



## The Chicago Tribune Story on Oil

Posted by [Heading Out](#) on July 31, 2006 - 11:15pm

Topic: [Supply/Production](#)

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Along with most who have read it, I was much impressed with the Chicago Tribune special [segment on oil](#) this weekend, and, if you have the time, would highly recommend that you both read the articles and watch the video (which takes about an hour). It does not have the fictionalized aspects that we have seen in other coverage from the [BBC](#) through [Fox](#), and [CNN](#) about the problem, but rather, in a series of facts, lays out the situation. For those who don't have the opportunity, I thought I would give a summary, with some comments.

The series provides a number of answers to questions that appear from time to time in comments here, including the bits that get added to the price of the oil as it moves through the chain, to the point that it reaches the pump. It begins with the load of gasoline delivered to a Marathon service station in South Elgin, just north of Chicago. They were able to find that the 7,723 gallons of a delivery came from

Gulf of Mexico crudes--31 percent

Texas crudes--28 percent

Nigerian crudes--17 percent

Arab Light from Saudi Arabia--10 percent

Louisiana Sweet--8 percent

Illinois Basin Light--4 percent

Cabinda crude from Angola--3 percent

N'Kossa crude from the Republic of Congo--.01 percent

Iraqi crude - a little more than a trace.

And then they went on to trace back to where that oil came from, at least for the greater percentages. As the report notes

This is, in effect, a journey into the heart of America's vast and troubled oil dependency. And what it exposes is a globe-spanning energy network that today is so fragile, so

beholden to hostile powers and so clearly unsustainable, that our car-centered lifestyle seems more at risk than ever.

The portion of the gas from the Gulf came from the [Petronius](#) rig, out in the Gulf that produces up to 60,000 barrels of oil a day, from some [19 wells](#) from the field of the [same name](#), some 130 miles south-east of New Orleans. It was closed, due to hurricane damage, for [175 days](#) after Hurricane Ivan in 2004. The wells are also now, more complex.

Out in the gulf, for instance, Petronius' 19 wells do things engineers couldn't dream of a quarter-century ago. They snake downward through almost 1,800 feet of seawater, bore vertically through a mile and a half of rock, and then veer off laterally under the stony seabed for distances of up to 5 miles. This is the oil-patch equivalent of drawing blood from a hidden vein--with a hypodermic needle 180 feet long.

Such whiz-bang technology has encouraged the U.S. Minerals Management Service to boost the Gulf of Mexico's potential oil reserves by 15 percent, to 86 billion barrels. That's enough, in theory, to meet U.S. demand for another decade. Much of that, however, lies in deep, environmentally sensitive waters near the Florida coast and is prohibitively expensive to extract using current technology.

Petronius, itself, is anticipated to have a life of less than 15 years.

Nigeria occupies a large percentage of the supply, with most of it coming from the delta, but, as the story notes

Nigeria, Africa's oil heavyweight with 36 billion barrels of reserves, boasts only a seventh of Saudi Arabia's bounty. Still, African crude has its advantages. It is light and low in sulfur--well-suited to pollutant-sensitive U.S. refineries. Its reservoirs are closer to major East Coast ports. And American companies can do business on the continent unhampered by the terror war tensions that dog them elsewhere.

Americans already get more oil from Africa than from Saudi Arabia. By 2015, oil experts say, African states will supply a quarter of all U.S. imports, up from 15 percent today. The United States quietly signaled this shift in 2002, when the State Department declared African oil a "strategic national interest," meaning in diplomatic code that U.S. troops may intervene to protect it.

Interestingly the [Akwa Ibom River](#) where the story is based in Nigeria, is, further up river, a potential source of palm oil, and at some 635 gallons/acre (for biodiesel) it might, long-term provide a better benefit for the local people than either soy beans in the US, or the impact that oil has had on them, which, as reported has not, in the main, been good. Unfortunately I found this quote to be telling:

The powerful Texas-based company is both courted and reviled by the Ibibio people. The Nigerian central government is for the most part invisible in the backwater region, so everyone turns to the Americans for solutions. When asked why villagers didn't dig latrines--a simple way to blunt fatal gastrointestinal epidemics--Itak Abasi's old, bald-headed chief snapped, "That's the oil company's job!"

Nigeria continues to be unsettled, even this weekend Leanan was drawing attention to [the worsening situation](#).

Royal Dutch Shell, which produces half of Nigeria's oil, said last Tuesday a leak of an oil pipeline in south Nigeria had cut output there by 180,000 bpd. As a result of the leak whose reason remains unclear, the contracts of Shell might not be honored in July and August.

There were also 477,000 barrels offline in the western region of the oil-rich Niger Delta. Altogether, Nigeria had to cut oil output by 675,000 bpd because of a string of leakage accidents.

However, the calculation did not take into account a recent attack at an oil pumping plant operated by Italian energy group ENI.

Last Wednesday, ENI said local militant youths attacked its Ogbainbiri plant in south Nigeria on Tuesday night. The plant has an oil extraction capacity of 35,000 bpd.

The key quote there being that contracts might not be honored.

The Marathon station, which incidentally sits in a corn field, where the corn is slated for an ethanol plant. even got a minute amount of oil from Iraq, and the story there is also not a promising one.

A former colonel in Saddam Hussein's army, Yousif, 49, works for Olive Group, a British security firm that specializes in oil field protection. He had just spent 18 months training 4,500 Iraqi recruits to patrol the nation's vital southern oil fields against sabotage and fuel smuggling.

But strange new faces were appearing at the checkpoints. They were the bearded members of local Shiite parties and their violent militias. His oil army was being infiltrated. In places like Rumailah, Iraq's boggling oil wealth was falling prey to sectarian greed.

A stiff, bespectacled man cocooned in body armor and escorted by a three-car convoy of British and Iraqi bodyguards, Yousif glared at the militiamen. They squinted back with open contempt.

It takes 41 days for the oil to get from Basra to the LOOP, and so the impacts of Middle Eastern events can have an actual impact on day-to-day events (as opposed to that on the financial market) some time after the event itself. But overall the situation is unlikely to increase oil production from that country in the near term.

The interfactional fighting over oil is getting worse, not better," said Jamal Qureshi, an oil analyst at PFC Energy in Washington, an energy consulting firm. "I continue to pencil in declines in Iraqi output for the next couple of years. This isn't pessimism. It's a real mess."

Though it is a country where the Chinese oil companies already have personnel.

In contrast with Nigeria, the Chavez Government in Venezuela is using the oil revenue to raise the standards of its poor.

"This is a good way to run an oil company into the ground," said a skeptical Michelle Billig, an analyst with PIRA Energy Group in Washington. "On the other hand, if leaders in places like Nigeria, Angola and even Iraq ever tried a bit of this, we probably wouldn't be hearing so much about instability in their countries."

And the Chinese were also in Venezuela, leaving behind, in this case, an orchard of cashew trees, that were, as it happened, dying when the reporter was there. Yet it again underscores the ubiquitousness of their activity. The article doesn't see much immediate impact from the heavy oils of Alberta and Venezuela, and quotes Congressman Bartlett.

Heavy crudes might help delay a global peak oil crisis, Bartlett added, but not for long. He noted that even with a fast-track program, Canada might squeeze 5 million barrels a day from its tar sands by 2025. But by then, the world's daily oil appetite may have swollen by 40 million barrels.

We have noted before that the Chinese are interested in Alberta, and the Koreans have now joined them. It is a presence and level of activity that the reporter notes.

"America and China are on a collision course over what remains of the world's hydrocarbons," said Gal Luft, a China expert with the Institute for the Analysis of Global Security in Washington. "The 21st Century is going to be defined by this aggressive competition for a resource that's depleting."

Cushioned for the moment in their oil-soaked lifestyle, most Americans have little idea how surging energy demand in China is reshaping the future, Luft said.

The speed of Chinese activity is noted, with their ability to lay a 1,000 mile pipeline through the Sudan, in less than a year. The same speed drive appears to underscore the current Chinese activity around the world. Although not noted in the article, it is worth observing that the Chinese are now also getting oil from [Kazakhstan](#) a 963-km journey. The world is indeed becoming a smaller place. And bear in mind that the more China has as its share of some of this oil, the less there will be for others, as production declines and rising internal consumption reduces overall the amount available for export to the West.

Reading the comments of others different folk can (as you may have noted, grin) find different information in the article. But I learned a fair bit both about the economics of gas station operation, and, more particularly through the video, more of where the different oil feeds came from. If you have the time go read and watch.



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