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The recent decline in the oil prices has been dramatic, by 50% in just a few months, and the question is, is it temporary or structural? First, I would like to give you a famous quote from my teacher, André Giraud, who was Minister of Energy and Defence in the '80s. He said that oil is a commodity with a huge diplomatic and military content, some fiscal dimension and marginally calorific value. We have to take this into account when we discuss the oil market that the oil market is related to supply and demand balance fundamentals but also to geopolitics. It is more specifically the case for the Middle East.

Let us start with the fundamentals. I have charted the evolution of the prices for the last six years. After the sub-prime crisis in 2008, the market recovered, but the market was quite volatile, with ups and downs related to the geopolitical situation and the economic fundamentals. The political crisis in Libya, embargos against Iran and the turmoil in Syria and Iraq pushed prices up. However, at the same time uncertainties in Greece and emerging economies have been putting pressure on the market.

As a result, on average, since the beginning of this decade, prices have remained almost stable, at a range of USD 95-120 per barrel for Brent. Price evolution is different from other commodities, which started to drop at the beginning of this decade. Oil prices began to slide in July 2014 and some OPEC countries asked at that time for a decision to reduce quotas in order to sustain prices. This was the case several times in the past. However, in November 2014 OPEC decided to maintain its production, so prices dropped dramatically. Since the beginning of this year, prices are in the range of USD 40-60 per barrel.

In fact, since the beginning of this decade, the dramatic growth of shale oil, more specifically light tight oil in the US, has been a real game changer. The dramatic evolution has been hidden by the drop in oil production in some OPEC countries, for geopolitical reasons, for example, Libya or Iran. Every two years, a new Norway has been put in production in the US, more specifically in North Dakota. The US became the most important oil producer, surpassing Saudi Arabia and Russia and light tight oil (LTO) production in the US was anticipated to continue to grow further.

At the same time, there were some structural concerns about demand, more specifically for emerging economies. Recently, the IMF reduced its estimation regarding world economic growth. As a result, the market appeared to be over supplied by 1-2 million barrels per day, as I have outlined. Surprisingly, OPEC and the Gulf monarchies decided during their meeting in November 2014 to maintain their production in order to keep their market share. This new strategy was clearly described by Ali Naimi, the Saudi Minister for Oil, during the OPEC conference: "If OPEC and Saudi Arabia decided to reduce their production, the price would go up and the Russians, the Brazilians and the US shale producers would take our share".

This new strategy is creating a major challenge for OPEC countries. Almost every oil-producing country needs a price of USD 70 per barrel to balance its budget. I have given the fiscal break-even price, which means the price for oil which is required in order to balance the budget. This has moved from USD 140 for Iran down to USD 70 for Kuwait, and even for Saudi Arabia, it is just under USD 90. The financial challenge is huge for most of those countries, and reducing budget expenditure significantly may jeopardise internal political and social situations. Some countries may face this situation for some time, due to their huge financial reserves. This is the case for Saudi Arabia, for example, but countries such as Iran, Nigeria, Algeria, Venezuela, Iraq and Libya are severely impacted.

The decision of Saudi Arabia to protect its market share has to be analysed in the framework of structural conflict among the OPEC countries. Since OPEC was created, there has been a conflict of interest between two different types of countries. On one side, there are countries with ample resources and small populations and on the other side, there are countries with reduced reserves and significant populations. The first set is in favour of reasonable prices in order to preserve their financial resources in the long term. The others are advocating high prices in order to cope with their short-term requirements. There is still this conflict between these two types of countries which appeared at the OPEC meeting one year ago. It will appear in the next OPEC meeting in December.

I have outlined the evolution of the production of different countries from 2011 to 2015, including Iran, Iraq, Algeria and Libya. Iran has been deeply hurt by the embargo. In the next months, Iran may increase its production by 0.5-1 million barrels per day when the sanction is lifted. This will put additional pressure on the market. Iraq has huge ambitions due to its ample resources, but low prices and political unrest are jeopardising the ambitions of this country.

Algeria, which has always been in favour of high prices, has been deeply hurt by the low prices, in the context of structural decline of conventional production. The same applies for Venezuela, which is already in a dramatic financial situation. Nobody can anticipate what may happen in Libya, whose production is jeopardised by its internal political situation. The recent intervention of Saudi Arabia in Yemen may be analysed as a clear choice by this country. The solidarity among Sunni Arab countries is much more important for Saudi Arabia than the solidarity among OPEC countries.

The emergence of shale oil is dramatically changing the rules of the game on the oil market. You know that during the Achnacarry Agreement from 1928 up to 1973, the oil market was managed by the famous Seven Sisters. After the first oil shock in 1973, OPEC took the lead in the oil market. It was the swing producer, increasing its production when the market was tight and reducing quotas in cases of oversupply. Now the swing producer may be located in the US. LTO production increased dramatically when the market was tight. Although LTO production is more resilient than anticipated, US production is going down. It is a new paradigm of the oil market and nobody knows how long it will last. It depends on many factors, including the real potential of shale oil reserves, and I look forward to Antoine’s comments in the next presentation.

As with every commodity market, the oil market is cyclical. It is not the first time that the price has moved down. I have charted the evolution of prices during the latest cycles from 1985 to 2008. The figure of 100 refers to the price index when the price started to decline. It is the evolution year after year. On average, the oil price recovered its initial level within around 3-4 years.

We can already see the first signs of rebalancing of the market. Recently, the Energy Information Administration (EIA) revised upwards its estimation for world demand. The low oil prices are sustaining demand. For example in the US, the automotive market in September 2015 was up 15% compared to last year, and the growth was 30% for SUVs. Due to the low prices, oil companies decided to reduce their investment by 20-40% in 2015. This trend will continue next year and this will have a significant impact on conventional and non-conventional oil production. Many conventional projects have been postponed or even cancelled, and some consider that this will have an impact of -4 million barrels per day in 2020. Despite its resilience, LTO production is significantly slowing down. We anticipate that the market will rebalance in the next few years, so OPEC and Saudi Arabia should recover their market power at the end of the decade. However, will this transition be smooth? It is not for me to comment on the different conflicts of the Middle East, which we discussed quite intensively yesterday.

In a nutshell, the decline of the oil price is due to a structural evolution of the paradigm of the oil market. OPEC has lost its influence on prices and the price is set somewhere in North Dakota. However, we now anticipate a rebound in the oil market before the end of this decade. OPEC countries or at least the Gulf monarchies may regain their market power, and in that case, their strategy will have been a success.