Pre-vacation thoughts

Posted by Heading Out on July 10, 2006 - 11:55am
Topic: Supply/Production
Tags: empty quarter, gazprom, saudi arabia [list all tags]

Well posting is going to be very light for HO over the next couple of weeks, as I slip away for a few days on the beach, but just one or two short notes before I go. Firstly, since this has popped up in comments twice, let me note that when I mentioned last year that I was getting my trips to fun places (such as Alaska) in while I still could, it was not meant to imply that I only had one trip or year in mind. There are a number of places to go, but if we had not started . . . . . .(and some, as this year, are not PO related).

Speaking of beaches, or rather sand, attention is turning back to the Middle East again, I see. While rig counts continue to go up, and I leave most of that to Stuart, it is worth a note to follow up on Leanan's catching of the Wall Street Journal story on SA moves to "unlock" their heavy oil reserves. Some of this is, I suspect, related to Manifa, since this is the field that they count as being part of their deliverable reserve, even though it is not yet refinable. At present Aramco are building a refinery to deal with the oil themselves, with production slated to begin in 2009. Though I see that they are also looking at the same sort of steam stimulation that is being used in Alberta.

The change in mix from sweet to a greater percentage of sour is potentially part of the reason that Saudi production has dropped, since selling some of the sour to China has not been the success that was hoped. Since the Chinese have found problems with refining the crude, they have cut back orders.

> China will extend a 50,000 barrel per day (bpd) cut in Saudi crude oil imports into July and August after some refiners struggled to cope with new higher-sulphur supplies, industry officials said.
> China contracted to buy 500,000 bpd of Saudi crude in 2006, but cut that back by 10 percent in the second quarter after refiners ill-equipped to handle the kingdom's mainly heavy-sour oil were forced to slow production after running the grades, the officials said.

There is another change in that a new exploratory well is being drilled in the Empty Quarter. After being extensively surveyed Shell, Total and Aramco are jointly drilling the well.

> SRAK began exploring the contract areas in January 2004. The Company has completed the largest high-resolution airborne gravity survey in the world and continues to conduct extensive seismic acquisition. A second drilling rig is planned to be mobilized to the area in 2007, the statement said.
> The well, Isharat-1, in southwestern Saudi Arabia is considered a rank wildcat because of the very significant distances from any previous exploration wells drilled within the

> kingdom, and its testing of new hydrocarbon plays. The well is anticipated to take up to four months to drill.

The time that it will take is interesting, since it is one more data point to plug into the production estimates for Saudi operations.

The fact that Aramco are bringing in partners is perhaps also indicative of the fact that, as the world is moving to the production of more and more expensive-to-extract oil, investment costs are going to be an increasing factor. Given the likely cost increases for production of the tar sands , the increased costs for deep water production, and this not to mention the costs for new production in Russia, I can't help but think that there is only so much investment capital to go around in this business. It may (grin) prove practical to get oil from shale, but, as with other things it is going to be expensive. And one wonders at the inertia of the financial side of things, if, for example, we know that there is a possible source out there, can all the capital be assembled to move all the needed projects forward.

This has been a theme of a number of folk who have surveyed the business, from the point of view that - "given the investment of $x trillion - we can find all the oil we will ever need." While I was never much enamored of that statement, seeing it as not much more than a fall-back excuse - it does begin to concern me that the curve may tip faster because investment capital for E & P has rather gone to buying other firms, as Gazprom has diligently demonstrated over this past year. Although I do note that they are now putting some money into exploring in Gujarat. But even they, apparently, are seeing the impact of higher costs. Although, as they continue to build their monopoly, their customers may soon find the bite to bring their profits back.

> (Gazprom export head) Medvedev said the company would have no problems meeting demand in the future.
> "Our reserve base is sufficient to meet not only the demand of Europe, but also our new markets: China, Korea, and the United States," Dow Jones Newswires quoted him as saying.
> Medvedev also rejected allowing independent Russian gas producers to export gas from Russia.

It will be interesting to see if the G8 meeting has any effect

> With energy security topping the agenda at next week's Group of Eight summit in St. Petersburg, the United States will pressure Russia and other countries to espouse open market policies in an effort to stabilize the increasingly volatile global energy environment, a top Energy Department official said yesterday.
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> Assistant Secretary for Policy and International Affairs Karen Harbert stressed that the United States and other G8 countries are wary of Russia's push to increase state control of its energy sector as well as the recent decline in oil production.
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> "This is a time for responsible actors to try and act in responsible ways to calm a fairly unstable and volatile market," Harbert said.

Somehow, as with the similar conversations that were held this time last year with Saudi Arabia, I suspect that these statements are likely to prove equally fruitless.