

Box A: Global Oil Supply and Capacity

Crude oil prices have shown considerable volatility of late, reflecting uncertainties about the conflict in Iraq and the extent of any disruption to oil production in the region. This box outlines the importance of the Middle East in global supply.

Around 40 per cent of the world's crude oil production comes from Organisation of Petroleum Exporting Countries (OPEC)¹, the bulk of which is from countries in the Middle East. Saudi Arabia is the world's largest producer, accounting for nearly 12 per cent of total output in 2001, closely followed by Russia (10 per cent) and the United States (9 per cent). These shares have been reasonably steady over the past few years, following the large decline in oil production in Russia in the early 1990s. The remaining 70 per cent of the world's crude oil production is distributed fairly evenly across the main geographic regions though, apart from the Middle East, it is concentrated in a few countries in each region.

OPEC members' share of world crude oil exports is significantly larger than their share of production, reflecting the degree to which other oil producers consume their own product. Saudi Arabia is by far the largest exporter of crude oil, accounting for 16 per cent of total exports in 2000; the remaining OPEC members accounted for 38 per cent of exports (Graph A1). Exports from Iraq, which were suspended in mid March 2003, accounted for 5 per cent of total exports in 2000.

The United States is the world's largest consumer of oil, with a little less than half of its consumption met from domestic production (Table A1). China was self-sufficient in oil until 1993 but rapid growth in domestic demand resulted in

Graph A1

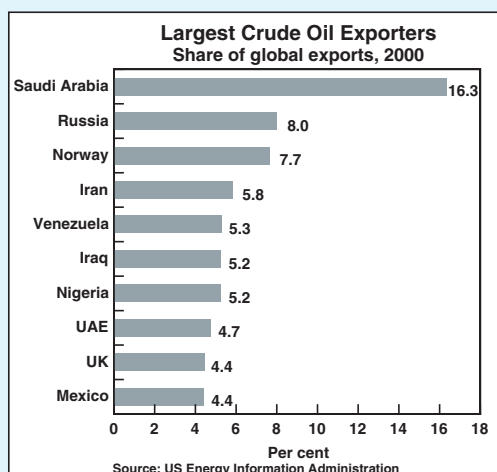


Table A1: Oil Self-sufficiency
Production as a share of consumption, per cent

Australia	94
Canada	132
China	68
Germany	5
Japan	1
Russia	260
Saudi Arabia	642
South Korea	3
United Kingdom	148
United States	46

Note: Oil includes crude oil, natural gas plant liquids, other liquids, and refinery processing gain.

Source: US Energy Information Administration, 2000

production accounting for less than 70 per cent of consumption by 2000. Other large oil consumers such as Japan, Germany and South Korea rely on imports for almost all of their consumption. In aggregate,

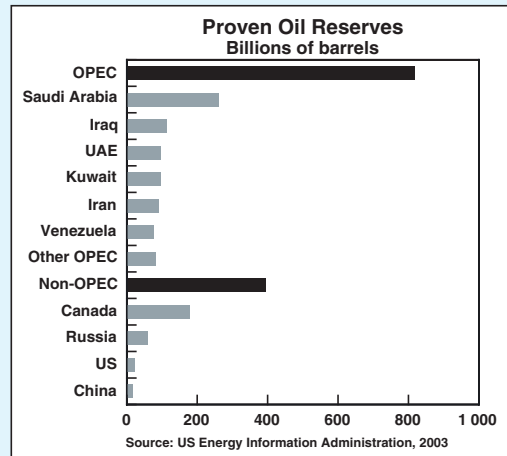
1. OPEC member countries are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

Australia’s consumption of oil is roughly matched by output but there are some imbalances between the types of oil produced and consumed, and hence Australia both imports and exports oil.

Industrialised countries’ inventories of oil are typically lower than a year ago, despite an increase in the US Government’s Strategic Petroleum Reserve. More fundamentally, however, these countries have generally been quite successful in reducing their dependence on oil since the early 1970s. (For more details, see Box A in the November 2000 *Statement on Monetary Policy*.)

As well as being major producers of crude oil, OPEC members account for almost all of the world’s current spare capacity (which can be accessed in a short period of time). Moreover, OPEC members currently account for around two-thirds of proven oil reserves, although their share has fallen from

Graph A2



around 80 per cent last year following the new-found viability of oil sands in Canada (Graph A2). Saudi Arabia possesses the largest share of proven reserves, accounting for just over one-fifth of global reserves. ↗