

## EXECUTIVE SUMMARY

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 certainly pursuing security of supply.

The goals of this paper are modest. The 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 oil 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? It does not focus on short-run impacts of disruptions in oil markets.

While there are many experts who have recently published their views on the likely developments in the world oil market, there are only three sets of recent projections on the outlook for the Canadian oil sector. These include Energy, Mines and Resources (EMR), the National Energy Board (NEB), and Data Resources Inc.(DRI). Although a comparison of these alternative sets of projections does indicate some diversity in views and expectations, likely trends are obvious too. We outline the trends in this paper. The results are summarized below.

- Oil prices will continue to be determined primarily by the relationship between world oil supplies and demand, with economic expansion expected to remain the principal influence on demand growth.
- Generally, there is a consensus among analysts that world oil demand will increase at moderate rates of around 1.0 to 1.5% per year in the 1990s and at a slower rate thereafter, reflecting the gradual implementation of policies to accommodate environmental concerns. The oil consumption of LDCs is expected to rise much more rapidly than that of the industrialized countries. As a result, by 2005, the LDC share of world oil demand is expected to increase substantially from the current 24% to over 30%.
- An assessment of the world's oil production prospects indicates that several factors will contribute to ensuring adequate supplies of oil for the next 20 years or so. Non-OPEC supplies are expected to remain essentially flat during the first half of the 1990s, rising marginally by 2000, with most of