

Peak Oil Review

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[Tom Whipple](#), Editor

1. Oil and gasoline

Crude oil rose to a 10-month high in New York last week and gasoline extended its three-day climb on expectations that demand will accelerate with the summer travel season. Last week's EIA stockpiles report showed gasoline stocks falling by 749,000 barrels in the face of analysts' predictions of a 1.5 million barrel increase. Even though refinery utilization recovered by 1.8 percent and imports were a healthy 1.1 million b/d, higher demand, which has been averaging 9.54 million b/d, 1.4 percent above last year, is drawing down stockpiles. Distillates stocks were down by 1.5 million barrels as refiners concentrated on gasoline. The American Petroleum Institute, which surveys stockpiles and does not always agree with official EIA estimates, reported that gasoline stocks were down an impressive 5.3 million barrels and that demand for gasoline was approaching 10.5 million b/d.

The EIA warned last week not to expect gasoline production to increase or decrease directly with changes in refinery throughput. As refiners can produce gasoline using partially processed feedstocks from storage, when sections of refineries are out of service gasoline production can increase even though refinery utilization drops.

So far the numbers and recent history suggest that higher prices are in store before Labor Day, apart from potential hurricane damage. If the much more pessimistic API numbers are anywhere near correct, even shortages seem possible.

2. Venezuela

The second shoe dropped last week when Exxon, Conoco, and Petro-Canada announced they were pulling out of Venezuela rather than accede to President Chavez's terms for handing over their stakes in the Oronoco heavy oil projects to the national oil company, PDVSA. Negotiations over compensation for the multi-billion investments could last for up to 6 months and would go to international arbitration if no accord is reached. After that the US companies could seek to attach PDVSA assets, such as refineries of its subsidiary, Citgo Petroleum, pending a final agreement. Venezuela President Hugo Chavez has said he might sell Citgo or cut off oil sales to the US, which gets 14% of its oil imports from Venezuela.

Four other international companies—Chevron, Statoil, BP, and Total apparently accepted the accord that will keep them involved in the Orinoco projects.

Chavez still hopes to attract more than \$21 billion in foreign investment to boost Venezuela's oil production to 5.2 million b/d by 2012, up from 2.4 million b/d currently. Analysts say the nationalization program likely will disrupt those plans. Venezuela's oil production has fallen 25% since Chavez took office in 1999, largely as a result of the layoffs of more than 20,000 experienced PDVSA engineers and executives. Last week, Chavez was in Moscow on an arms-

buying mission, but also to invite Russian oil companies to replace the US companies in developing the Oronoco oil basin,

3. Iran rations gasoline

The government has been warning for weeks that it would start rationing soon, but the announcement Tuesday night -- only three hours before the measure went into effect at midnight -- startled Iranians and sent them rushing to fill their tanks. Long lines turned violent at several gas stations and at least 12 were set on fire after station managers closed at midnight to adjust their pumps for the rationing cards.

Under the rationing plan, owners of private cars can buy 100 liters of fuel per month at the subsidized price of 38 cents per gallon. Taxis can get 800 liters a month.

Because so much of its refining capacity was destroyed in the Iran-Iraq war, Tehran must import approximately 50 percent of its gasoline. The large subsidy means that the government budget is absorbing an onerous loss of nearly \$2 per gallon on half the gasoline consumed. There is also increasing talk that an embargo on gasoline imports might be the next step in pressuring Tehran to begin serious negotiations over its nuclear program.

Members of Iran's parliament are already highly critical of the rationing move, saying that consumption should be cut through free market pricing rather than arbitrary limits. Over the weekend Iran's supreme leader Ayatollah Ali Khamenei weighed in to support the government's "brave" move.

At a minimum, rationing is bound to result in a black market for gasoline and may result in further disturbances. Members of parliament are already talking of coming back in special session to deal with the situation.

4. The IEA's economist

In an important interview for the French daily *Le Monde* last week, Fatih Birol, the International Energy Agency's chief economist, implied that peak oil is just around the corner. Birol said "if Iraqi production does not rise exponentially by 2015, we have a very big problem, even if Saudi Arabia fulfills all its promises. The numbers are very simple, there's no need to be an expert."

Speaking of Saudi Arabia he said, "I understand the Saudi government claims 230 billion barrels of reserves, and I have no official reason not to believe these numbers. Nevertheless, Saudi Arabia - as well as other producing countries and oil companies - should be more transparent in their numbers. Oil is a crucial good for all of us and we have the right to know how much oil, as per international standards, is left. "

This interview marks another major step in the IEA's admission that world wide petroleum production is unlikely to grow as much as they have been forecasting in the recent past. By saying that he has no "official" reason to doubt Saudi claims that they will be able to increase production to 15 million b/d in the by 2015, Birol implies that there is room to doubt the claim. By emphasizing the importance of Iraq, he is recognizing that it is the only country with enough potential to substantially increase production in the next 5-10 years.

Without substantial increases in output from both these countries, the world is unlikely to reach the optimistic production goals forecast in the IEA's official projections.

5. Energy Briefs

- **James Mulva, CEO of Conoco-Phillips**, said last week that he questioned whether the supply will be developed to meet the US Energy Information Administration's demand expectations. He believes demand is going to be constrained by supply.
- **U.S. House Speaker Pelosi** Thursday outlined her "Energy Independence" package - crafted from nearly a dozen committee bills - that she says represents a consensus among lawmakers.
- The estimated costs of boosting **Iraq's** oil output to six million barrels per day has soared to as high as \$75 billion. Constant sabotage attacks on the country's pipelines have left crude oil production stuck at around two million bpd since the 2003 invasion. A bomb exploded Friday under an oil pipeline south of Baghdad, spilling crude oil and sparking a huge fire.
- Asian business and government leaders accused rich countries of hypocrisy and "**green imperialism**," saying they run polluting industries with cheap labor in China and then blame the country for worsening global warming and climate change.
- **Nigeria's** four refineries, with the combined capacity to process 445,000 b/d, are operating at less than 15 percent of normal. Most of the fuel being consumed today is being imported. Nigeria's shut-in crude oil output topped one million barrels per day in May as violence cut production to its lowest level since early 2003.
- The **Movement for the Emancipation of Niger Delta** has threatened to resume hostilities in the Niger Delta should the Federal Government fail to give in to their demands on or before July 3. The group, among other things, had called on government to allow the region to control its resources.
- **Japan's crude oil imports** fell 11.0% in May from a year earlier, the Ministry of Economy, Trade and Industry said Friday. It was the 13th consecutive month of declines.
- Chevron said it would **delay its \$3.5 billion Tahiti project** in the Gulf of Mexico because of metallurgical problems in the mooring shackles of its drilling rig. The project was to begin operations in mid-2008.
- **Mexican President Felipe Calderon** said on Friday he expected the country's crude oil exports to slip further this year and next. Mexico's oil exports slipped 1.3 percent in 2006 and have slid a further 4.4 percent from the 2006 average in the first five months of 2007.
- **Production at Cantarell**, the world's third-largest oil field, declined 17 percent in the first five months of 2007 from the same period a year ago, driving down Mexico's overall crude production to 3.15 million barrels. In May, production dropped to 3.11 million barrels per day, the lowest this year.
- Petro-Canada, the third-largest oil company in Canada, and its partners will spend C\$26.2 billion (\$24.6 billion) to build a new **oil-sands project** in northern Alberta,. The Fort Hills

project is to produce 280,000 barrels a day of synthetic crude by 2014, with output starting in the second quarter of 2012.

- The president of the **OPEC** said Tuesday that swelling oil inventories in the US meant there is no need for the group to meet ahead of its Sept. 11 policy talks to discuss injecting additional supplies into the market.
- **The cost of hiring supertankers** to transport Middle East crude oil on the busiest shipping route to Asia, which fell every day last week, may continue to decline as demand for July cargoes fails to cut an oversupply of vessels.
- **Western Canada's crude exports to the US** are expected to rise by about 94% between now and 2015, according to a study published by the Canadian Association of Petroleum Producers.
- **The total stock of cars globally** is expected to rise from 700 million in 2005 to 1.2 billion by 2030, OPEC said, with a considerable amount of this forecast rise seen coming from developing countries.
- **Nearly half of US car owners** are willing to buy a more fuel efficient car should gas prices increase \$1, but a strong majority rule out using alternative transportation to offset rising gas prices and are more likely to cut discretionary spending, according to a survey by Discover Financial Services.
- **India** will receive natural gas from Iran via a multi-billion-dollar pipeline through Pakistan which is to be completed in four years.
- **China** National Petroleum Corp. secured rights to **explore oil sands** in Canada's Alberta province, a breakthrough by the largest Chinese oil company in Canada, said a statement Friday on the Chinese Ministry of Commerce website.
- An **All Party Parliamentary Group on Peak Oil and Gas** has been formed in the British parliament, ensuring that the issue of declining global oil supplies will be much more prominent during the Gordon Brown era.
- There has been a double-digit increase in the proportion of Americans who say **environmental problems** are a major global threat - from 23 percent to 37 percent, according to a comprehensive survey published this week by the Pew Centre in Washington. In most Western European countries, large majorities view global warming as a serious problem, ranging from 57 per cent in Italy to 70 per cent in Spain.

Quote of the Week

- "Contrary to public perceptions, renewable energy is not the silver bullet that will soon solve all our problems." Shell's chief warned that supplies of conventional oil and gas will struggle to keep pace with rising energy demand; he called for greater investment in energy efficiency.

--- Jeroen van der Veer, CEO of Royal Dutch Shell, reported by *The Times*.

Commentary: What's Up With Gas Prices?

By Randy Udall

Visiting a gas station these days is like going in for a root canal. First comes procrastination, followed by dread, and then “open wide.” There’s no laughter at the pumps anymore. The Toot ‘n’ Moo is as somber as a morgue, full of glum motorists mourning the demise of cheap gasoline. Spending \$75 used to be a penance reserved for truckers, but now everyone can tithe. Take your pick: Shell, Exxon, Chevron, they are all eager to drill your wallet.

I’ve been thinking about energy, trying to make sense of energy trends and energy appetites and the main conclusion I’ve reached is that energy is an IQ test that we Americans tend to fail.

Because our continent was a great piñata, stuffed with coal, oil, and natural gas, we’ve never developed an energy ethic. An English poet once wrote that energy was “eternal delight.” But for an American to put “energy” and “ethic” into the same sentence seems revolutionary, the breaking of a taboo.

The value of land we have long understood. The value of energy we never have.

America invented the hot dog, baseball, and the national park. Yellowstone dates to 1872. Teddy Roosevelt got the national forests going a century ago. Aldo Leopold published Sand County Almanac in 1949, urging us to “think like a mountain.” With the Endangered Species Act, we took Noah out of the Bible and put him into law. Some ranchers hate the ESA, but it was the first right-to-life act.

It is peak driving season, and Americans are on the move. (A typical motorist drives the distance to the Moon every 20 years.) With oil over \$70, CNBC invited me to do an interview on a low-grade, high-ash proto-petroleum otherwise known as oil shale. This was one of those biz shows, with a crawling stock ticker, and traders drunk on high-octane currency flows.

The opening gambit hasn’t changed for a century: “There’s a trillion barrels of oil shale in Colorado, more oil than in all of Arabia, enough oil to run this country for the next 100 years, when are you redneck hayseeds going to unlock that prize?”

The only people more clueless about energy than politicians are reporters. “There’s more energy in a ton of Cap’n Crunch than in a ton of oil shale,” I replied. “Oil shale provides just one ten-thousandth of world energy, far less than animal dung, and prospects for expansion are poor.”

As the camera cut back to the trading pit, I tried to frame our dilemma in a way he might understand. “You’re selling dollars, yen, euros, and gold, but energy is the original currency.” I could have been shouting down a well.

Later that day I got an email from a retired Saudi oil executive. There’s been a lot of blog speculation about declining production at Ghawar, the Kingdom’s largest field. I asked this oil man for the real scoop.

The Saudis have done Yankee bidding for a long time, but this guy offered only tough love. “There has been a paradigm shift in the energy world,” he wrote. “Oil producers are no longer inclined to exhaust their resource for the sake of accelerating the misuse of a precious commodity.”

This is what the pump price is trying to tell you. That twenty nations produce 85% of the world's oil. That production in half of those countries is flat or declining. That Chavez in Venezuela and Putin in Russia have figured out that they can make more money by pumping less oil. Which is the flip side of the value proposition at your local Kum 'n' Go.

What remains is a bumper crop of clueless politicians. Wisconsin Senator Herb Kohl wants to sue the Organization of Petroleum Exporting Countries. New Mexico Senator Pete Domenici, who has spent decades crusading against fuel efficiency standards, fatuously claims that "oil shale will rock the world," putting the fear of God into the Arabs.

For all the happy talk about energy independence, only eight states, including five in the Rockies, produce more energy than they consume. The others are as helpless as patients in intensive care. The risk is that these parasites will, over the coming decades, suck us dry, leaving our landscapes as eviscerated as Halloween pumpkins.

When it comes to energy, Americans resemble spoiled children who are used to always getting their way. Since the oil is in the Mideast, and its most avaricious consumers are here, it might be useful to run Phoenix or L.A. like Baghdad for a week or two. Close the pumps, turn the power off, let the taps run dry, and see what gives. We'd quickly relearn that civilization is a thin veneer, that energy invented comfort and wealth, and that decades of clueless policies have now put prosperity at risk.

The American land ethic is based on the common sense idea that they "aren't making anymore." So too, it seems, with energy.

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