Remembering Mr Micawber*

Posted by Heading Out on October 1, 2006 - 11:05pm
Topic: Supply/Production
Tags: manifa, nigeria, venezuela [list all tags]

Bless my socks! I had popped the Hel post into the hopper a couple of weeks ago, when I left, and am now back, although still trying to catch up on the information that was posted while I was away. One thing that has struck me, which related to the last post, has been the speed with which wind seems to be catching on as an alternate energy source. The NYT had a piece on the growth in India and China this past week (but since I was traveling I failed to tag it). And turbines are appearing when least expected, showing that the investment is now considered worthwhile.

By the same token, while driving around Poland we were, at least once, carried in a car powered by gas, and these are fairly common, though when our host said two million such, I am not sure if he was correct on the decimal point.

I listened to the recent interview with Matt Simmons and am not sure that I completely agree with one point that he made. In talking about production, he suggested that we had (as Khebab pointed out) reached a point where there has been some slight decline in production over the past months, and that this might signify that we have passed the peak.

. I am more inclined, at this stage, to think that this might in part be a demand driven peak. Bearing in mind that the increase in prices has caused some response, and reduction in demand from those who either can no longer afford the price, or chose not to buy. I do believe that the KSA, for example, has more oil that they could sell, but that given the quality of their surplus, that there is no current market for it, thus constraining how much they produce. (And thus the announcement that they are starting work on Manifa while expected should also mention that they are also building a refinery which will be needed to process the oil).

The reported moves by Nigeria and Venezuela to reduce production would fall in with this line of thinking. I don't know what the surplus of potential supply over demand currently is but the cited number

> Ramirez said that there is a surplus of at least 500,000 barrels a day in the market.

is apparently sufficient to cause such a reaction. Which then leads on to the question as to the size and nature of the decline in demand from that projected. The drop in price, however, can only feed the nervous concerns of those in oil production.

It is hard to remember just how many times over the last months I have talked with folk in the oil business who are sure that the current bonanza will not last. They have been burned too many times before, and now, the drop in price feeds into those fears. The likely result will be that projects that had been pushed hard, may now see less pressure. Delivery dates for new production, or plans to chase that production, are pushed back a little, until the situation becomes clearer.

Looking at the headlines that Leanan posted today (Oct 1) I was struck by how many of them are suggesting that this slow-down in demand (which occurs each year as we transition from summer to winter, but which gets hidden, on occasion, by the impact of hurricanes) and the possibly sustained drop in price, is going to be a big problem across the energy production board. This may well slow decision making, but, in reality, depletion is still gnawing at the underbelly of supply.

And demand still continues. The Newsweek story seems to suggest, from the headline, that Chinese demand is going away, though in the story itself it does report that growth is on target to be 6% this year. And the story does comment on the concern that I have about the climate slowing investment, but other than that it would have you believe that depletion does not exist. Two quotes

> In fact, the current oil crisis has nothing to do with a catastrophic shrinking of global oil resources, while the specter of rising Asian demand is largely a myth--China has huge potential to reduce its oil consumption. Supply is tight because two decades of low prices discouraged the exploration and development of new fields in the world's most oil-rich areas. That has cut spare production capacity--the critical cushion needed to cope with crises--to just 2 to 3 percent of global consumption. This makes the price of oil a hostage to political and climatic events. There has been no objective rise in oil-state instability, only in the market's vulnerability to speculation--gloomy or not.

Followed by

> Essentially, the underlying causes of the new century's first oil crisis are in the process of being solved. Since 2002, the major producing countries and oil companies have gained the confidence to invest in exploration, development and refining. We are in the midst of a real investment boom, although it needs time to bear fruit. Oilfield development takes several years, and there is now a serious shortage of equipment and qualified personnel.
>
> If investment continues at current rates, however, the global production capacity of crude could increase by 12 million to 15 million barrels per day between 2010 and 2012, outstripping expected demand growth of about 7 million to 9 million barrels per day. This would boost spare capacity and drive prices down.

Need I mention that the article was written by the senior vice president for strategies and development of Eni SpA.

Well we have written here, many of us, about the errors in those statements, so it is a pity that they are being repeated. But the current world surplus is only a small amount, and depending on the real growth in demand this year (and I have heard a variety of numbers) an assumption that it will be sustained into the new year may be premature, at best.

Even the Nigerians seems to be hedging their bets. And they are noting the effect of time on the impact of any change in oil production, as the Nigerian oil Minister noted

> Daukoru told THISDAY that "whatever decision members eventually take, it would be

> in their best interests" adding that "do not forget that whatever decision is taken would not reflect now but would only come into effect in at least two months". . . . . Daukoru, who is also Nigeria's Oil Minister, said that even if OPEC reached an agreement to cut ahead of the group's December 14 meeting, it would be difficult logistically to lower supplies before November at the earliest.
> "Our nominations for October are already out, so if we were to cut it would be from a later date," he said.

Well, time will tell, but I don't think I plan on buying an SUV in the near future, though the Actress is concerned (having been rear-ended several times) that a Smart car does not provide the protection against them.

* From Dickens "Annual income twenty pounds, annual expenditure nineteen pounds, nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

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