The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

More technical answers?

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Because of the worries about meeting fourth quarter demand, the major oil producing countries are all currently pumping at full capacity. The current extra production is going into storage so as to be available next fall when supply cannot match demand. By using this stored oil, and adding it to imports it is hoped that the two will be able to meet, what is recognized to be an increasingly high level of demand in the latter part of this year. Unfortunately the use of the stored oil is a one shot deal, given that demand is unlikely following this winter to drop back far enough to be matched by supply, without some demand destruction.

But as the story in Bloomberg notes, we are now reaching the limits of storage capacity in the US. So if our current suppliers, plus this reserve, should fall short towards the end of this year then we will be in serious trouble. This is because there is a lead time for most things in the oil supply world. If you need to get more oil, it has to be brought to the surface, treated, shipped, refined and then made available to the public. Not complicated, just time consuming. So that a shortage in country A cannot immediately be made good by company S, it will take some time to bring the additional supplies to where they are needed. Provided they are available.

But if the entire world is already pumping at full capacity they won't be. This also goes a way to explaining why the prices you see quoted are not for delivery today, but for some future time. And in that regard note the little item in the story

> gasoline for November delivery on the Tokyo Commodity Exchange, Asia's biggest energy futures market, rose as much as 990 yen to 43,700 yen a kiloliter ($65.80 a barrel). The contract traded at 43,590 yen ($65.63 a barrel), up 880 yen or 2.1 percent, as of the 11 a.m. close of morning trading.

I am, however a little confused by the statement

> Saudi's state-owned oil producer Saudi Aramco has informed customers in Asia it will supply them for a second straight month the entire volume of crude oil agreed in annual contracts, said refining company officials who asked not to be identified.

And to end in a way that will, I am sure, give you lots of confidence for a calm and inexpensive fall

> `The key this week will be the IEA's monthly report early Wednesday,'' said Kyle Cooper, an analyst with Citigroup Inc. in Houston. ``An increase of their demand forecast, which I think is likely, will have a significant effect on the market. It doesn't appear that the market cares one iota about the inventories right now. Demand is the key.''

In other words, if I am reading the entrails correctly demand is likely to exceed the current projection of 2.2 mbd over what is was in the fall last year. And, er, I do not see us coming close to the original projection let alone a higher one.

I see that a new combatant has entered the fray against Matt Simmons. The Energy Bulletin has the introduction to A.H. Cordesman's review of Saudi Arabian production and prospects and suggests that

> these (Simmons) points are more a thesis, based on an analytic "chain of negatives" than a definitive proof. They pull together a chain of negative indicators and possibilities that deserve Global Demand and Capacity Building in Saudi Arabia's Petroleum Sector 5/2/05 Page 7 serious consideration. However, much of their validity depends on the Saudi managers Aramco being wrong or covering up massive risks and development problems, and virtually all of the other analysts examining world oil reserves and production potential being wrong about both the size of the world's oil reserves and the ability of modern technology to provide future significant gains in ultimate recovery.

And there is that blind faith in modern technology again. I just wish, as a modern technologist, that someone would give some hint as to what this wondrous new concept is.
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