The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Angola Joins OPEC

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The news is official — Enlarged Opec aims for high crude prices.

> At a gathering in Abuja on Thursday [December 14], ministers from the 11 member countries opted to cut their production by another 500,000 barrels per day from February and accepted African producer Angola as a new member from January 1.

More details will follow below the fold but let us set the correct tone at the start.

*"What did we do before?" he asked rhetorically, alluding to the move to ramp up output in 2004 after the aborted cut. "**People don't know the trouble we go to, to balance the market**," Mr. [Ali al-] Naimi said. "**Without us, the oil market would be chaotic**."*
From OPEC's Cut Aims to Prop Up Prices.

Now that Christmas has come early, let's examine what's going on in the Organization of Petroleum Exporting Countries.

The admission of Angola as its 12th member is the first expansion of OPEC since the early 1970's.

> On December 14, the OPEC announced that Angola would become its newest member effective on January 1, 2007. Angola would be the second country from sub-Saharan Africa and the first new member since Nigeria joined in 1971. Ecuador and Gabon joined OPEC in 1973 and 1975, but left the organization in 1992 and 1994, respectively. The 11 current members are: Algeria; Indonesia; Iran; Iraq; Kuwait; Libya; Nigeria; Qatar; Saudi Arabia; the United Arab Emirates; and Venezuela.

Note on Angola's Oil Production

While Angola will join on January 1st, the African nation will not be part of the OPEC quota system until March. The quota will be set based on Angola's February production. According to the EIA supply data, Angola produced 1.446 mbd in September with a 9-month average of 1.412 mbd in 2006. However, Angola is one of the most prolific deepwater suppliers in the world and these numbers are expected to increase. Just this month, Dalia came on-stream.

> Discovered in 1997, Dalia lies in about 1,400 metres of water. It is expected to reach plateau production of 240,000 barrels of oil per day during the first half of 2007...
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> The field has been developed with 37 production wells, 31 water injectors and three gas injectors tied back to a floating production, storage and offloading (FPSO) vessel.
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> This is similar to the solution adopted for the Girassol field, also in block 17. Both FPSOs are among the world's largest, with a storage capacity of roughly two million barrels.
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> Girassol came on stream in late 2001, and the Jasmim satellite was tied back to its FPSO two years later.

According to the World Bank, Angolan production will peak in 2011 at 2.6 mbd. However, the EIA is somewhat more optimistic — projecting that Angola could produce 3.4 mbd in its International Energy Outlook 2006. Skrebowski lists the following projects coming on-stream. The current status is indicated in the text.

- Chevron is the operator of Benguela-Belize (2006) and Lobito-Tombuco (2007), phases 1 and 2 respectively of their Angolan offshore development. Each of these projects will produce 100 kbd by 2008 and they appear to be ahead of schedule. Benguela-Belize is on-stream now at 0.88 kbd and Lobito-Tombuco has produced its first oil.

- Greater Plutonio is operated by BP and is scheduled to come on-stream in the 4th quarter of 2007. Ultimately, it is expected to produce 240 kbd. However, there are a number associated of "challenges" (see the link) in its development.

- According IHS Energy, Kizomba-C is scheduled for production in early 2008. ExxonMobil will commence drilling in the 1st quarter of 2007 and the project is expected to produce 200 kbd.

Skrebowski also lists Total's Rosa development for 2007, which will add 40 kbd as a tieback to Girrasol. Angola deepwater production has been a success story. There is little reason to believe that story won't continue. Thus, one of the non-OPEC's world's brightest stars has been moved over to the other side of the ledger.

Who Benefits from OPEC's Expansion?

Let's sum up at the beginning.

- OPEC — clearly, a beneficiary
- Angola — presumably benefits
- IOCs (ExxonMobil, et. al.) — further at risk
- United States, China — business as usual?

In this analysis from Rigzone, we find —

> Although a move by Angola to join OPEC could theoretically affect the long-term profiles for the private companies, analysts said the prospects of a draconian OPEC production cut are small for the foreseeable future.
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> "I don't know why Angola would want to join OPEC to cut production," said Paul Sankey, an equity analyst at Deutsche Bank (DB) who covers big oil companies....
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> "To the extent Angola will try to adhere to quotas at some point in time, it could affect things," said Lysle Brinker, an analyst at John S. Herold, who covers big oil companies. "I don't think it'll have much impact in the near term, but it could over the long term."

Paul's right. Why would Angola put themselves in a quota system if they were expecting to cut production? It only makes sense in terms of price. From the Angola Press —

> Speaking recently on the country`s adhesion to the oil organisation, [Angolan oil minister] Desidério Costa said this enables that Angola, as producing country, *is not left isolated from the world.*
>
> He also said that the price policies do not depend on the country`s being or not being part of the organization. "*There is a policy established by the organization and the other countries, both affiliated and non-affiliated, [we] just have to respect it*," he said.

In this day & age, OPEC can not flood the market with conventional oil to bring prices down, despite Saudi Arabia's threat (within OPEC) to drive Iran to financial ruin as a response to the Sunni/Shia' civil war in Iraq. What OPEC can do — with limited success — is cut production to defend a floor on the oil price. It did not escape OPEC's notice that prices in the $65 to $75 range during 2005 did not affect demand much. At this time, OPEC is trying to maintain a $60/barrel price but it is easy to imagine OPEC supporting a $70/barrel price a year from now. However, they are having trouble with member compliance and the most recent announced cuts (500 kbd in February) may not go into effect at all if prices rise before then. Costa's disingenuous remark about price policies should be understood in this context. By adding Angola's leverage to OPEC's ability to slash supply, OPEC's ability to prop up prices is stronger.

Costa's second statement, that Angola should not be "left isolated in the world", is more interesting still. Indeed, if this analysis from the Afrol News is to be believed, Costa's statement can be read as saying that Angola does not want to become an oil colony of the United States.

> Angolan politicians have played with the idea of joining OPEC for a long time, but strategic assessments had hindered an application until now. Yesterday, however, a cabinet meeting headed by President José Eduardo dos Santos took the formal decision to seek membership, according to a government press release.... Many reasons had spoken against Angola joining OPEC, in particular its very close and warm ties to Washington - contrasting its ruling MPLA party's hostile relations with the US during the civil war. Washington historically has seen OPEC as a threat to its supply of cheap energy as the cartel is able to set high world market oil prices at its pleasure. The US government therefore always has urged Angola to stay outside OPEC.
>
> Until now, Luanda has been dependent on the US to realise its current oil-based economic boom. Most companies operating in Angola are US-based and more than 40 percent of Angola's oil exports go to the US. In addition, Washington has an outspoken policy of getting less dependent on the OPEC-dominated Middle East for oil imports, focusing on Atlantic Africa. This government focus has made private investments from US oil companies in Angola easier.
>
> By now, however, Angola is freer to follow its own interests as the national oil boom is secured for many years ahead by extensive explorations and production investments by companies from all over the world, including China. Production is also set at such a high scale that Angola can start negotiations with OPEC without fearing too much limitation on its future quotas.

The United States has had no official reaction to the Angolan news that I could find, being preoccupied by that world of hurt called Iraq. Angola has long been an observer member of OPEC, attending all OPEC meetings. Having moved past its long civil war, and with it's oil production booming, Angola appears to be seeking a secure, powerful and balanced role in the world market. About 70 to 80% of their exports are split between two countries — the U.S. and China. Last summer, China's Sinopec won a 27.5% stake in offshore block 17, a 40% stake in block 18 and a 20% stake in block 15, paying an astronomical $2.2 billion for the first two blocks alone in addition to a $240 million payment (bribe) to build schools and other social projects. See A Bidding Frenzy for Angola's Oil. A picture is worth a thousand words.

Resourceful friends: Chinese Premier Wen Jiabao (left) visits Angolan President José Eduardo dos Santos (right), one of the resource-rich countries of Africa, on Wen's itinerary. — from China's Portuguese Connection (Yale Global)

From the peak oil point of view, what makes this even more astonishing is that these offshore blocks that China bought stakes in are geologically well-trodden ground.

> All the more remarkable, the bidding was for tracts that had already been "cherry picked" by other international oil companies. These bids were "the highest ever offered for exploration acreage anywhere in the world," says Catriona O'Rourke, an analyst at Edinburgh consultants Wood Mackenzie...
>
> Oil companies won exploration rights for these three blocks in the early 1990s for bonuses in the range of $6 million to $35 million.

> Some excellent discoveries were made there. They include Total's (TOT) Girrassol project in Block 17, which produces 240,000 barrels per day. Because of this stellar track record, later Angolan acreage next to these blocks went for as high as $350 million. Now, Angola, which has a relatively generous though toughening tax regime for oil production, is taking advantage of high prices and the scarcity of good opportunities to maximize its short-term revenue....
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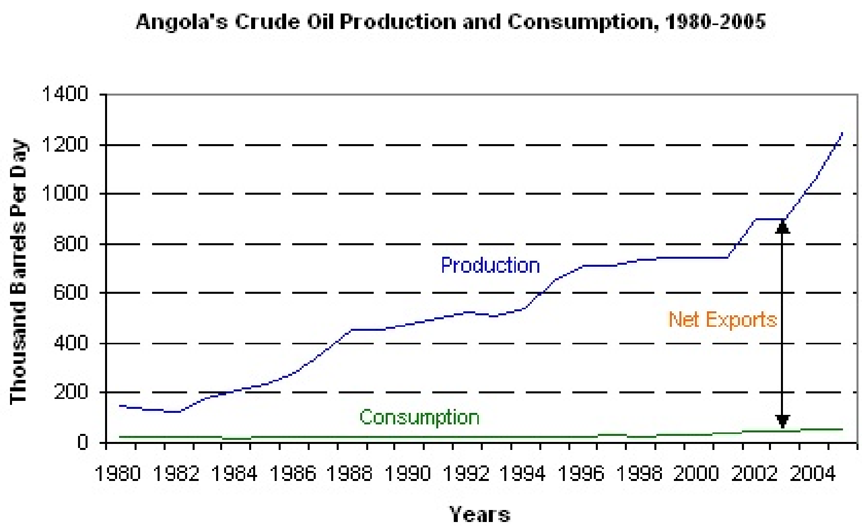
> While not impossible, what works against the likelihood of massive finds is that companies including ExxonMobil and BP have already worked over each of the blocks, presumably drilling what they thought were the best prospects. ExxonMobil, for instance, has already found 3.3 billion barrels of reserves in Block 15, making 17 discoveries with 19 wells.

So, you can bet that OPEC is as pleased as Punch to have Angola, which will be a top-10 world exporter soon enough, in the fold.



Angola is a very poor country — hence, a large net exporter

The Prospects for OPEC

Two factors are eroding OPEC nations' revenues: 1) the continued weakening value of the dollar and 2) exponentially increasing domestic consumption, especially in Saudi Arabia, Indonesia (net importer), Iran, Kuwait and the United Arab Emirates. Again, from OPEC's perspective, having Angola on-board helps them enforce oil price floors. With burgeoning demand, which shows little sign of letting up yet, OPEC cuts can be viewed as an effort to manage OECD inventories, which have short-term effects on price. From Bloomberg —

> Saudi Arabia's [esteemed & beloved] Oil Minister Ali al-Naimi said OPEC members are about "80 percent" compliant with the 1.2 million barrels a day cut agreed upon in Doha. "*Compliance is quite good, otherwise why would inventories come down*," said Naimi, talking to reporters in Abuja.

From a longer term perspective, two recent OPEC documents are of interest to us at The Oil

Drum.

- [Monthly Oil Market Report](#) (December 2006, big pdf)
- [OPEC Bulletin](#) (Nov/Dec 2006, big pdf). The interesting part is available [here](#) (small pdf).

The market report makes the usual kind of fairly bullish supply/demand projections, as we can see in the figure below.

Table 27: Summarized supply/demand balance for 2007, mb/d	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	84.27	86.04	84.00	85.21	87.12	85.59
Non-OPEC Supply	51.08	52.25	52.43	52.80	53.97	52.87
OPEC NGLs and non-conventionals	4.27	4.31	4.36	4.46	4.61	4.44
(b) Total Supply excluding OPEC Crude	55.34	56.57	56.80	57.26	58.58	57.31
Difference (a-b)	28.93	29.47	27.20	27.95	28.53	28.29

Non-OPEC supply will be up 1.79 mbd, OPEC production actually be down 0.64 mbd on average in 2007

There are a grand total of 7 references to Angola in the 55 page document, the most relevant of which appear to count their production as part of the non-OPEC tally. So, one must take the increased Angolan production away from the non-OPEC number and add it to the OPEC number in 2007. Either way, the net gain is 1.32 mbd, including OPEC NGLs and non-conventionals using the OPEC accounting practices — in which non-OPEC NGLs are bundled together with crude + condensates. In any case, whether this these projections are accurate or not remains to be seen.

Of more interest are the remarks of Shokri Ghanem, Chairman of the People's Committee, the National Oil Company (NOC) of Libya, who gave a "thought-provoking address on the 'peak oil' theory and the possible end of cheap oil", reprinted in the OPEC Bulletin.

Shokri Ghanem

[editor's note, by Dave Cohen] I will quote Ghanem at some length for the purposes of keeping an historical record at The Oil Drum — DC

Ghanem points out that oil prices at $50/barrel did nothing to stem demand. Neither did $70/barrel. He goes on to say —

> Having said that, I would like to turn now to the fundamental question: what is keeping the oil price high? The simple answer to this question should be first and foremost strong world oil demand. We can see this growing demand evident in China, India, and the United States, coupled with dwindling spare production and less economically viable recoverable reservoir capacities. Other factors, such as a lack of refining capacity,

> geopolitical uncertainties, market speculation, and natural disasters are also important....
>
> Furthermore, serious concerns exist about future supply-demand imbalances. Some analysts are raising doubts about the collective abilities of the oil-exporting countries in general, and the OPEC Countries in particular, to deliver the increasing volumes of oil needed in the future to the world's biggest and fastest-growing economies, namely the US and the OECD, China, and India.
>
> ... The question of peak oil output, which once was the concern of few individuals, has become a concern of some countries, as well as several organizations. Despite the fact that many are unhappy with Hubbert's peak oil predictions, his 1970 peak oil theory for the US turned out to be quite accurate, and for many, particularly the pessimists, his end-of-the-century peak oil predictions for the world also proved to be correct.
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> However, while some of the more pessimistic oil specialists are declaring that peak oil has already been passed, or at best is here now, others believe it is not going to arrive before 2010. Some optimists give the world a little more breathing space -- that is to say up to 2020, and perhaps even up to 2030. However, all in all, most would appear to agree that peak oil output is not very far away for all of us. It could take place sometime within the next decade or so, which in fact means that there is not much time left for a world economy to be driven largely by oil.
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> Furthermore, under any of these scenarios, and since peak oil output is not about the time at which oil will run out, but the time at which production can no longer be increased to cope with increased demand, it seems the only way the oil price can go is up.
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> This conclusion seems to be in line with the view held by the peak oil output advocates who argue that the ongoing oil price rises are mainly due to supply-demand imbalances. This is because we are at, or near, the production peak of world oil, if not on the downward slope of Hubbert's peak curve. This is not to deny the role of other factors (such as geopolitical), but only to stress the importance of supply and demand for crude oil as the prime factor in determining the price of the commodity.

And, Ghanem on future oil prices —

> Some analysts now say that nothing short of a major worldwide economic recession in the major consuming markets can turn down the price of oil. So, what can we conclude from this? First, it is highly likely that $20/b or even $30/b oil is a thing of the past.
>
> Second, if current supply-demand imbalances, both for crude oil and refined petroleum products, persist -- and there is no reason for this situation not to persist -- then one can only conclude that a return to $40-50/b seems quite unlikely. Even though there are some who would still disagree and would hope to see the price of oil falling -- even below $40/b -- they also say that the history of the oil industry is characterized by volatile changes in price.
>
> Third, $70/b plus oil may be quite likely if the world economy continues to grow at the rates experienced in 2004 and 2005. These rates may cause demand for oil to increase

> proportionally and it may even start to exceed available supply.

Thus, we have an open admission by a high ranking official of an important OPEC nation that peak oil factors are likely determining the world's supply/demand balance for conventional oil. It is an historical moment, completely at odds with the intended implications of recent statements by Abdallah S. Jum'ah, president and CEO of the state-owned Saudi Arabian Oil Company, better known as Aramco, who said in Vienna, on October 3rd —

> "The world has only consumed about 18% percent of its conventional potential."
>
> While some believe that less than 3 trillion barrels of recoverable oil remain in the earth, Jumah said there is a "potential of 4.5 trillion barrels in reserves -- enough to power the globe at current levels of consumption for another 140 years."

Abdallah Jum'ah

It is worth noting that Jum'ah is a bit sketchy about the conversion rate of these vast amounts of hydrocarbons into incremental production flows that would stave off the peak, both in Vienna and in The E&P Challenge: Achieving the Four Trillion Barrel Vision at the Saudi Aramco website.

Let us now to turn to the future prospects for OPEC in this context. Does the OPEC leadership believe the peak of oil production is upon us or near? Most likely not; the view here is that Ghanem's opinions are his own and do not reflect some clandestine view inside OPEC. However, it stands to reason that OPEC will control a greater and greater market share of the world's conventional oil production as time goes on. Moreover, both Sudan and Ecuador have expressed interest in joining OPEC this year. Unless the cartel's hegemony over the available oil is trumped by geopolitical events, they will become more and more powerful as a result, with the caveat that they will have to enforce greater discipline within the organization. OPEC will continue to influence the floor price for conventional oil. However, in the case of much higher prices — $80/barrel or more — OPEC will not have much ability to lower prices by means of large supply additions — only significantly lower global oil demand could do that. Historically, OPEC has wanted to hit the sweet spot where the oil price is perfectly in balance — the highest price possible that does not lower demand growth or, even worse, decrease actual consumption over time. Eventually, these policies will become moot, with OPEC benefiting from very high prices.

Iraq has been a disaster for OPEC, not just since the invasion by the United States in March, 2003, but for many years prior to the current war. Iraq has not participated in OPEC's quota system since 1998. Hence, the phrase "the OPEC-10 & Iraq". With the addition of Angola as their 12th (11th) member, OPEC is attempting to re-establish their up-stream market share and geopolitical position.

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