



The Forest and the Trees -- the Oil News Imbalance

Posted by [Dave Cohen](#) on September 20, 2006 - 7:26am

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Tags: [angola](#), [bp](#), [kashagan](#), [kazakhstan](#), [nigeria](#), [russia](#), [sakhalin](#), [thunder horse](#)
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A news imbalance exists in the reporting of supply-side developments affecting peak oil claims. Apparently, there is nothing but good news lately—actually, this is being reported as the absence of bad news. This trend has driven down oil prices since early August. Is the trend real? Today, Barrie McKenna reminds us in [Those quick to deride peak oil theory also don't know Jack](#) about the bigger picture.

A chronic pitfall for economists is that the daily deluge of data often obscures more meaningful long-term trends...

It's that old adage of not seeing the forest for the trees...

With oil now in the low \$60 range, many economists are rethinking their assumptions of last year...

The problem in all this is that the peak oil theory isn't about \$78-a-barrel oil. And the price of abundance isn't necessarily \$63.

Let's look briefly at the forest, not the trees. There's plenty of bad news.

BP's [Thunderhorse](#) production is now delayed until 2008.

BP had originally scheduled startup for the end of 2005 and this latest slippage will make it harder for BP to hit production growth targets in the coming years.

The delay will also call BP's skills at overseeing complex projects into question at a time when its management of Alaskan oil fields and pipelines is the subject of intense scrutiny.

BP said in a statement that tests carried out over the past four months revealed metallurgical failure in components of the subsea system and it now "plans to retrieve and rebuild all the sea-bed production equipment" from Thunder Horse.

Project slippage is nothing new. However, "Thunder Horse has been *repeatedly delayed but as of late July, BP still expected production to begin in the middle of 2007.*" In 2007, will we be told Thunderhorse will begin production in 2009?

In the year 2000, the [Kashagan](#) discovery in Kazakhstan was announced. Heralded as the largest reserves addition from a new field in 30 years, the operator consortium Agip KCO has pressed forward to get it onstream. Fast forward to the fall of 2006. [Eni's Kashagan oil field start may be delayed to 2010](#).

The commercial production of the Kashagan oilfield, of which Eni SpA is the operator, could be delayed to 2010, the daily *Il Sole 24 ore* reported citing Kazak energy minister Baktyjoka Izumkhambetov.

Production could be delayed from 2008 to 'end of 2009, beginning of 2010,' the minister was quoted as saying.

The Kashagan field is one of the world's largest oil fields, with estimated reserves of 45 bln barrels, of which between 8-13 bln barrels are currently considered recoverable.

In [Confident Despite Delays](#) from *Petroleum Economist* (page 3), we are told that "Agip KCO has not yet revealed exactly what has gone wrong at Kashagan." What is at stake? Skrebowski's [2006 Megaprojects Update](#) lists Kashagan Phase 1 as providing 0.450/mbpd in 2008 and an additional 0.450+/mbpd coming onstream in 2009 from the phase 2 addition. It is likely that no oil from Kashagan will flow until 2010. This prediction may be optimistic.

Could the delays at Kashagan be predicted? Absolutely. These are deep, high-pressure reservoirs in the shallow North Caspian Sea. "Temperatures can fall below -20°C in winter and a coating of ice, several metres thick, forms in this part of the Caspian Sea for many months of the year" (from the Kashagan link above). Finally, Kazakhstan's leader Nursultan Nazarbayev, the [Sultan of the Steppes](#), is playing each potential operator (AGIP KCO, CNPC, KNOC, Petronas, ONGC) off against the others, asking for exorbitant terms for E&P in Caspian Sea development blocks.

Everyone knows that new oil production is subject to long lead times, as Daniel Yergin is fond of telling us. The meaning of the word "long" is a bit *slippery* in the Brave New World of oil E&P. Between them, Kashagan and Thunderhorse, designed to produce 0.250/mbpd, account for well over a million barrels per day of global supply that was supposed to be onstream by 2010.

There's more unsettling news. Russia is [trying to take over](#) Sakhalin II.

Shell said it was continuing to work on Sakhalin, but admitted the removal of its environment permit might lead to more delays and further cost overruns.

The production challenges facing phase 2 of Sakhalin II (0.120+/mbpd due onstream in 2007) are at least as [daunting](#) as those at Kashagan—even without the Russian political interference.

In Nigeria, [Shell May Delay 480,000 BPD Output](#) due to continuing political violence. To be sure, there are some success stories like Azerbaijan. A closer look at others, like [Angola](#), reveals a geopolitical [accident waiting to happen](#). Also look at the optimistically framed [Angola won't go back to war](#). Perhaps they won't. Meanwhile, declines like those at [Cantarell](#) will continue no matter how many horizontal wells they drill.

As you read about all of the shorter term "good news", remember that the perilous longer term supply-side trend reported here at The Oil Drum remains the same. The current enthusiasm for dismissing peak oil concerns misses much of the big picture.



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