and Kuwait could increase. Prospects are also very positive for the production in Kazakhstan(Kashagan field), in Brazil and in a few african countries. The only big producing countries with a relatively bleak outlook, at least in the near future are Nigeria and Libya.

Conversely, the increase in oil demand is slightly less than expected, even if in 2015 demand increased by 1,6 Mb/d and is still expected to increase by more than 1 Mb/d in 2016. Since oil demand is now declining in Europe and stagnant in the US and the progression of consumption inow less rapid in China, countries like India, Indonesia, without taking into account the African continent have still a very large potential for the development of the demand

More production, slightly less demand than previously expected : the oil market, as with most commodities market, is very sensitive to any variation in the production/consumption balance. Small variations in production and consumption can lead to huge variations in prices.

In the past, when such a situation occurred (oversupply or potential oversupply), OPEC decided to reduce its production – through the adjustment of quotas – to rebalance the market. In 2008 when the price of oil reached 147 dollars per barrel in July, there was a strong collapse and the price fell to less than 40 in December 2008. But very quickly OPEC decided to reduce production quotas by 10 % and the price rebounded to 80, then 100 in one year

The situation was and is quite different now. In a meeting, on November 27, 2014, OPEC decided to keep its production unchanged, clearly sending to the market the signal of a lasting oversupply

Several reasons have been put forward (by Saudi Arabia and by the commentators)

* « we want to keep our market share ». We do not want to reduce our extraction, since our production costs are a few dollars par barrel while production costs of LTO (shale oil in the US) are in the range of 40, 50 $/bl or more
* Geopolitical issues are clear, even if perhaps not the most important : low oil prices strongly affect countries like Iran and Russia. The competition, not to say a conflict, between Saudi Arabia and Iran, to take the leadership in the Gulf has always been a tradition. Iran and Russia support Irak (a country managed by a shia government) and Syria and a very important objective of Saudi Arabia is to push Bachar Al Assad out of power.
* Last but not least, environmental issues can play a role. The COP 21 is a symbol of the necessity to reduce CO2 emissions and to start an energy transition. Most OPEC countries, including Saudi Arabia, could probably produce oil for 100 years at the present rate, due to their huge reserves. But some specialists say that it will not be possible to use all the fossil fuels we have in the ground if we want to limit CO2 concentration in the atmosphere. Therefore, will it possible to produce in the future what is not produced today ?

1. Can oil prices remain so low ?

Most OPEC countries, as well as countries like Russia , are heavily dependent on their oil revenues to balance their budget. Oil (and gas) exports represent usually around 90 % of total exports

Countries like Venezuela or Nigeria are already in a very difficult situation. In the Gulf the situation is better. Most countries have accumulated large Sovereign Funds (around 700 billion dollars for Saudi Arabia for instance). But Ryad had to vote a budget with a very large deficit for the next fiscal year (100 billion?) How long can the situation last ?

At the same time, the dramatic fall in investments (minus 40 %) since 2014 means that many projects are cancelled or postponed. The impact on the production will be felt very soon. We should keep in mind that the production of a field is reduced by about 5 % per year (depletion).

Clearly, production should increase slowly in the next months and should find an equilibrium with consumption. Prices will increase to probably somewhere between 60 and 80 dollars per barrel