The balance scale is swinging negative

Posted by Heading Out on June 16, 2005 - 11:24am

As the picture is starting to develop for global oil supplies this winter many of the discussions seems to focus on the overall size of the demand/supply levels. And when you are talking about numbers on the order of 85 mbd a variation of 100,000 bd is not a very large number. Thus the seeming risks of small changes in production are not evident.

However if we focus more narrowly on the likely difference in range between available supply and overall demand, then the range between potential oversupply and shortage is somewhere in the region of 1 mbd or less. It is in this framework that we need to look at some of the likely influences on supply between now and the end of the year, as demand is likely to grow steadily from this point forward. It was Everett Dirksen who first said " a billion here, a billion there. Pretty soon it starts to add up to some real money" (how much is that â€“ see here). And so it is with oil. A hundred thousand barrels here, a hundred thousand there. Pretty soon it adds up to a real shortage.

For while the major members that can increase oil production in OPEC are doing so, their number is small and some cannot increase at all, and others are declining. In this context, the recent announcement from Iraq is the most troubling. It has always been difficult to predict how much will be shipped from there, but the promise for the rest of the year of only 1.5 mbd is a drop from an anticipated 1.9 mbd that had been anticipated until very recently. And while in the overall context it may not appear much, when set against the 1 mbd balance it is a very significant hole. Particularly as the oft-quoted residual reserve, from Saudi Arabia, is not refinable.

Looking to the slightly longer term in a recent development the Chinese companies have shown where some of their investments lie.

> According to the agreement, the acquisition will allow PetroChina to own 50 percent interest in Newco, a subsidiary of CNPC, by cash injection. It will give PetroChina access of Newco's oil and gas assets in 10 foreign countries including Kazakhstan, Venezuela, Algeria, Peru, Oman, Azerbaijan, Canada, Ecuador, Niger and Chad.

And bringing that investment closer to home, from here on their Canadian investment.

> Chinese companies have been especially keen, with two deals done in recent months.
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> In late May, the large Chinese refiner Sinopec Group paid C$105 million for a 40 per cent stake in privately-owned Synenco Energy Inc.'s Northern Lights oilsands project.
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> Northern Lights is expected to cost C$4.5 billion to develop over the next five years and produce 100,000 barrels per day for more than 30 years.

> In April, China National Offshore Oil Corp. bought nearly 17 per cent of privately held Canadian oilsands company MEG Energy Corp. for C$150 million.

There are also the discrepancies between numbers that Venezuela is supplying into the market, with variations as low as 1 mbd below their OPEC quota of 3.1 mbd.

It is when these numbers start to be collectively added that the Dirksen phrase very rapidly comes to mind. Or, if your tastes run to a more literary source, Dickens' Mr Micawber.

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