



Some evidence for concern

Posted by [Heading Out](#) on June 4, 2005 - 6:47am

With the summer driving months now upon us some of the reality of the oil supply situation will start to become evident. Today, for example, confronted with rising prices [the European Commission](#) agreed to ask OPEC to increase production. The reasons for doing this underly the concerns about how close we are to Peak Oil and the coming together of available supply and demand growth.

Firstly the internal supply from Western Europe, most particularly from the North Sea is declining at a greater rate than might have initially been anticipated. With drops of some 500,000 bd becoming likely this year, another source for this supply must be found. It could have been anticipated that this loss, at least this year, would be met by increased production out of Russia. Russia is [reported](#) as currently producing 9.33 mbd and exporting 4.61 mbd. However a predicted drop in production from Yukos may impact the overall supply from there over the rest of the year. There is now a [prediction](#) that overall growth this year may only be 230,000 bd and that production next year will be sensibly flat. Unfortunately declining production is not likely to remain flat so that for this year Europe is now looking for supplies of 270,000 bd and next year likely 770,000 bd.

Where can this come from? Since Russia was the one country where significant increase in production had been anticipated, outside of OPEC, the Europeans, as with the rest of us, now turn to OPEC and ask them to increase supply.

But, as we have pointed out earlier, plans for increased production cannot be immediately implemented. Yes, in the last month Saudi Arabia has [found two new oilfields](#). One is at Haalfa and is projected at 6,000 bd, the other is at Duaiban, and anticipated to produce around 3,000 bd. However neither field can be anticipated to produce in the near future, and one must continue to rely on production from current sources for a while. We can, however, hope that they have resolved the discordance over the 360,000 bd that they claim to be pumping over that which other observers [report](#).

Outside of Saudi Arabia there is very little additional capacity planned or available this year, some from Kuwait and the United Arab Emirates perhaps, but no increase that is larger than about 100,000 bd. And so we have the Europeans looking to replace existing supplies, we have India and China still trying to ensure additional supplies to cover the growing demand in their countries, and ourselves, who can also anticipate a growth of around 500,000 bd.

This might, perhaps, explain why the focus is on Saudi Arabia, and the concern that they may not be able to increase production above their current production levels this year. For while it now appears that the tanker shortage has been resolved, if there is little additional oil to be produced being able to ship it does not help. The likely result will be that we will have to draw down the reserves at a faster rate and further than usual, and gas prices will reach higher levels sooner than might have been hoped. In this light it is worrying to see the EIA, normally optimistic, now

For a short while yet, there is some excess production that is being put into storage around the world that will be available, but that will likely be consumed in the growling demand before the end of the year, and the reserves will continue to be drawn down.

One can therefore expect that OPEC can, as a result only give the same reply to the EU as the Saudi Crown Prince gave to President Bush "There is nothing more that they can do!"

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