And things quietly appear to be getting incrementally worse

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Sigh! It appears that the appearance of agreement between Russia and Ukraine is still just that, with final details of exactly for how long, and at what gas price remaining to be finally defined. The Moscow Times carries a quote from the Ukrainian Foreign Minister

> "Everything is extremely unpredictable," former Ukrainian First Deputy Foreign Minister Olexander Chaliy said by telephone from Kiev. "This is leading to huge uncertainty. This is all very bad for Ukraine." Chaliy coordinated talks with Russia on gas issues from 1998 to 2004.

It appears that this may note bode well for the current government.

> "This is a big problem for Yushchenko," said Peter Bobrinsky, head of equity sales at Kiev-based investment bank Concorde Capital. "When you swim with the sharks and you start bleeding, you're in trouble."

Part of the problem appears to be that the initial agreement was achievable because Ukraine gets some gas from Russia and some from Turkmenistan. At the time the Ukrainians agreed to pay a higher price for the Russian gas, but, by blending this with gas from Turkmenistan, which retained a cheaper price, the overall increase could be kept to an acceptable level. Unfortunately the Turkmenistan government would now like to be paid at the going rate also. The fact that Ukraine has also increased its take by 70 million cubic meters to cope with the cold, which the Russians must allow since otherwise their customers in Western Europe would feel the pinch again, does not make the negotiations any more friendly.

Particularly since Moscow itself is having to restrict supplies, at levels projected to reach 500 MW by Wednesday, due to the extreme cold. Given further that almost all Russian known deposits are now reported as being exploited, this has further connotations.

> "As much as 98% of registered oil and gas deposits are now being developed," Vladimir Litvinenko, rector of St. Petersburg State Mining Institute, said. Litvinenko said a federal program should be launched for geological prospecting of deposits, with involvement from the state and the private sector.
> "The state, which levies the so-called 'flat' mineral resource tax, must allocate funds for the recovery of resources, create means for the funds to be used in new areas, and determine the terms for access to new sites," he said.

Unfortunately, as we have noted before, it is not just a lack of immediately known reserves that is limiting the possibilities of future supply. An article in the Sunday Times points out that the majors are now paying for more exploration, and paying more for it.

> Seismic surveys, which cost about $2m a time, are designed to detect the kind of geological structures where oil might be found, such as rock formations whose outline resembles an upturned teacup.
>
> Owners of offshore drilling platforms, such as Rowan, which offers the Gorilla and Tarzan rigs, are also among the first to profit during an oil-industry upturn. The most sophisticated deep-water drilling rigs cost up to $500,000 a day to hire, compared with $150,000 two years ago. With the world fleet of such rigs numbering less than 100, demand far outstrips supply. . . . . . . The going rate for hiring a floating rig is $250,000 a day. Two years ago it was $50,000 a day

And as for manpower

> Last year, only 200 petrochemical engineers graduated from American universities compared with thousands in the industry's 1970s heyday. Britain produced 88 from three or four universities.

And to give hope to those of us who are chronologically challenged, they note that pay rates are thus rising, and that the average age of the American oil worker is over 50.

Most of this information is not new to these pages, but I gave the quotes since some of the numbers have changed. It also indicates that those who expect a sudden increase in production to lower pricesmay expect to be disappointed.