

**Black Gold:  
Developments in the World Oil Market  
and the Implications for Canada**

**1.0 INTRODUCTION**

The oil industry faces major challenges as the end of the century approaches. These challenges include protecting the environment, raising needed capital, allocating efficiently the funds available to the industry, perhaps achieving some degree of price stability and predictability, and certainly pursuing security of supply.

This paper discusses likely developments in the world oil market, the likely impact of key uncertainties affecting this market, and the implications of these developments for Canadian supply-demand balances. Some of the questions that the paper attempts to answer include the following: How rapidly will oil demand grow? Will supplies outside OPEC increase, stabilize, or decline? What are the long-run implications of these supply and demand trends for the world's dependence on oil from OPEC countries and particularly from the Persian Gulf? Do these trends make us more or less concerned about possible future oil disruptions? The paper does not focus on short-run impacts of disruptions in oil markets.

**2.0 WORLD OIL MARKET**

The sixties were marked by low crude oil and product prices and extraordinary demand growth--around 8% per year. This period of low oil prices created the conditions which engendered the dependencies, shortages, and high oil prices of the 1970s and early 1980s. The extraordinary growth in petroleum demand could not, of course, be sustained indefinitely. During the thirty years between 1960 and 1990, three major events took place that dominated oil pricing. These include the Arab oil embargo, the Iranian revolution, and Iraq's invasion of Kuwait (Chart 1). All three events had the impact of a sudden drop of several millions of barrels per day, with the last event and subsequent Gulf war having a far less serious impact on oil pricing than the revolution in Iran.

Part of the reason for the moderate oil price increase in 1990 was the dramatic price collapse of 1986. In the early eighties, OPEC waited too long to lower prices. When the market finally collapsed, OPEC's members and many others in the industry were financially devastated. It was an experience no-one