percent—a little more than one-quarter of the large jump in 2010 (figure Comm.3). OECD oil demand declined for the fifth time in the past six years, and is on track to fall again in 2012. Non-OECD oil demand growth, of 1.2 mb/d or 3 percent, was down from a 2.2 mb/d climb in 2010. For 2012, world oil demand is projected to rise by 1.3 mb/d or 3.6 percent, with all of the growth in emerging markets.

In the near term, light/sweet crude markets could ease with recovery of oil production in Libya. Following the fall of Tripoli in early September, Libya's national oil company and joint venture

Box Comm.1 WTI-Brent price dislocation

In early 2011 the price of WTI (which historically traded at a small premium to Brent for quality and location reasons) fell by more than $25/bbl below Brent due to a large build-up of crude in the U.S. mid-continent near Cushing Oklahoma—the delivery point for the NYMEX WTI futures contract (box figures Comm.1.1 and Comm.1.2). Crude flows into the region have increased from the new Keystone Pipeline which brings greater volumes from Canada and from rapidly growing production of liquids-rich shale projects in North Dakota. The mid-continent also sources crude from elsewhere in the U.S. as well imports through the Gulf of Mexico. While there are plenty of options to bring crude into the region, there are few to move it out, especially to Gulf coast refineries.

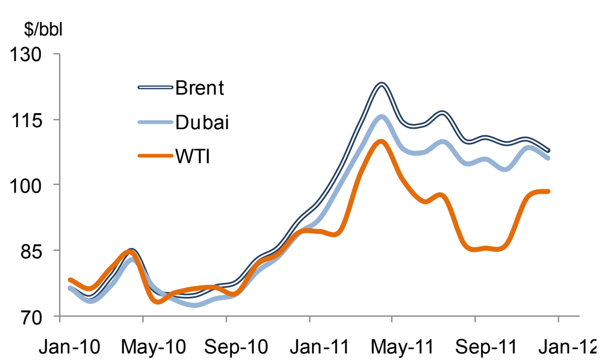
Stocks at Cushing rose in 1Q2011 but then declined, in part due to higher refining runs prodded by large margins from low crude input prices. Maintenance at local refineries was also deferred to take advantage of the high margins. Producers began moving crude to the Gulf coast by rail, barge and truck, as the large WTI-Brent price spread rendered such move profitable. Other pipeline flows into Cushing also eased substantially, as producers sought higher value alternatives for their crude.

In November, the price spread narrowed significantly, following announcement of a planned reversal of the Seaway pipeline that currently ships crude from the Gulf coast to Cushing. The pipeline's prospective new owners said that they will ship 0.15 mb/d to the Gulf in 2Q2012, and raise capacity to 0.4 mb/d by early 2013. Meanwhile the U.S. government deferred a decision until 2013 on the proposed 0.6 mb/d Keystone Pipeline extension, that would transport Canadian crude to the U.S. Gulf, so owners could re-route the pipeline away from environmentally sensitive areas in Nebraska.

Therefore, WTI is expected to be trading at a sizeable discount to Brent until adequate pipeline capacity is constructed to the Gulf of Mexico, or from Alberta to the Pacific coast (expected to be operational in 2017). In addition, more storage capacity is coming online, and lower net volumes flowing into the region are likely to reduce the spread.

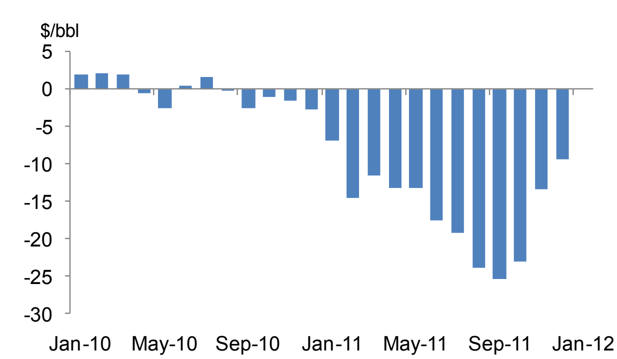
Meanwhile Brent crude prices have remained firm due to the tightness in light/sweet markets in the eastern hemisphere, strong demand in Asia, and low stocks. Brent became the main international marker crude in 2011, and prices averaged $111/bbl in the second half of the year. WTI, largely dislocated from international markets, averaged just $92/bbl.

Box figure Comm 1.1 Crude oil prices



Source: World Bank.

Box figure Comm 1.2 WTI-Brent price differential



Source: World Bank.