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Adam Sieminski, Administrator of the EIA Past 2016, Oil Markets Will Further Move Towards Balance

- ▶ EIA's current **Brent** forecast of \$59/b in 2016 assumes an additional 300,000 b/d of **Iranian crude oil** on average will be produced next year
- ▶ The pace of global **oil inventory** builds will slow somewhat in 2016
- ▶ A dilemma for **OPEC** strategists: trying to defend a price that is above the level of **shale producers' costs** could further erode OPEC's market share
- ▶ Gross **U.S. LNG exports** could reach 3.4 trillion cubic feet around 2030

(Below is the text of an interview with Mr. Adam Sieminski, Administrator of the **U.S. Energy Information Administration - EIA** -, which is part of the **U.S. Department of Energy**; www.eia.gov. See the CV of Mr. Sieminski on page 8).

Pétrole et Gaz Arabes (PGA) : *According to the Short-Term Energy Outlook (STEO) published by the EIA in August the average price of Brent could be \$54 per barrel in 2015 and \$59/b in 2016. It is now (9 September) just under \$50/b for the October contract on ICE Futures in London. Due to recent and current bearish pressures do you think that the Brent oil price could be lower in the short-term than forecast?*

■ **Adam Sieminski** : There are always reasons oil prices could be lower or higher than that forecast in EIA's *Short-Term Energy Outlook*. This is particularly true in times of heightened oil price volatility the market is currently experiencing.

To highlight this uncertainty in oil prices, EIA issues a market-derived uncertainty band with its forecast of prices. EIA uses the value of futures and options contracts and volatility for **WTI** to create this uncertainty band, which shows that lower and upper limits of the 95% confidence interval for the market's expectations of monthly average WTI prices in December 2015 are \$32/b and \$73/b, respectively. The 95% confidence interval for market expectations widens over time, with lower and upper limits of \$26/b and \$108/b for prices in December 2016. Although EIA does this calculation on WTI, EIA expects the differential between WTI and Brent to average about \$5/b through 2016, so you could assume that the upper and lower limits of the confidence band for Brent would be roughly \$5/b above those for WTI.

Several factors could push prices lower or higher than forecast, including the pace of global economic growth, especially in China, the responsiveness of non-OPEC oil production to the low price environment, and any unplanned production outages.



Source : EIA.

PGA : *Following the Vienna agreement between Iran and the "P5+1" countries in mid-July Tehran intends to increase very significantly its oil production and exports in the future. In the August STEO the EIA estimates that the increase in Iran's oil production between 2015 and 2016 would be only 300,000 b/d. This figure seems rather low. Could you elaborate on this point?*

■ **A.S. :** There is significant uncertainty surrounding the timing of sanctions relief that would lead to increased Iranian oil on the market. Sanctions relief is contingent on verification by the **International Atomic Energy Agency** that Iran has complied with key nuclear-related steps. EIA assumes sanctions relief could occur in mid-2016, and most of the growth in Iran's oil production would occur in the second half of 2016. The 300,000 b/d estimate is an annual average increase in 2016 compared with 2015, the total amount brought online during the second half would be higher than that amount. However, Iran's ability to bring online previously shut-in volumes and increase exports depends on several factors, including the current condition of oil fields and infrastructure that were shut in and the pace of sanctions relief.

PGA : *What could be the impact of this increase from Iran on world oil markets and prices in 2016?*

■ **A.S. :** EIA's current Brent forecast of \$59/b in 2016 assumes an additional 300,000 b/d of Iranian crude oil on average will be produced next year. To the extent that Iranian crude oil is produced at either a slower or faster pace than assumed, it would lead to an upward or downward, respectively, revision of the price forecast.

PGA : *OECD oil stocks are at record levels. It is also a significant bearish factor, isn't it?*

WHO'S WHO	<p>> Adam Sieminski Administrator of the EIA</p>
	<p>Adam Sieminski was sworn in on June 4, 2012, as the eighth administrator of the U.S. Energy Information Administration (EIA). EIA is responsible for collecting, analyzing, and disseminating independent and impartial energy information to promote sound policy-making, efficient markets, and public understanding of energy and its interaction with the economy and the environment. EIA also prepares analyses and special reports on topics of current interest.</p>
	<p>From March 2012 to May 2012, while awaiting U.S. Senate confirmation as EIA administrator, Mr. Sieminski served as senior director for energy and environment on the staff of the National Security Council. From 1998 until March 2012, he served as a senior energy analyst for Deutsche Bank, working with the Bank's global research and trading units. Drawing on extensive industry, government, and academic sources, Mr. Sieminski forecasted energy market trends and wrote on a variety of topics involving energy economics, climate change, geopolitics, and commodity prices.</p>
	<p>Mr. Sieminski has served in leadership positions for the International Association for Energy Economics and the affiliated U.S. Association for Energy Economics. He also has acted as a senior adviser to the Energy and National Security Program at the Center for Strategic and International Studies, a nonpartisan policy think tank in Washington. In 2006, Secretary of Energy Samuel Bodman appointed Mr. Sieminski as a member of the National Petroleum Council (NPC), an industry-government advisory group to the U.S. Secretary of Energy.</p> <p>He is a member of the Washington, D.C., investment professional society, and holds the Chartered Financial Analyst (CFA) designation. He received both an undergraduate degree in civil engineering and a master's degree in public administration from Cornell University.</p> <p><small>Source : EIA.</small></p>

■ **A.S.** : Yes, it is. OECD oil stocks are at very high levels. However, they were higher on a days-of-supply basis at times during the mid-1980s. EIA forecasts that the pace of global oil inventory builds will slow somewhat in 2016, as demand growth outpaces supply growth. Total OECD commercial oil stocks are projected to end 2016 at about 67 days of supply, three days higher than August 2015 levels. The high inventory levels are likely to moderate some upward price pressures in the market, but EIA does project annual average Brent prices to increase from \$54/b in 2015 to \$59/b in 2016.

PGA : *Will OPEC change its current strategy, focused on the defense of market share rather than of prices, by the end or at the end of its year?*

■ **A.S.** : Cost cutting and technology improvements in shale oil production have created a dilemma for OPEC strategists – trying to defend a price that is above the level of shale producers' costs could further erode OPEC's market share.

PGA : *When will the **world oil market** rebalance itself?*

■ **A.S.** : EIA projects global oil inventory builds will continue in 2016. However, the inventory builds are expected to be less than in 2015 as the market moves towards balance. EIA's oil price projection remains subject to significant uncertainties as the oil market moves toward balance. During this period of price discovery, oil prices could continue to experience periods of heightened volatility. Past 2016, oil markets will further move towards balance as consumption growth continues and supply is affected by reductions in investment taking place this year.

PGA : *According to EIA's figures, **U.S. crude oil production** began to fall very recently (May 2015) and very slightly. You forecast a production of 9.4 million barrels per day in 2015 and of 9 million b/d in 2016, as against 8.4 million b/d in 2014. How do you explain the paradox of a very small decline despite a 50%-60% fall in oil prices since June 2014?*

■ **A.S.** : U.S. oil producers responded to the drop in price by redirecting drilling to the most productive areas of tight oil plays, which has increased overall drilling and well productivity since the beginning of the price decline. Companies are using their best crews on their best rigs on their best properties. For example, EIA's *Drilling Productivity Report* shows that the new well production per oil rig in the **Bakken** has increased almost 50% from September 2014 to September 2015. So while few wells are being drilled, those new wells tend to produce more than new wells that were drilled a year ago.

PGA : *What will be the **impact of low oil prices on U.S. production of tight/shale oil?***

■ **A.S.** : EIA projects onshore production in the Lower 48 states, a category that largely reflects shale production, to fall from 7.6 million b/d in March 2015 to just under 6.7 million b/d in June 2016, before rising modestly through the end of the forecast period. However, the forecast remains sensitive to actual wellhead prices and rapidly changing drilling economics that vary across regions and operators.

PGA : *Should the U.S. relax much more or eliminate its **restrictions on crude oil exports?***

■ **A.S.** : While EIA does not promote or advocate energy policies or take policy positions, we have examined the export issue at the request of policy makers. Our studies indicate that the

effect of removing crude oil export restrictions depends on price and resource assumptions and the associated levels of U.S. crude oil production. EIA's analysis finds no difference between projections with and without current export restrictions in scenarios in which projected production with current export restrictions remains below 10.6 million barrels per day (b/d) over the next decade. However, in two other analysis cases where domestic production in 2025 ranges between 11.7 million b/d and 13.6 million b/d, projections without export restrictions show increased domestic production, higher crude exports, reduced product exports, and slightly lower gasoline prices to U.S. consumers compared to parallel cases that maintain current export restrictions.

PGA : *The U.S. should become a **net gas exporter** from 2017 onwards. What will be its gas export potential in the first half of the next decade?*

■ **A.S. :** EIA's *Annual Energy Outlook* Reference case projects that the United States becomes a net exporter of natural gas in 2017, driven by LNG exports, increased pipeline exports to **Mexico**, and reduced imports from **Canada**. Most of the growth in U.S. net natural gas exports occurs before 2030, when gross **liquefied natural gas** (LNG) exports reach their highest level of 3.4 trillion cubic feet (Tcf), where they remain through 2040.

U.S. **pipeline exports** of natural gas - most flowing south to Mexico - have grown substantially since 2010 and are projected to continue increasing because increases in Mexico's production are not expected to keep pace with the country's growing demand for natural gas, primarily for electric power generation. In a high oil and gas resource scenario, U.S. natural gas exports could continue to climb well beyond the 3.4 Tcf identified in the Reference case.

☞ *Voir aussi **OPEP** en page 12 dans ce numéro.*

