



Tech Talk - Insecurity in the Middle East

Posted by [Heading Out](#) on June 23, 2013 - 6:03am

The continuing conflict in Syria, and the slow spread of violence in the region around it continue to make it difficult to accurately predict the future of oil exports from the region. Within Syria itself, production had fallen into decline about ten years ago, before the current struggle began. The precipitate drop over the last two years has, however, been much more dramatic. As Energy Export Databrowser noted from the BP statistic review, production fell by 49% last year.

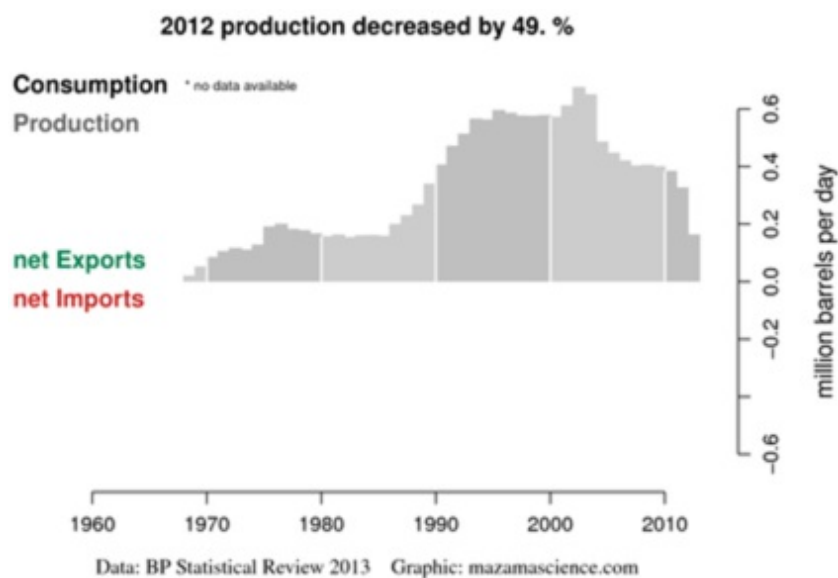


Figure 1. Syrian oil production showing the recent fall in volume. ([Energy Export Databrowser](#))

As with most oil-producing nations, oil consumption had, on the other hand, been steadily rising with net exports (some is exported as crude and re-imported as refined product) falling to around 100 kbd. The conflict has, however, also reduced internal consumption at similar rates earlier in the conflict.

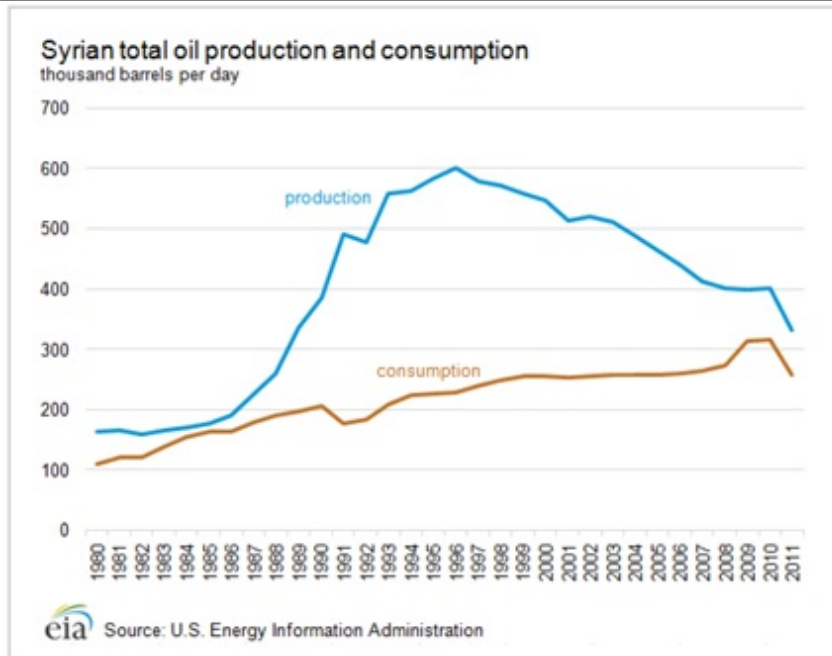


Figure 2. Syrian production and consumption until 2011 (EIA)

At the same time that Syrian exports have sensibly disappeared, the exports from Iran have continued to fall. Data through the end of last year shows that sanctions continued to bite, with exports falling 31% last year.

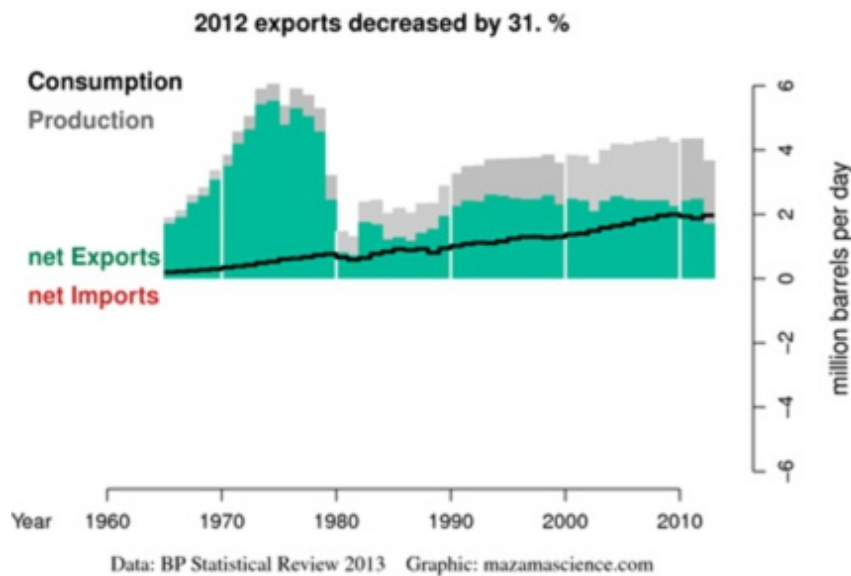


Figure 3. Oil production, consumption and exports for Iran (Energy Export Databrowser)

Much of the oil from Iran goes to China, India and Turkey. In May 2013, the total exports are reported to have [fallen to 700 kbd](#) although individual monthly numbers fluctuate given the complexity of now getting oil into the hands of customers. (H/t Gail - that report may only cover Chinese imports, since [Bloomberg reports](#) a different set of numbers, and an IEA estimate that Iran is averaging 1 mbd of exports this year.) India is hoping that the change in the Iranian Presidency will lead to an [easing of sanctions](#). In the interim, the exemptions that China, India and Turkey are receiving to some of the sanctions have [just been extended](#) another six months.

Part of this comes from the cuts those countries have already made. India, for example is now down to around 117 kbd around half that of a year ago.

Oil imports into China are [reported to have increased](#), perhaps because the Iranians have just agreed to buy [a number of Chinese drilling rigs](#). Total exports are projected to fall to 1.3 mbd over the current Iranian fiscal year (which started in March). If Iran is having to store more of its oil in off-shore tankers, this may explain the fall in regional tanker availability over the past month.

In [a recent post](#), I discussed my concern over the likelihood of Iraq being able to achieve the increased volumes of production within the time frame that their Central Government has suggested. However, as [Leanan caught recently](#), Kurdish Iraq is moving more and more toward independent action in regards to their oil. From the Turkish side [a pipeline will be allowed](#) that can go to the border, but not cross it. Mysteriously, it will likely then fill over time with [a flow of 1 mbd](#). Turkey is [working with BP](#) to develop the resources of Kurdish Iraq. In the interim, Turkish demand has stabilized to a greater degree than it has in its southern neighbors.

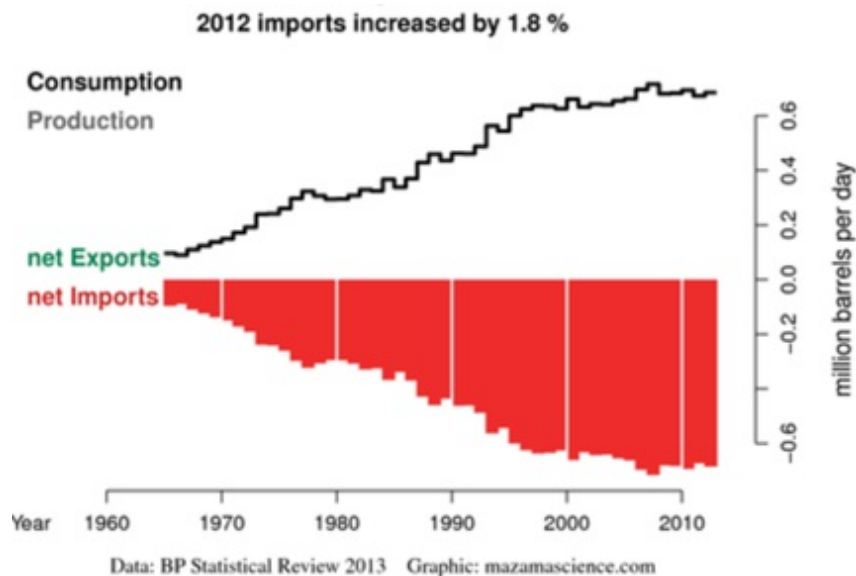


Figure 4. Oil imports and consumption in Turkey ([Energy Export Databrowser](#))

To a degree the instability is feeding off itself. Egypt continues to have problems in ensuring an adequate supply of fuel, and while Iraq and Libya have agreed to help, they prefer cash up front for the delivery, and that is proving to be a [bone of contention](#). The country has reached the point where domestic production can no longer keep up with consumer demand, and these imports are going to become more critical to the budget, and, as a follow-on, national stability.

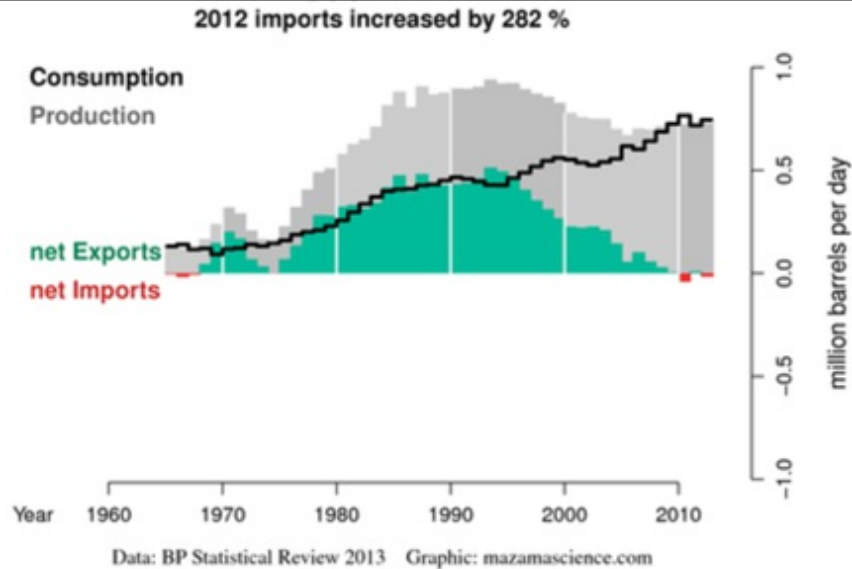


Figure 5. Change in oil consumption and the need for more imports for Egypt ([Energy Export Databrowser](#))

The hope is that a pipeline can be built from Iraq through Jordan, but that requires that a mutually acceptable line of credit be established, and that appears to be a problem. Egypt has the [same soft-credit deal](#) with Libya for a supply of a million barrels a month. The price, however, will be at that of the world market.

Unfortunately, as the level of violence [continues to grow](#), one starts to get into an almost inevitable snowball effect and there is a consequent negative impact on much industry, likely including oil production. The most likely consequence will be a further fall in the regional export of oil, which has a follow-on consequence in that the customers who have lost this supply (Japan has given up all Iranian oil for example) must then go onto the world market to find an alternate source of supply.

As those sources become even scarcer than they are already, marginal amounts of oil become more critical to maintaining a global balance. But such supplies don't become available at the drop of a hat.

It seems to be a drum that I beat perhaps a bit often, but it is a message that bears repeating. Without significant and ongoing investment in the more difficult regions of the world, funds to identify the necessary availability of resource, and then to drill in a timely manner, to prove the resource and start the process of turning it into a reserve, the oil balance cannot be sustained at a viable and acceptable price. It does not matter how glowing a set of reports are put out about how we can all relax because the world has [plenty of oil in shale](#).

The largest of those resource sites is in Russia, where there may be as much as 75 billion barrels. But two things should be remembered. The first is that peak oil is reached, not when we run out of oil, but when we start producing less each year than in the previous. And the second is that getting much of the oil in the shale into the proven reserve category is going to take a fair amount of time, after which production rates, going from the results seen, for example, in the Bakken will decline at such a rate that a continued and expansive program of expensive drilling will be required to sustain production. And all this time the flow of oil from existing reservoirs will continue to fall.



Figure 6. A pretty wall hanging ([EIA](#))

Editorial Note: Because of one of those delightful family events that occur from time to time, this series will be on hiatus for a couple of weeks, since we will be traveling when I would otherwise be writing.



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