Global oil market to become more dependent on OPEC crude in long-term, IEA projects

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* OPEC market share to increase by 2040
* Middle East members will see largest gains
* IEA assumes OPEC return to market manager role

OPEC's diverse 14-country membership has responded to the oil price malaise of the past two years in contrasting ways, perhaps permanently altering the group's dynamics as the world becomes more reliant on its crude in the long-term, according to the International Energy Agency.

OPEC's share of global oil production, including condensate, will approach 50% by 2040, up from its current 42%, the IEA said Wednesday in its World Energy Outlook, as non-OPEC production will significantly drop off after 2020. But any benefits from OPEC's increased market share will be spread unevenly, as its Middle East members figure to grow more influential, at the expense of its African and South American members.

Middle Eastern OPEC countries -- Iran, Iraq, Kuwait, Qatar, Saudi Arabia and the UAE -- will see their oil production grow by 8.2 million b/d from 2015 to 2040 to 36.9 million b/d, according to the report. That would represent 77% of OPEC's production, an increase from 73% in 2015.

Non-Middle East members will see growth of just 800,000 b/d in the same span up to 11.2 million b/d.

"Some countries, including ... Saudi Arabia, have reacted to low prices by pressing ahead with a process of reform, but for others, particularly Venezuela and some parts of the Middle East, instability has been exacerbated," the IEA said in its annual outlook. "Either way, key producer countries are unlikely to emerge unchanged from the downturn, even if prices rebound."

The report assumes that OPEC will return to its policy of active market management, which it abandoned the last two years until announcing a preliminary deal in late August to freeze production between 32.5 million to 33 million b/d.

The world in 2040 will become more dependent on growth from Iraq and Iran, along with continued robust supplies from OPEC kingpin Saudi Arabia, the IEA said.

"In our projections, Saudi Arabia maintains its pre-eminence among OPEC producers and its central role in global oil markets, even though Iran and Iraq enjoy a greater level of growth," the IEA said.

While those three countries are the biggest producers within OPEC, their geopolitical interests have not always aligned. In fact, disagreements among the three are keeping OPEC from finalizing its much-hyped production freeze, which would require a collective cut of 640,000 b/d from the organization's October production levels, according to its own estimate.

Iran and Iraq, along with Nigeria and Libya, are seeking exemptions from the freeze, while Saudi Arabia has been insistent that the burdens of the cut must be shared equitably among the group.

"The details of the agreement and the potential effect on market balances remain to be seen, but the announcement was indicative of the testing conditions that lower oil prices have created for many OPEC producers, especially those that faced the downturn with limited accumulated financial reserves," the IEA said in its report.

OPEC will hold a technical meeting November 21-22 to discuss the freeze and then invite several non-OPEC countries, such as Russia, Azerbaijan and Mexico, to negotiations on November 28, in hopes of gaining their cooperation.

Analysts with BofA Merrill Lynch said in a note this week that the US election of Donald Trump as president will increase pressure on OPEC to finalize the freeze, given Trump's expected hands-off approach to energy regulation that could make it easier for US drillers pump more.

"A US energy independence agenda is back in play, and OPEC will have to figure out a way to cope with it," the analysts said. "The cartel thus faces a moment of truth on November 30: come together ... or sink together."

The IEA report made no mention of Trump's election win. But it said it expects the US will all but eliminate its net imports of oil by 2040, as US oil production will plateau above 14 million b/d for much of the 2020s and remain steadier than previously expected, while demand will steadily fall due to fuel efficiency measures.

That will leave the rest of the market dependent on OPEC supplies, which are expected to see their biggest growth after 2020 when US shale supplies level off.

The IEA's projections somewhat dovetail with OPEC's own expectations, as the producer group said in its own World Oil Outlook last week that the call on its crude will increase 8.9 million b/d between 2015 and 2040, and as much as 12.6 million b/d if condensates are included.

But the IEA's projection of OPEC's global market share is much higher, with OPEC expecting its share of liquids supply to hit 37% by 2040, up from 34% currently, as the IEA sees non-OPEC supply growth much lower. (See related story, 0808 GMT)

OPEC GROWTH

The IEA expects Saudi Arabia to grow its oil and condensate production by 1.5 million b/d from 2015 to 2040, to reach 13.7 million b/d, broadly in line with last year's World Energy Outlook. The agency noted that Saudi Arabia's remaining recoverable oil resources are a vast 400 billion barrels "and could support greater growth."

Iraq has technically recoverable resources of 200 billion barrels and posted the biggest output gain in 2015 among OPEC members but faces security problems from its war with ISIS, governance issues and investment cuts, the IEA said, prompting a downward revision of Iraq's growth from last year's outlook.

The IEA expects Iraqi production to increase 3 million b/d from 2015 levels to reach 7.1 million b/d in 2040, a 750,000 b/d decline from last year's projection.

"The effects of declining oil revenues on the Iraqi state and economy have been profoundly destabilizing," the agency said.

Iran has a similar resource base of more than 200 billion barrels and has ramped up production by about 700,000 b/d since western sanctions were lifted in January.

While its production is now near pre-sanctions levels, Iran has been challenged in growing beyond that, the IEA said, noting the country's delays in rolling out its new petroleum contract and its risky investment climate.

The agency said it expects Iranian production to grow 2.3 million b/d from 2015 levels to reach 5.9 million b/d by 2040, a 500,000 b/d increase from last year's outlook.

"There is certainly further upside potential, but building confidence in political stability and a stable regulatory environment are essential to its realization and are likely to take time," the IEA said.

Qatar will grow production by 500,000 b/d to reach 2.5 million b/d in 2040, the UAE will see a similar rise to 4.3 million b/d, and Kuwait will see a 400,000 b/d rise to 3.5 million b/d, the IEA projected.

War-torn Libya and politically restive Venezuela will also see significant gains in production through 2040 of 1.1 million b/d and 600,000 b/d, respectively, though the IEA said the outlook for both countries was "particularly uncertain."

Libya is expected to produce 1.6 million b/d in 2040, and Venezuela 3.2 million b/d.

"We do assume some stabilization and recovery over the long term, but neither country manages to surpass previous peaks in production before 2040," the IEA said.

Angolan production will fall 300,000 b/d to 1.5 million b/d in 2020 and then plateau around that level through 2040, the IEA projected. Nigeria will also see a 300,000 b/d drop to 2 million b/d in 2020 before rising steadily to 2.5 million b/d in 2040, the IEA said.

Indonesia will see a 300,000 b/d decline and produce 500,000 b/d in 2040, Ecuador will see a 200,000 b/d decline to produce 300,000 b/d, and Gabon will see a similar drop and produce 100,000 b/d. Algerian production will fall 100,000 b/d to average 1.5 million b/d in 2040.