



## I wish we could be this optimistic about oil supply

Posted by [Heading Out](#) on May 18, 2005 - 6:35am

[Michael Lynch is quoted](#) as believing that the world is sufficiently supplied with oil that prices will drop to \$35 a barrel by September, due to the amount currently stored in inventory, and the promise of OPEC to increase production by another 300,000 to 500,000 bd.

His remarks were made after the meeting between IEA and OPEC officials last Sunday in Kuwait. It was based on a current projection that the world is putting some 1.5 mbd into inventory at present and the IEA projection that growth, which was 3.5% last year, will be no more than 2.2% this year due to a lowered demand from Asia. (So that if you add the 500,000 and the 1,500,000 you get the 2 mbd that world demand is anticipated to go up between now and the end of the year).

The article also quotes OPEC's Shihab-Eldin as saying that OPEC will grow their current spare output capacity to between 3.5 and 4 mbd over the next five years.

Both statements rely on the easy passage through the "pipeline" as it were from oil well to gas pump. They neglect issues such as the availability of the tanker fleet or the lack of refining capacity (which is beginning to bother [the Saudi government](#) since they have dropped plans to build new refineries in the US).

They also still neglect the declining production from existing fields, and only count the additions. For example a quick check at [the EIA](#) shows that Venezuelan production dropped 100,000 bd last month, while the gains were in Algeria of 10,000 bd; Nigeria of 50,000 bd; Saudi Arabia of 100,000 bd; and UAE of 50,000 bd. Overall net gain therefore was 110,000 bd.

Life outside OPEC, however, appears to be getting worse. Last month [The Scotsman](#) reported that UK production was down 15%. This month's figures from the [Royal Bank of Scotland](#) show a 13% decline over last year. The question of course is as to who gets to make up the lost 300,000 bd gone from the world supply.

Norway (the world's third largest oil exporter) is [now anticipating](#) that production this year may be 100,000 bd less than anticipated. But that includes natural gas liquids, crude oil production alone is [dropping](#) at about 8%. Which works out to about 240,000 bd.

And, of course, mostly they fail to recognize the Chinese. I cannot always (or even usually) promise to be this prescient but it should be noted that the Chinese have [just pointed out](#) that their demand is continuing to grow. They are now importing 3 mbd, which is up 22.5% over this time last year. The IEA had forecast a total increase this year for them of 470,000 bd or a total of 7.4% on a total demand of around 7 mbd, while the EIA has forecast 12% growth in imports. (A tip of the hat to [the Energy Bulletin](#).)

What their message may also be warning of is their wish to build a strategic reserve. [Earlier in the](#)

[year](#) there was a mention of this, with an anticipation that China might be buying an additional 650,000 bd after August. That would clearly soak up any remaining excess. And given that this would be a perhaps good idea for them to have such a reserve, giving the world a little notice that they intend to build it might not be bad public relations.

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