WORLD OIL SHORTAGE BEGINS TO RECEDE, NEW STUDY SHOWS

New York, Sept. 10 -- The oil shortage which has plagued the U.S. and threatened other major importing countries has begun to recede, a new study by the Petroleum Industry Research Foundation (PIRINC) concludes.

The emerging balance between global oil supply and demand, however, appears very precarious and could easily be upset by visibly unstable political forces in the Middle East, as well as by other unpredictable factors, the study warns.

"But barring unforeseen negative developments, a continued improvement in the near term world oil supply-demand balance can be anticipated," stated John H. Lichtblau, PIRINC executive director.

In reaching these conclusions, the study makes the following points:

The full impact of the Iranian oil interruption on Non-Communist World (NCW) oil consumption was masked in the first quarter of 1979 by an exceptionally rapid drawdown of inventories. This permitted NCW consumption to grow at 2.6%, relative to the comparable year-ago quarter. U.S. consumption grew at only half that rate but not because of foreign supply constraints.

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In the second quarter, the after-effect of the Iranian oil interruption was the principal reason for a 2.3% drop in U.S. oil consumption from the previous year. In Europe and Japan, oil consumption continued to grow but at lower rates than had been expected.

NCW stocks rose faster than normal in the second quarter but not enough to fully offset the decline in the first quarter. The U.S. accounted for 33% of the NCW's stock decline in the first quarter but for only 6% of the stock build-up in the second quarter. This reflects in large part U.S. government policy and regulations which discouraged crude purchases abroad at spot market prices substantially above world prices.

Looking at the second half of 1979, the study predicts that if the second quarter OPEC production level of about 31 million barrels per day (MM B/D) can be maintained throughout the remainder of the year, NCW oil supplies will be adequate and stocks at year end will be slightly higher than at the end of 1978. NCW consumption in the second half will show hardly any increase over a year ago, while U.S. consumption will be down by about 1%, reflecting among other things, the physical constraint on gasoline supply in the third quarter as well as the impact of the U.S. economic recession. For all of 1979, the study projects total NCW consumption to grow by 1% and U.S. consumption to drop by 0.8%.

In 1980 with the U.S. Gross National Product (GNP) expected to decline and the GNP's of Europe and Japan to grow at slower rates than this year, U.S. oil demand is projected to drop by 0.5% and total (more)
NCW demand will grow by only 0.6% to 51.8 MM B/D, in the absence of supply constraints.

Whether world oil supply can meet this modest demand growth depends on OPEC's production policy. The study's forecast of OPEC output in 1980 ranges from an optimistic figure of 32 MM B/D to a pessimistic one of 28.3 MM B/D. The optimistic figure assumes continuation of Saudi Arabia's current production level of 9.5 MM B/D and a 3.9 MM B/D production level for Iran. If the optimistic figure is maintained, a slight world oil surplus will develop during 1980. However, emerging indications of such a development are likely to cause some OPEC members to reduce their output.

The pessimistic figure, which assumes that Saudi production returns to 8.5 MM B/D and Iranian production drops to 3.2 MM B/D, would not be sufficient to meet projected demand.

A reasonable in-between OPEC production level of 30.1 MM B/D, which is about 1 MM B/D below the current level, would be just enough (together with an expected 900,000 B/D increase in non-OPEC oil supplies) to meet the projected demand, leaving year-end 1980 NCW stocks about unchanged from a year ago.

In 1981, economic recovery in the U.S. and a return to more rapid growth rates in Europe and Japan could well push NCW oil demand up by 2-2.5%. Non-OPEC supply increases could only provide about half of this growth. There is no question about OPEC's collective resource and technical capability to make up the balance. But whether its members will want to produce the required volumes or whether extraneous events will allow them to is much less certain.