

Demand For Oil Exceeds Forecasts

Report Cites Surge Led by U.S., China

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Oil demand is rising faster than predicted this year as OPEC pumps more low-quality oil in a failed bid to reduce record prices, according to International Energy Agency, an adviser to 26 industrialized nations.

Demand this year will jump 3.4 percent, to 82.4 million barrels a day, the Paris-based IEA said in a monthly report. The agency cut its forecast for growth in consumption next year by almost one-fifth as record prices restrain economic growth and China turns to other fuels, such as natural gas.

"There's a substantial increase in the 2004 demand forecast," said Bruce Evers, an analyst at Investec Securities in London. "The industry has been badly caught out by the surge in demand, as a result of which there's no spare capacity. Prices are not coming down in a hurry."

The latest increase in the IEA forecast for 2004 comes with the Organization of Petroleum Exporting Countries already pumping oil at near capacity to meet the biggest rise in demand in almost three decades. The price of crude oil in New York has risen 66 percent this year and reached a record \$54.45 a barrel after the report. By the end of trading yesterday, U.S. benchmark crude for November delivery closed on the New York Mercantile Exchange at \$52.51, down \$1.13.

Forecasters, including the IEA, have underestimated the surge in demand in 2004, which has been led by the United States and China, the world's top two oil consumers. The IEA's estimate of 2004 consumption has climbed from 79.4 million barrels a day expected a year ago.

Next year, oil use will grow by 320,000 barrels a day less than had been forecast last month. Demand in China may slow in the fourth quarter and in 2005 as government energy-saving measures introduced this summer cut imports, the IEA said.

The IEA expects oil demand in China next year to rise by 5.6 percent, to 6.68 million barrels a day, less than last month's projection for an increase of 7.6 percent, to 6.84 million barrels a day, and expects demand growth this year of 15 percent.

In 2004, world consumption will jump by 2.71 million barrels a day, 190,000 more than expected last month and the largest increase since 1976, the agency said. The IEA raised the projection because of higher-than-expected use in Asia and the former Soviet Union.

Oil's surge in 2004 has been fueled by a "mismatch" between the type of additional oil

OPEC is pumping and the needs of oil refiners, the IEA said. So-called sour crude contains more sulfur and is harder to refine into fuels such as diesel.

Growth in demand for fuels and rising production of sour crude by countries such as Saudi Arabia aren't being met by sufficient investments in refineries, the IEA said. The last refinery to be built in the United States was in 1976.