



## Simple, but discouraging arithmetic

Posted by [Heading Out](#) on July 30, 2005 - 5:22am

Gnnnggh! (The sound of a hand jammed into one's mouth) Why, when the News hour debates the Energy bill do they choose an environmentalist to argue against the provisions? Going downhill from saying that American oil production would peak in 2020 or some such he did not display a full understanding of the problems of oil production at all. And then we wonder why the general public has no sense of the coming problem. (End of rant).

So now we come to August. The French are [sensible](#) and taking the month off. In the United States traffic on the highways is getting heavier even though our vacations are barely half as long as that of the Europeans. And as the political and governing folk disappear for a while, the consumption of oil does not take a holiday but continues to go up.

As mentioned yesterday US consumption is already up 0.5 mbd over last year, and with the economy building steam, one must assume that if anything this growth will get larger as the year moves on.

The OGJ has been running a series on China over the last month, and it is interesting to catch a couple of points from that study. The first is that the Chinese will start filling the tanks, now completed, that form the start of their Strategic Petroleum Reserve. The second is that they have been rapidly building new refineries to help meet the growing demands that have developed.

Two articles give a broad look at the situation. The [first](#) gives a more detailed look at refinery plans and growth.

After 10% growth in 2003, China's petroleum product demand is estimated to have increased by a further 15% in 2004, a growth rate not seen in China for decades. China's 2004 petroleum product consumption is estimated at 6.1 million b/d, up from 2.2 million b/d in 1990, 4.5 million b/d in 2000, and 5.3 million b/d in 2003.

Incremental demand in 2004 therefore approached 800,000 b/d, accounting for nearly one third of global incremental oil demand and more than 70% of incremental demand in the Asia-Pacific region.

The article then goes on to project demand growth for the rest of the year.

Our base-case projections for China's petroleum product demand growth is 8.2% for 2005 and 6.7% for 2006, or incremental demand of more than 500,000 b/d and just under 450,000 b/d, respectively, which are high compared with the rest of the world. On the upper end, it is possible for China's demand to be up by more than 11%, with an incremental volume of 700,000 b/d for 2005.

However [the second article](#) summarizes the arrival of new refinery capacity to be some 634,000 bd this year, only 50,000 bd next year, but then rising to 274,000 bd in 2007 and 864,000 bd in 2008.

Given the demands for fuel one must anticipate that these refineries will be run at close to full production. This already will exceed the OGJ base case numbers, and when one adds a little something for the SPR, it seems likely that Chinese demand will grow by at least 700,000 bd on the world market by year end, given that the domestic production is sensibly flat.

Now this is of concern because when we add just the US and Chinese growth together we reach 1.2 mbd. And if total demand growth this year is now projected to be only 1.3 mbd there must be a fair bit of demand destruction out there. Or, more likely, we are again trying to wish the statistics so that we don't have to worry about the problems of trying to meet an ever rising target, when the annual world production increase (again from the OGJ) was the same 1.3 mbd.

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