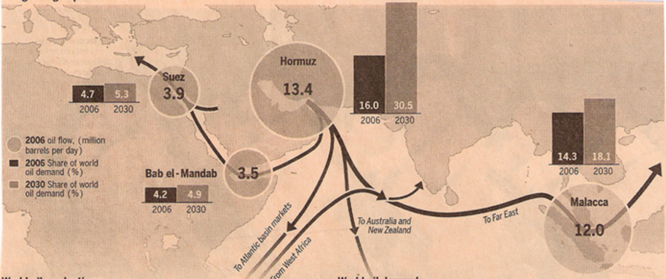
The growing importance of Middle East oil



World oil production
Million barrels per day

	1980	2000	2006	2010	2015	2030
Non-OPEC countries	35.5	43.5	47.0	48.6	50.3	53.2
OPEC countries*	28.1	31.7	35.8	40.6	46.0	60.6
World	65.2	76.8	84.6	91.1	98.5	116.3

* Includes Angola, which joined OPEC at beginning of 2007

World oil demand
Million barrels per day

	1980	2000	2006	2010	2015	2030
OECD countries	41.8	46.0	47.3	49.0	50.8	52.9
Developing countries	11.3	23.1	28.8	33.7	38.7	53.3
China	1.9	4.7	7.1	9.0	11.1	16.5
India	0.7	2.3	2.6	3.1	3.7	6.5
World	64.8	77.0	84.7	91.1	98.5	116.3

Source: IEA World Energy Outlook

FT Graphic

Middle East continues to hold the key

NEWS ANALYSIS

Any disruption in the turbulent region could drive up prices in consuming countries, writes **Dino Mahtani**

When George W. Bush, US president, said last year that his country was "addicted to oil" from unstable parts of the world, he suggested the problem could be mitigated by reducing imports from the Middle East.

However, research published yesterday by the International Energy Agency, the industrial countries' energy watchdog, suggests that oil markets everywhere, including the US, are set to become more sensitive than ever to Middle East disruptions.

The principal reason for this is burgeoning demand from China and India, which are both expected to source increasing amounts of oil from the politically turbulent Middle East region in order to sustain their rapid economic growth.

Under current projections, China's and India's combined overall oil imports will surge from 5.4m barrels a day in 2006 to 19.1m b/d by 2030. Much of that growth will be sourced from the Middle East given that already today about 60 per cent of India's and 45 per cent of China's oil imports come from the region.

The volatility of oil supplies from the Middle East is illustrated by the fact that it has accounted for close to 90 per cent of oil lost in serious supply disruptions around the world since 1967.

In a world where both stocks and supplies are expected to become tighter, any disruption in the Middle East could result in ever more dramatic price rises in consuming countries everywhere.

Moreover, with Middle Eastern producers largely represented in the Organisation of the Petroleum Exporting Countries, increased dependency on the region is set to empower the cartel further to restrict supplies and control prices.

"The real risk is not so much commercial competition for scarce hydrocarbon resources, as that upstream developments get caught up in broader foreign-policy issues," says the IEA.

In recent years markets have grown more and more sensitive to developments in the Middle East, from the US-led invasion in Iraq and the west's uneasy relationship with Iran to the threat of terrorism in Saudi Arabia, the world's biggest oil producer.

This trend is going to continue. "The markets are now reacting to events that show the overall instability of the region," says David Pumphrey, a senior fellow in the energy and national security programme at the Centre for Strategic and International Studies.

In April, markets reacted nervously to the uncovering of an al-Qaeda plot to attack oil installations in Saudi Arabia. Just months earlier another attack on the Abqaiq oil-processing plant, which handles more than 60 per cent of Saudi production, had been averted.

In September, reports of an Israeli attack on Syria helped to push up oil prices. The recent tension between Turkey and Kurdish rebels based in Iraq have also driven prices higher, even though the threat was less about short-term disruptions to supply than long-term fear of destabilisation in one of the world's greatest oil basins.

Now speculation is high that Iran could be attacked by the US, prompted by the dispute over Tehran's nuclear programme. If so, fears abound that the Islamic republic could retaliate against oil facilities in neighbouring states in the Gulf that have military co-operation agreements with the US.

Oil traders are also nervous at just how dependent they are on supply via the narrow Straits of Hormuz at the mouth of the Persian Gulf, which Iran has threatened to block if the US leads a military operation against it. Last year, 16 per cent of the world's total oil supply passed through this route.

Turki al-Faisal, Saudi Arabia's former ambassador to the US, has warned that an attack against Iran would make "the whole Gulf an inferno of exploding fuel tanks and shot-up facilities", and "shoot up the price of oil astronomically".

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Germany powers ahead

Germany is strengthening its pioneering role in the renewable energies sector, **writes Bertrand Benoit in Berlin**. Renewable energies will account for 14 per cent of all electricity produced in Germany this year, according to new estimates.

According to the forecast, published yesterday by the federation of energy and water companies, the country already exceeds European Union-wide objectives for 10 per cent of all electricity to be generated from renewable resources by 2010. Thanks to generous subsidies of €3.2bn ($4.7bn, £2.3bn) last year, Germany has forged a comfortable lead in switching to environmentally friendly power, doubling the sector's contribution to total electricity production since 2000. Yet the subsidies have been criticised, with most going to solar power, which contributes only 0.5 per cent of total generation.