

# ***THE EVOLVING INDUSTRIAL ORGANIZATION OF GLOBAL OIL MARKETS***

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## **Overview**

The events of recent years do little to console those needing reassurance about the traditional assumptions regarding oil supply, demand, inventories and prices. The rapid pace of change makes it all the more difficult to get a handle on what makes the oil market and oil companies tick in the new environment. Outdated conclusions about oil and economic growth -- formulated using the 20th century lens of a supply-driven buyer's market -- have largely been erroneous for viewing what has become a demand-driven seller's market in recent years. Nonetheless, in many ways this pivotal moment in oil market history has been 100 years in the making.

To be sure, the oil market since 2000 owes its volatility to a host of factors. Some are clearly short-term in nature. Others have a more long-term flavor. In essence, the mismatch between expected global oil demand growth, declining non-Opec supply growth and the shape of the supply response to high oil prices in recent years all raise questions about whether producers are capable of delivering additional oil and whether they are fully convinced that they should even try given the magnitude of their recent windfall.

Concerns about the resulting cloudy nature of the medium-term to long-term outlook for oil supply have added an extra layer of volatility to the oil market that shows no sign of abating. This report seeks to soothe some of that uncertainty.

A crucial element of this effort is identification of corporate players that stand to be most influential in the global oil trade in the coming years. Understanding their motivations, objectives, strategic positions, and strengths is key, as is evaluation of prospects for cooperation with each other. In so doing, the report will provide insight into the expected impact of these factors and tie-ups -- and the aggregate industrial shift -- on medium-term global oil supply.

Oil market fundamentals have been a catalyst of change in the industry's structure. Now, all eyes are on the oil industry's evolving structure which will, in turn, impact medium-term fundamentals.

## **Methods**

A comprehensive examination of oil market fundamentals -- including an outlook for global oil supply to 2020 -- and a robust investigation of international oil company and national oil company motivations, strategies and partnerships.

## **Results**

Both NOCs and IOCs will push the boundaries of acceptable terms and ultimately settle into appropriate roles and arrangements where they best leverage their strengths to fulfill their often-common objectives. Given the traditional corporate roles, cooperation between NOCs and their IOC counterparts -- stressing these common objectives and their respective strengths and capabilities -- will usher in a new era of cooperation.

## **Conclusions**

On the surface, it is easy to surmise that growing empowerment of national oil companies and their increasing control of resources and revenue should necessarily slow global oil output growth. Given the direction in which corporate relationships have been moving, this outcome is possible, even probable. At the same time, producers are cognizant of their dependence on oil revenue and will ensure the market is well supplied -- even if supply is kept

tighter than in years past in order to prevent too much downside price risk. Most will require foreign assistance to help meet their objectives.

## **References**

Assorted studies, news media, company literature and presentations.