



President Bush Questions Saudi Ability to Raise Oil Supply

Posted by [Gail the Actuary](#) on January 17, 2008 - 10:45am

Topic: [Policy/Politics](#)

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Last night, on ABC's Nightline, Terry Moran interviewed President Bush in Riyadh, Saudi Arabia, during his trip to the Middle East. When discussing what President Bush might say to the King of Saudi Arabia to lower oil prices, George Bush said:

If they don't have a lot of additional oil to put on the market, it is hard to ask somebody to do something they may not be able to do.

If Saudi Arabia doesn't have a much additional oil to put on the market, the veracity of what Saudi Arabia has been saying about extra capacity is brought into question. More importantly, it starts raising questions about Saudi Arabia's true long-term oil production capability. Can Saudi Arabia really ramp up oil production in the future? Are the high reserves posted by Saudi Arabia and other Middle-Eastern countries really indicative of high future production capability?

The interview with George W. Bush can be seen at this [link](#). The above quote is about 1:55 into the interview.

This is a link to a [Press Release](#) we did with respect to this story. Feel free to link to it in your Blogs.

Interview

Terry Moran's interview with George Bush starts by asking, "What can you say to the king here to get those high oil prices down?" George Bush answers "*If it is possible*, your majesty, consider what high prices is doing to one of your largest customers . . ." (Emphasis added)

If it weren't for the blockquote in the introduction, I don't think I would have noticed the "if it is possible" introduction to this response. Its existence seems to further point to a question of whether an increase in Saudi oil production is really possible.

Moran then asks whether Americans might expect a tougher approach, one in which we essentially say, "you owe us" for all we have done for you. Bush then responds with his statement, "If they don't have a lot of additional oil to put on the market, it is hard to ask somebody to do something they may not be able to do."

Dependence of Official World Oil Production Forecasts on Future OPEC Oil Production

One would think that future oil production forecasts by the US Energy Information Administration (EIA) and the International Information Agency (IEA) would be based on something fairly solid - perhaps a detailed analysis of reservoir capabilities, or at least some type of audited reserve estimates of the different countries.

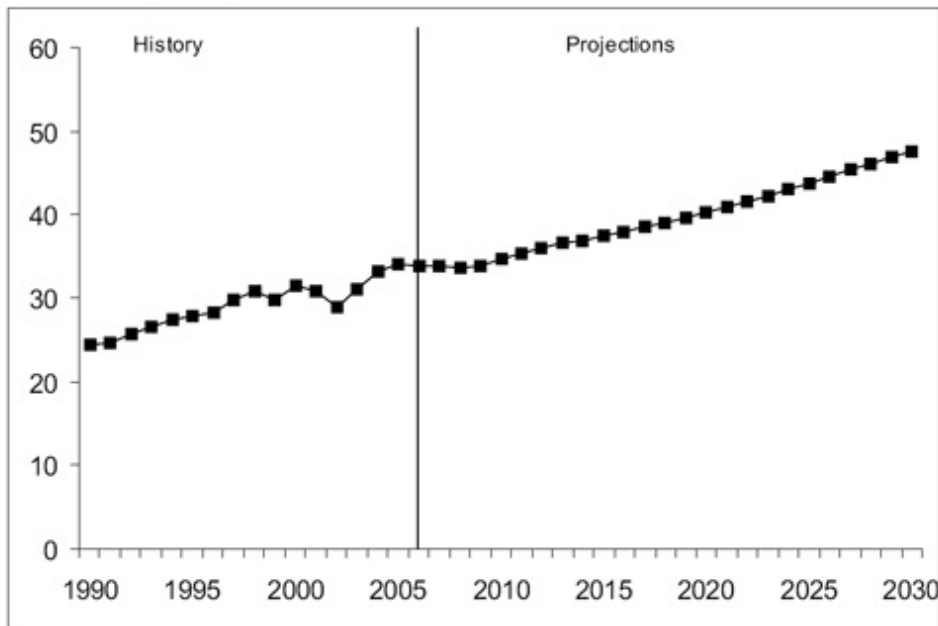
Unfortunately, future oil production forecasts by these organizations are really forecasts of how much oil the world is likely to *need*, not how much can be pulled from the ground. The assumption is made that somehow OPEC will be able to cover any shortfall. The International Energy Association determines how much will be needed in total, then assigns the remainder to OPEC as a [Call on OPEC](#).

The EIA used to use a similar approach, but now has modified it a bit, to include a new exogenous oil supply model, Generate World Oil Balances (GWOB). Even with the incorporation of this model, the result is very similar to IEA's "Call on OPEC". We [read](#) in EIA's 2007 Annual Energy Outlook's "Key Assumptions":

OPEC oil production is assumed to increase throughout the reference case forecast, making OPEC the primary source for satisfying the worldwide increase in oil consumption expected over the forecast period (Figure 3). OPEC is assumed to be the source of additional production because its member nations hold a major portion of the world's total reserves—exceeding 902 billion barrels, over 70 percent of the world's estimated total, at the end of 2006. The reference case values for OPEC production are shown in Figure 3.

Figure 3. OPEC Oil Production in the Reference Case, 1990-2030

Millions barrels per Day



OPEC = Organization of Petroleum Exporting Countries.

Source: Energy Information Administration. AEO2007 National Energy Modeling System run AEO2007.D112106a.

The problem with the above assumption is that OPEC's reserves are not audited. In fact, OPEC's reserves are seriously [in question](#). If what President Bush is saying is true - that Saudi Arabia really can't increase production much -- President Bush's statement should start to raise questions about the reasonableness of future world oil production estimates by EIA and IEA. Without the ability to "call on OPEC", demand quickly outpaces supply. Peak oil in the next few years is likely as well, if we cannot rely on the Middle-East to ramp up production.

George Bush is not alone in mentioning oil supply problems.

If George Bush were the only one making statements about oil production problems, one might attribute his statement to a misunderstanding, or a slip of the tongue. We find, however, that the Wall Street Journal [quoted](#) Alan Greenspan on December 15, 2007, as saying that global oil supply peaked earlier and lower than previously contemplated. Jeff Rubin, chief economist of CIBC World Markets, [was quoted](#) by the Toronto Star as saying that he thinks peak oil is here. The Economist, in a recent edition [writes](#) that Christophe de Margerie, the boss of Total, thinks that the world's oil production may be nearing its peak.

It almost begins to sound as if peak oil is so widely known and acknowledged that George Bush has a hard time not mentioning one of the related issues--the inability of Saudi Arabia to raise production. It is just such a normal part of conversation and thinking, that it slips into a major interview on ABC's Nightline. I wonder what we will hear next?



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