The Oil Drum: Europe
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

ODAC Newsletter, Wednesday 10 October

Posted by Doug Low on October 10, 2007 - 8:02pm in The Oil Drum: Europe
Topic: Miscellaneous
Tags: azerbaijan, biofuel, eia winter forecast, lng imports, natural gas, peak metals, uk trade deficit [list all tags]

This is the second posting of the ODAC (Oil Depletion Analysis Centre) bi-weekly newsletter.

Topics include:

Peak Metals; Gas Supplies: Turkmenistan - Russia - Ukraine; Natural Gas Exports - Azerbaijan; LNG Imports – China and Japan; US Energy Information Administration Forecasts; Economy - UK Trade Deficit; BBC Peak Oil Documentary; Shortage of Oil and Gas Workers; Biofuels; UK Oil Depletion Conference

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1/ Peak Metal (theologyweb, Tue 09 Oct)

http://www.theologyweb.com/campus/showthread.php?t=102750

Comment: ODAC News rarely covers peak metals, but this looks like a good short-summary.

> I was asked by The Green Man to write something on peak metal. It took me a couple of days to put this together from various sources. As I commented in a previous thread, many metals are becoming rare. Many people know of my views on peak oil. Oil has nearly tripled in value in the past 3 years because demand is outstripping our ability to bring it to market. The same phenomenon is going on with many metals. There is one big difference between metals and oil. In general, metals are recyclable. Oil isn't. Once oil is burned, it is gone. Scrap metal amounts to around 40% of the production of many metals. But, peak production problems are out there.
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> [main part of article, discussing iron, copper, zinc, platinum, gallium, indium]
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> If one looks at the performance of a metals heavy mutual fund (ignax) compared with an oil heavy mutual fund (ienax) over the past 4 years, one sees that metals have been outperforming (getting scarcer more rapidly) than oil. Ignax is up over 100% while Ienax is up only 90%. The market place is clearly saying that peak resources are just around the corner. Like it or not, the world is running out of resources. I am invested in these increasingly scarce commodities.

2a/ Credit squeeze linked to Ukraine gas dispute (The Financial Times, Mon 08 Oct)

http://www.ft.com/cms/s/0/7c9032ca-752a-11dc-892d-0000779fd2ac,s01=1,str...

Comment: The FT explains that it is not so much the Ukrainian govt that owes Russia $1.3B as one of the companies involved.

> Ukrgaz-energo, a trading company that controls the supply of gas to industry in Ukraine, blamed difficulties in borrowing on shaky world credit markets for its inability to pay for imported supplies.
>
> As a result, debts at the company, a Russian-Ukrainian joint venture, swelled to about $1bn (€706m, £489m), according to spokesman Vitaliy Kisil. Poor payments for gas resold by Naftogaz, Ukraine's debt-ridden state energy company, had also increased the burden.
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> ... Officials in Kiev have insisted the debt is not owed by the Ukrainian state, as Gazprom originally stated, but by the Russian group's partners. About $1bn is owed to Gazprom by RosUkrEnergo, the Swiss-registered monopoly supplier of Russian and central Asian gas to Ukraine. RosUkrEnergo is jointly owned by Gazprom and two businessmen, one of them Ukrainian.
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> RosUkrEnergo's main debtor is Ukrgaz-energo. This joint venture is jointly owned by RosUkrEnergo and Naftogaz.
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> Ukrgaz-energo still has hopes of agreeing short-term financing to pay for gas held in

> underground storage facilities that are key for meeting peak demand in Europe during the winter.
>
> ... Speaking on Russian television, Gazprom's board chairman Dmitri Medvedev said the price Kiev paid next year for gas would be fair.
>
> Yury Boiko, Ukraine's energy minister, expects a price rise of no more than 10 per cent.
>
> While Ukraine's economy has grown impressively in recent years, it has struggled to adjust to high inflationary pressures after two stiff price increases in the past two years. Gas prices upon import have nearly tripled to a rate of $130 per 1,000 cu m since 2006.

2b/ Russia settles dispute over Ukraine gas debt (The Financial Times, Tue 09 Oct)

http://www.ft.com/cms/s/0/05743b16-7672-11dc-ad83-0000779fd2ac.html

> Gazprom has avoided another energy standoff with Ukraine by reaching a deal on repayment terms for the $2bn debt Moscow says it is owed for natural gas shipments to Kiev.
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> The agreement, signed during a trip to Russia's capital by Viktor Yanukovich, Ukraine's outgoing – and Moscow-friendly - prime minister, aimed to avoid a repeat of the 2006 pricing dispute which saw Gazprom cut shipments to Ukraine, triggering supply shortages in Europe.
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> ... Viktor Zubkov, Russian prime minister, said the debt had risen by early October to $2bn, although Rosukrenergo, monopoly supplier of gas to Ukraine, said its overdue debt to Gazprom stood at only $929m on Tuesday.
>
> Gazprom's spokesperson, Sergei Kupriyanov, would not comment on why, how, or if, the debt had increased to $2bn from $1.3bn.
>
> ... Gazprom's latest threat against Kiev has also been viewed as politically motivated, coming after parliamentary elections in Kiev which look set to return to power a pro-western coalition headed by former prime minister Yulia Tymoshenko. Ms Tymoshenko has pledged to remove "shadowy" intermediaries from the gas trade between Ukraine, Russia and Central Asia.
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> James Sherr of the UK's Defence Academy, a research and educational institute for defence staff, described the Ukraine-Russia energy relationship as "a museum of contradictory truths."
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> "Gazprom is squeezing Ukraine and other post-Soviet states to get out of a trap of its own making: underinvestment in new production. [This] is the only way to meet rising demand in the EU and in Russia itself," he says. "Whoever runs Ukraine, however pro-Russian the government, the squeeze will continue, and the spasms between stability and crisis will grow shorter and sharper."

2c/ The Turkmenistan - Russia - Ukraine Natural Gas Saga Comes Back To Life – Feedback

Feedback from Monday's item 6a. The article began:

"Tuesday Gazprom warned that it might cut off Ukraine's natural gas if Kiev didn't pay a mysterious $1.3 billion overdue gas bill by Nov. 1."

and followed up with:

"Gas flows to Europe briefly fell during that feud, undermining confidence in Russia as a reliable supplier."

Feedback: Would you agree that it would be more accurate to say that Russia cut back on the gas fed into the pipeline controlled by Ukraine, such that there was enough for all the western countries that had paid, but not enough for Ukraine's own purposes. It was then the Ukraine that stole the gas off the Europeans to use for itself.

It is thus not fair to say that Russia was a bad supplier - it was Ukraine that was the bad supplier. This article's slant is just repeating US propaganda demonising Russia.

Comment: The issue is more one of the reliability of gas flows from Russia, rather than the reliability of Russia itself, given that the gas pipelines cross Ukraine and Belorussia, but the UK media has tended to not let minor details like this get in the way of a good story. At least in the UK media, the 'cutting off of Russian gas supplies to Europe' two winters ago (or the siphoning off by Ukraine to be more precise) has been blown out of all proportion. On the other hand, Russia had been selling very cheap gas supplies to Ukraine for years, then wanted to quadruple the prices almost overnight instead of a less economically painful phased price change. It does seem bizarre though that the UK media paints Russia as an unreliable natural gas supplier - the UK currently does not get any natural gas supplies directly from Russia. Jonathan Stern, probably the UK's leading expert on natural gas supplies, pointed out at a recent conference that the UK is its own worst enemy when it comes to energy security, especially of natural gas supplies – see 'The UK Energy White Paper: An Academic Critique', (http://europe.theoildrum.com/node/3057#more), then look for Stern's comments, e.g. "All the major UK energy disruptions of the last few years have been domestic, not international".

3a/ Azerbaijan: Looming Gas Power? (Energy Intelligence [World Gas Intelligence], Wed 10 Oct)

No link, newsletter.

> Buoyed by a new discovery at the BP-operated Shah Deniz field and with its sights set on developing other offshore structures, Azerbaijan is gearing up to become a major gas exporter within 10 to 15 years. If so -- and if outstanding issues, including Turkey's transit conditions, can be worked out -- supply prospects for the planned Nabucco system to move Caspian and Mideast gas to Austria via Turkey would improve substantially.

3b/ Harsh Realities Cloud Caspian Hopes (World Gas Intelligence, Wed 26 Sep)

http://www.energyintel.com/documentdetail.asp?document_id=212943

Comment: The article is a summary of potential natural gas exports from Azerbaijan. In a nutshell, while Azerbaijani gas exports will increase substantially, Stage 2 supplies are not likely to be available before about 2014, and will amount to less than 10% of the current gas exports from Russia to Europe, assuming Stage 2 supplies of 12.5 Bcm/yr. Azerbaijan does not seem to be in a hurry to sign long-term supply contracts with Europe, or anyone else.

> Western officials never miss an opportunity when visiting the Caspian to state their

desire to buy more gas directly from the region in order to enhance European Union energy security and reduce reliance on Russia. But the optimism expressed in two recent, separate visits by Austrian and UK ministers over hopes for supply from Azerbaijan for the proposed Nabucco pipeline and for a planned trans-Caspian pipe from Turkmenistan should be taken with a cold dose of realism (WGI Sep.19,p1).

It's a game that involves by twists and turns the region's complex geopolitical relationships with major powers including China and Russia on the one hand and neighbors Turkey, Iran and Afghanistan on the other, not to mention the often touchy relations between Caspian energy producers themselves.

Austrian gas and oil company OMV trumpeted the memorandum of understanding (MOU) signed during a recent visit to Baku by Austrian Economics Minister Martin Bartenstein with Azeri Industry and Energy Minister Natik Aliyev, which "aims at laying the foundation for procuring natural gas from Azerbaijan and for the integration of Azerbaijani gas volumes into the Nabucco gas pipeline."

OMV, which is promoting the line and has opened an office in Baku, added that, "in accordance with the MOU," it and Azeri state Socar would start detailed talks on the procurement and transport of gas to the Baumgarten hub near Vienna via the estimated $5.8 billion Nabucco pipeline from Turkey to Austria. The four other current Nabucco consortium members are Turkey's Botas, Bulgaria's Bulgargaz, Romania's Transgaz and Hungary's Mol.

But while Austria clearly sees Azerbaijan's large gas reserves playing an important role in Nabucco, Baku is cautious. One senior Socar official emphasized to WGI that "the MOU is not a binding deal to reach an agreement," and that Nabucco is only one of a number of options that will be considered for future gas sales.

Azerbaijan is reluctant to advance toward new transportation deals until it gets a clear understanding of the "transit strategies of neighboring countries," the source said, in a reference to Turkish ambitions to control gas flowing across its territory (WGI Aug.1,p2). "This is the basic problem," the source said. Azerbaijan, which would like a transparent and market-linked transportation tariff for shipments to Europe, fears Turkey will want to take ownership of the gas and sell it on to leverage its position as a transportation hub and optimize revenue.

Azerbaijan is currently committed to execute an agreement to sell gas to Georgia and Turkey from the 8.6 billion cubic meter per year (830 million cubic foot per day) Stage 1 of the BP-led Shah Deniz offshore gas development. Stage 2, which will produce an additional 12.5 Bcm/yr, is due for completion in 2012, but will likely slip a year or two. "Stage 2 volumes will be sold to the buyer who offers the best commercial terms," the Socar source said...

4/ China's Spot Appetite (Energy Intelligence [World Gas Intelligence], Wed 10 Oct)

No link, newsletter

North African LNG looks to have become global swing supply, with the eastward parade of cargoes having starting sooner than many imagined and apparently set to continue, as China reaffirms its paid-up membership in the Asian spot buyers club. Japan imported four Egyptian cargoes and one each from Algeria and infrequent Asian supplier Nigeria in August, while China took two Algerian cargoes, customs data for the two countries

> show.

5 / US Energy Information Administration Forecasts for Winter 2007/8 (Energy Intelligence, Wed 10 Oct)

Comment: From the commentary section, 'World Watch -- Comment & Interpretation on Today's News', of the daily newsletter, so the above title is ODAC's.

The EIA's "Short-Term Energy and Winter Fuels Outlook" (http://www.eia.doe.gov/emeu/steo/pub/contents.html) was released yesterday (9th Oct).

> After paying record gasoline prices this summer, US consumers won't get much relief this winter as heating costs are expected to be well above last year's levels. Prices for crude oil and refined products are likely to be higher in 2008. That's the view from the US Energy Information Administration's (EIA) Winter Fuels Outlook conference in Washington on Tuesday. Administrator Guy Caruso told the conference that for this market, "the only pressure relief valve is price." The EIA predicts that US benchmark West Texas Intermediate (WTI) crude will average $74 per barrel in 2008, up roughly $5 from this year. But the list of wild cards that could significantly impact the market in either direction includes Iran, Nigeria, Opec policy decisions, non-Opec supply growth, the weather, refinery outages and the value of the dollar. Crude futures shot up Tuesday in response to the forecast, which includes the expectation that Opec will have to increase production next year. Matt Piotrowski, Washington

6/ UK's trade deficit narrows (Financial Times, Tue 09 Oct)

http://www.ft.com/cms/s/0/7f0528ec-7649-11dc-ad83-0000779fd2ac.html

Comment: The article covers the UK trade deficit for August, but it is only the last sentence that is relevant here, quoted below. Note that £0.5bn is for one month, the equivalent of £6B/year. Although the article states the high figure was "partly due to annual maintenance work", in its August Oil Market Report (http://omrpublic.iea.org/omrarchive/10aug07full.pdf), the IEA implies that maintenance work in the North Sea is becoming more regular: "But for any given year, the now lower projections should help to capture in a proactive fashion the proliferating problems that mature producing area face, rather than merely reacting 'after the event'." More to the point, although the UK oil production rate for August may seem low by 2007 standards (1.37 Mb/d for total liquids i.e. crude plus NGLs, versus 1.63 Mb/d in June and 1.50 Mb/d in July – see the IEA Sept 2007 tables, http://omrpublic.iea.org/omrarchive/12sep07tab.pdf), it is likely to be nearer the average for 2009.

> ... The oil trade deficit doubled to £0.5bn, the highest level in a year, partly due to annual maintenance work in the North Sea.

7/ Patrick Holden, Peak Oil, Local Food and Transition (Transition Culture / BBC, Wed 10 Oct)

http://transitionculture.org/2007/10/10/patrick-holden-peak-oil-local-fo...

Comment: BBC Wales broadcast a documentary on Peak Oil yesterday (Tuesday 9th Oct). Rob Hopkins of Transition Culture gives a brief description and a link to the documentary, which is available online for a week. The first three minutes consist of a weather report and BBC ads, but otherwise as Rob says, a rather good documentary.

> A rather good documentary aired on BBC Wales last night, called Back to the Land, which was part of a series called 'Week In, Week Out'. In featured Patrick Holden discussing peak oil and the impact that finding out about it had on his life and on how he farms his farm in Wales, as well as looking at the bigger implications of its ramifications for food and farming. It also included interviews with myself and some peak oil deniers, and sets out a strong argument that the transition to life beyond oil could actually bring many benefits to society. You can watch the film here (http://www.bbc.co.uk/wales/weekinweekout) for the next week.

8/ Help wanted...lots of it (Platts [The Barrel], Fri 05 Oct)

http://www.platts.com/weblog/oilblog/2007/10/help_wantedlots_of_it.html

Comment: In Monday's newsletter, items 3a and 3b were articles from the Financial Times covering a new report from Cambridge Energy Research Associates (CERA) warning of a growing shortage of skilled workers in the oil and gas industry. It was pointed out that CERA is one of the flag-bearers for the anti-Peak Oil movement. This Platts article from 'The Barrel' highlights the same point.

> No doubt about one of the hot jobs of tomorrow: anything involved in getting oil out of the ground.
>
> In a report that is mostly significant for who it came from, Cambridge Energy Research Associates this week released a study that talks about the long-discussed squeeze on the supply of the type of people needed to make upstream projects a success.
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> The author is important not just because CERA is well-known and well-respected, but because it has traditionally been one of the most optimistic voices about the industry's ability to continue increasing production over the next several years. And while the brief summary of the report released by CERA doesn't have any output projections, it does say this: "This analysis confirms that engineering and project management personnel are already insufficient to meet 2007 upstream project demand and it forecasts that design and project management availability will be an important factor going forward for development of new oil and gas fields."
>
> The conclusion then is if one of the more optimistic analysis firm is seeing a tightening of people who can make these projects a reality, what must the peak oil theorists be thinking?
>
> Even the CERA summary is fairly precise in laying out numbers on the magnitude of the problems. There are about 55,000 international and regional engineering contractors at present. The problem is that their average age is 51, and more than half are expected to retire by 2015. That's a six percent attrition rate. The rate of new hires next year is expected to be about 2%.
>
> It will rise to 5% by 2010. But that's not enough, as CERA reports there will be a "10-15 percent shortfall of qualified, available staff by 2010 ... (which) will (result in) increased costs and further delays that will have cascading effects in other markets. As the project engineering talent pool continues to shrink and the number of technically difficult

projects such as deepwater, heavy oil, or severe climate operations increases, the demand for the remaining highly qualified staff is expected to increase significantly."

The complete release can be found here (http://www.cera.com/aspx/cda/public1/news/pressReleases/pressReleaseDeta...).

9/ Biofuel Bandwagon Slows as Feedstock Prices Surge (Planet Ark [Reuters], Fri 05 Oct)

http://www.planetark.com/dailynewsstory.cfm/newsid/44667/story.htm

Comment: There have been one or two articles from Planet Ark over the summer saying that European biofuel plants have either been operating at below capacity, say 50%, or shut off completely. The problem – high input (crops) costs, low output (biofuel) prices, not economic.

The biofuels bandwagon may be running out of gas with soaring costs for feedstocks like wheat and palm oil prompting producers to shelve planned plants and cut output at existing facilities.

"There are lots of plans (for new plants) now but whether these are going to materialise we simply don't know," Robert Vierhout, Secretary General of the European Bioethanol Fuel Association, told a conference this week.

"In the present circumstances of very high raw material prices it is understandable if some producers say well it seems to me we need to wait a couple of years until things stabilise."

Biofuels, mainly produced from agricultural crops such as maize, sugarcane and vegetable oils, are seen by many as a way to cut emissions of greenhouse gases and to boost energy security at a time when oil output may be at or near its peak.

... "Most of the plants which are now completing construction are not being commissioned as it is just not viable," said M.R. Chandran, an independent industry analyst and former head of the Malaysian Palm Oil Association.

... The European Union led by Germany has emerged as the key producing region for biodiesel while United States and Brazil are the top producers of petrol substitute ethanol.

Major tax incentives fuelled Germany's expansion but these have been cut back in recent months, reducing demand and prompting many plants to operate well below capacity.

"If we will not have any change in our regulation in Germany it is very clear that within the next two years more or less 50 percent of the capacity in Germany will vanish," Karl Giersberg, chief financial officer for EOP Biodiesel said this week.

... The fledgling US biodiesel industry has also been hit by rising costs for its key feedstock, soybeans, with prices near record highs.

... Last month, the Organisation for Economic Cooperation and Development (OECD) called on governments to cut their subsidies for the sector, saying biofuels may "offer a cure that is worse than the disease they seek to heal." ...

10/ UK conference: *Oil Depletion - continuing the debate*, Energy Institute, London, 14 November 2007

The resource-limited peak in the global production of conventional oil looks to be very close. Although hydrocarbon resources are large and not fully quantified the volumes of conventional oil that can be easily and rapidly developed are quite restricted. This peaking of readily available oil supply is likely to be disruptive and to have serious economic consequences.

This conference will examine the data and calculations that indicate the imminence of oil flows peaking, and present some of the challenges to be faced. The meeting will conclude with a panel discussion on the implications of the peaking of oil supplies.

Date: Wednesday 14 November 2007
Venue: Energy Institute, 61 New Cavendish Street, London, W1G 7AR

Confirmed Speakers

Martin Fry FEI, Vice President Energy Institute, visiting Professor of City University
Claire Durkin, Director of Energy Markets, BERR (formerly known as the DTI)
Chris Skrebowski, Energy Institute
Colin Campbell, ASPO's founder
Douglas Low, Director, The Oil Depletion Analysis Centre (ODAC)

If you would like to book a place at this event download a booking form here (http://www.energyinst.org.uk/documents/bookingform_002.pdf) or contact Vickie Naidu, Events Organiser, Energy Institute:

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Further Information - http://www.energyinst.org.uk/template.cfm?page=events