The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

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The Short Tail: Near-Sourcing Trends Create New Winners and Losers in the Supply Chain

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> Historically, cheap gas fueled globalization. It enabled companies from all over the world to shop globally for cost-saving business solutions. However, fuel costs have nearly doubled since January of 2006, and have shot up by nearly six times in the past six years (see "Chart One"). In a recent CIBC World Markets Report, analyst Jeff Rubin estimates that the cost of transporting imported goods into the United States is now equivalent to a 9 percent tariff on imports. Companies will recalculate the costs and benefits of global outsourcing as the cost of energy is expected to remain high indefinitely.

0/02/oil-kazakhstan-china-markets-equities-energy.html?feed=rss_business">China Moves for Kazakh Oil

> LONDON -- China Investment Corp's most recent acquisition in Kazakhstan not only signals its growing fears about energy security, it also raises questions about the importance it attaches to Central Asian energy reserves.

Russia halts Odessa on Ukraine switch

> Russian producer Lukoil today suspended operations at its Odessa Refinery indefinitely after Ukraine reversed flows along a key pipeline in order to import non-Russian crude.

Ukraine's oil pipeline monopoly said "national interests" were behind its decision to use the pipeline to supply Azeri crude to its largest refinery, Kremenchug, thus cutting off flows of Urals crude to Odessa's refinery and Black Sea port.

Petrobras' CO2 Injection Project to Serve As Test for Pre-Salt

In November, Petrobras will start injecting high-pressure CO_2 into the Miranga onshore field, in the municipality of Pojuca, state of Bahia, to test technologies that might contribute to future development projects for the Santos Basin's Pre-Salt cluster. The carbon dioxide produced at the future pre-salt fields will be reinjected into the reservoirs themselves to boost the recovery factor.

Petrobras as Sole Pre-Salt Oil Operator May Slow Development

(Bloomberg) -- Brazil's proposal to make Petroleo Brasileiro SA the only operator of some offshore oil fields may slow development of the region where the Americas' biggest crude discovery in three decades was made, an industry group said.

"The industry won't be developed as a whole because there will be only one operator of the blocks," Joao Carlos de Luca, head of the Brazilian Institute of Petroleum, known as IBP, said today in an interview. "The competitiveness of suppliers and contractors will also be hurt as they'll have only one buyer."

Massive Rockies Express Pipeline Nearing Completion

Natural gas has been flowing through the Rockies Express Pipeline in Indiana since June 29, and company officials say the entire pipeline is on schedule for completion Nov. 1.

The 1,679-mile pipeline, costing $6.7 billion, will extend from Rio Blanco County, in northwestern Colorado, to Monroe County, Ohio, near the West Virginia state line.

ConocoPhillips warns of poor third quarter

ConocoPhillips said on today its third quarter earnings would be hurt by weak North American natural gas prices, and its total output would fall nearly 5% from the second quarter.

Tillerson: Global Energy Solutions Require New Technology, Free Markets

Meeting the world's growing energy needs while managing the risks of climate change will require the development of all viable sources of energy and policies that support business investment and technology development, Rex Tillerson, chairman and chief executive officer of Exxon Mobil Corporation, said today.

"Our best hope is to harness the power of new technologies and free markets to meet the world's energy and environmental challenges," Tillerson said in a speech to the Economic Club of Washington, D.C.

Mexico gets energy sector loan

MEXICO CITY (UPI) -- The Inter-American Development Bank granted Mexico a loan to allow construction companies to supply the state-owned oil company Petroleos Mexicanos, or PEMEX.

El Universal reported Wednesday that the $600 million IDB loan is intended to boost the development of Mexican construction companies that are interested in becoming suppliers and contractors to PEMEX, the world's 10th-largest oil company, which holds a monopoly on the country's hydrocarbon production. Most Mexican companies currently lack the fiscal resources necessary to participate in PEMEX's bidding processes.

Suncor expanding Sarnia ethanol plant

Suncor Energy Inc. will spend about $120 million over the next year to double the production capacity of its St. Clair ethanol plant near Sarnia, Ont., to 400 million litres a year, the company announced Friday.

"This is great news for Suncor, for southern Ontario and for Canada," said Suncor president and CEO Rick George said in a statement announcing the expansion.

U.S. solar industry to challenge tariff ruling

WASHINGTON (Reuters) - The U.S. solar energy industry hopes to persuade Customs officials to reverse a decision to impose a 2.5 percent tariff on solar panel imports after more than two decades of duty-free trade in the product, an industry official said on Thursday.

"We're taking it very seriously and we will be responding. ... The industry is in the process of preparing a challenge," said Rhone Resch, president of the Solar Energy Industries Association, whose members include both U.S. and foreign solar energy companies.

Development as China's environmental solution

> Large scale industrial development has helped generate more employment and improved living standards. But it has brought with it new problems: local environmental quality has deteriorated at an accelerating pace, rivers are being polluted, and soil contaminated. In addition, acid rain has been recorded over one third of the country. In China’s 10th five year plan (2001-2005), the target was to reduce sulphur dioxide emissions by 10 per cent, but in reality there was a 27 per cent increase.
>
> So what is the solution? One possibility is to shut down all the sources of pollution. But this would create more problems such as unemployment at home and economic crisis around the world. Development clearly has to continue but it has to be sustainable, and investment in environmental infrastructure is an essential part of this.

Drought, Dams Force Iraqi Farmers To Abandon Crops

> BAGHDAD -- Local Iraqi officials say hundreds of families have left their villages in the northeastern province of Diyala in recent weeks after drought and low river levels from Iran turned their agricultural fields into a wasteland, RFE/RL's Radio Free Iraq reports.
>
> Farmers told RFI that dams erected by Iran have reduced the flow of the Harran River from Iran to a trickle, and they cannot afford the price of fuel to pump the remaining water up to their fields.

Who Will Regulate U.S. Carbon Markets?

> If the United States is going to set up a cap-and-trade regime similar to Europe’s in order to slash greenhouse gas emissions, who will regulate the new carbon market?
>
> That question has yet to be settled.

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Deep-Sea Oil Reigns Supreme for Byron King

TER: About three years ago, the whole concept of peak oil began gaining traction in the media and at conferences. Do discoveries of these major oil fields in deep water negate this peak oil concept?

BK: I'm not going to say they negate the peak oil concept. They buy us some extra time to deal with the issues of peak oil. Peak oil is a lot of things to a lot of different people. The doom-and-gloomers think that mankind is doomed in any event and are out there building underground bomb shelters and packing them full of freeze dried food, canned tomatoes and everything else. They love peak oil because it ratifies their whole world view.

If you look at peak oil in the sense that we've drilled up about half of the conventional oil that we're ever going to find and it's all downhill from here, yeah, finding all this oil offshore might move that point down the calendar. Maybe we've bought five years. Maybe a decade. We'll still have to deal with the decline eventually.

Why You Should Care About the Term 'Peak Oil'

But here's the thing: We really can remove the word "theory." Even Lynch admits that the consensus among geologists is that there are roughly 10 trillion barrels of oil trapped in the earth--he argues that technology will push the recoverable reserves from 10% of that oil to 35%.

But still, then we have to admit that there is some point at which recoverable oil will vanish. It's a finite resource, and it will be gone if we use enough of it. This would still be a "peak" for "oil"--whether it happens in 200 years or has already occurred is the actual point of contention.

West is outsourcing, not reducing emissions

The UK’s apparent reduction in carbon emissions since 1990 is merely an “illusion”,

> because manufacturing has been outsourced to developing countries, according to the UK government's new chief energy scientist.
>
> Professor David MacKay said the presence of these "embedded" greenhouse gas emissions means that the UK has probably generated twice the levels suggested by official figures.

The Economics of Climate Stabilization

> A group of eight leading climate economists have a message for United States senators now considering a new bill to cap emissions: don't think of long-term mitigation costs as a massive expenditure, but rather a form of reasonably-priced "planetary climate insurance."

Climate change threatens Brazil's agriculture

> A freak tornado and floods last month may be a harbinger of a troubled future for Brazilian farmers, who worry that climate change could severely disrupt production in one of the world's breadbaskets.
>
> Rising temperatures, a shift in seasons, and extreme weather in coming decades are likely to cut output in some areas and wipe out crops entirely in others, experts say.
>
> "Brazil is vulnerable. If we don't do anything, food production is at risk," says Eduardo Assad, an agronomist at the government's agriculture research institute, Embrapa.

Airline asks passengers to use toilet before boarding

> A Japanese airline, All Nippon Airways, has started asking its passengers to visit the lavatory before boarding, in an attempt to reduce carbon emissions.

Enter the EPA

> OVER the past few days, America has moved towards a federal system for regulating its carbon emissions in three ways. First, several big companies have broken with trade associations that oppose the cap-and-trade bill now in the Senate. Second, the bill has moved a stage further towards becoming law. Third, and most important, the Environmental Protection Agency (EPA) has announced that if Congress won't legislate to cut greenhouse gases, it will regulate anyway.

Significant new finds = the end of Peak Oil? [PDF]

The key point of Peak Oil isn't about how much oil there is in the ground, or reserves, but the potential imbalance in extractive flows, or how much you can bring out of the ground at any one time. As a consequence, the world is facing falling production that will be hard to replace in the foreseeable future.

To illustrate the concept of flows versus reserves, imagine that you had $1 billion in the bank but you could only take out $1 a year. You have lots of wealth (reserves), but you are short on usable cash (or extractive) flows.

The International Energy Agency's (EIA) 2008 outlook estimates that the world needs to replace production equivalent to six Saudi Arabias by 2030. Even if we were to assume that oil consumption stays flat to 2030, we would then need to replace four Saudi Arabias of production (instead of six).

The End of Easy (and Cheap) Oil

The end of easy oil has been a longstanding theme in this publication and remains arguably the most powerful driver in the sector, though the unprecedented drop-off in demand that occurred in the wake of the credit crisis and resultant economic dislocation has obscured this long-term trend. But with the global economy and credit markets now on the mend, this theme should come back with a vengeance over the next few quarters.

Supply concerns are at the heart of the end of easy oil. Non-OPEC oil production will, at best, remain steady in coming years; additional production from nonconventional sources, such as oil sands and deepwater, will offset declines from mature onshore and shallow-water fields.

Global Oil Supply: Learning from Lagos

A new era of resource nationalism is underway for varying reasons, but not the least of which is the stall-speed of global oil production. In other words, the best reason now to hoard your oil is as follows: *because you can*. No one is going to outproduce you.

Exxon's Tillerson Says OPEC Discipline Erodes Amid Price Rise

(Bloomberg) -- The Organization of Petroleum Exporting Countries, source of 40 percent of the world's oil, has slipped further away from self-imposed production limits amid rising crude prices, Exxon Mobil Corp. Chief Executive Officer Rex Tillerson said.

Tillerson, in a speech to the Economic Club of Washington yesterday, said OPEC compliance had "been extraordinarily good."

"At one point they had about 82 percent compliance, which is very good for OPEC," he said. "It's running about 65 percent now. When the price of oil got back above 70, some people can't help themselves." Irving, Texas-based Exxon is the world's largest oil refiner.

[Russian Crude Production Rises to Post-Soviet High]

> (Bloomberg) -- Russia, the world's biggest energy supplier, increased oil output 1.7 percent to a post-Soviet high in September from a year earlier after OAO Rosneft, Russia's largest crude producer, brought a new field on line in August.
>
> Russian oil production rose to 10.01 million barrels a day from 9.84 million barrels a day last year, the Energy Ministry's CDU-TEK unit said in an e-mailed statement today. Russia produced 9.97 million barrels a day in August.

[Oil will fuel Russia's growth]

> Russia is now the biggest oil producer globally, thanks to OPEC production quotas that have fallen squarely on the shoulders of Saudi Arabia. That fact brings the influence of oil on Russia's economy sharply into focus, and it dominates the picture. Therefore, investors in Russia will live or die by the long-term price of oil.

[Moscow juggling South Stream pipe dreams]

> Against the European Union's Southern Corridor gas pipeline project, Russia is redoubling efforts to advertise its own project, South Stream, with Italian backing. The scene for that advertising is in Bucharest this week.
>
> Due to stagnant gas production and aging fields in operation, however, Russia has been unable to identify any internal gas reserves to supply the proposed South Stream system, intended to carry natural gas by way of the Black Sea from Russia to Bulgaria.

[U.S. Warns Europe of Russian Energy Threat]

> Washington continues to support the EU-backed Nabucco gas pipeline, but this project is "only a piece of the puzzle" when it comes to reducing Europe's reliance on Russian gas, U.S. special envoy for Eurasian energy Richard Morningstar has said.
>
> "We support Nabucco. We support the Southern Corridor. It's an important part of the puzzle, but it's only one piece," Mr Morningstar told EUobserver on Wednesday (30 September) in an interview on the margins of a Black Sea energy forum organised in Bucharest by the Atlantic Council, a Washington-based think tank.

Iran and the `Pipelineistan' Opera

> (CBS) Oil and natural gas prices may be relatively low right now, but don't be fooled. The New Great Game of the twenty-first century is always over energy and it's taking place on an immense chessboard called Eurasia. Its squares are defined by the networks of pipelines being laid across the oil heartlands of the planet. Call it Pipelineistan. If, in Asia, the stakes in this game are already impossibly high, the same applies to the "Euro" part of the great Eurasian landmass -- the richest industrial area on the planet. Think of this as the real political thriller of our time.

Water worries threaten U.S. push for natural gas

> PAVILLION, Wyoming (Reuters) - Louis Meeks, a burly 59-year-old alfalfa farmer, fills a metal trough with water from his well and watches an oily sheen form on the surface which gives off a faint odor of paint.
>
> He points to small bubbles that appear in the water, and a thin ring of foam around the edge.
>
> Meeks is convinced that energy companies drilling for natural gas in this central Wyoming farming community have poisoned his water and ruined his health.

Ecuador, Indians trade blame for bloody clash

> MACAS, Ecuador — Several hundred Shuar Indians wearing black war paint and toting wooden spears on Thursday reinforced a highway blockade that police failed to break up earlier in a bloody melee that left one Indian dead and at least 40 police injured.
>
> Police pulled out of the southeastern jungle region on orders from leftist President Rafael Correa, who is in an intensifying dispute with indigenous groups that say proposed legislation would allow mining on their lands without their consent and lead to the privatization of water.

UK Will Have To Import Half Its Gas In Winter

> Half of the gas used in British homes this winter will be imported from overseas - the highest proportion on record.

China reports 2 mln rural households without electricity

> BEIJING (Xinhua) -- China had about 2 million households without electric power and the average electric power consumption per capita per year stood at 300 kwh in 2008, according to the National Energy Administration (NEA).

France launches 'battle of the electric car'

> PARIS — France launched the "battle of the electric car" Thursday as it unveiled plans to invest 1.5 billion euros on infrastructure for the two million electric and hybrid cars it wants on the road by 2020.

Innovation Nation

> Woodbury did a bit of research and found that of 140 million U.S. workers, 106 million were single-occupant automotive commuters; 88% of all cars carried just one person. So he set out to design the Tango, a single-occupant, high-performance electric car.
>
> Woodbury discovered that if he broke the vehicle's big electric motor into smaller units -- one for each wheel -- he could get blistering performance: zero to 60 in less than three seconds, and up to 100 mpg with careful driving. This from a freeway-ready car that was seven feet long and just three feet wide -- about the width of a Harley-Davidson.

REC Falls as Solar Wafer Market Seen 'Weak' in 2010

> (Bloomberg) -- Renewable Energy Corp. ASA, a Norwegian maker of solar energy products, fell to a two-week low in Oslo trading after saying contract adjustments for wafers will have an adverse effect on earnings next year.

World biofuel use expected to double by 2015

> Global biofuel use is expected to increase twofold by 2015 and Brazil will remain the world's top exporter of biofuel, according to a report released Wednesday by Hart Energy Consulting.
>
> The U.S. is expected to see the largest increase in biofuel use per country, increasing its current consumption by more than 30 percent, according to data from the "Global Biofuels Outlook: 2009-2015" report.

Senate Democrats seek to win climate moderates

> WASHINGTON (Reuters) - Democrats in the U.S. Senate, who this week sketched out legislation to tackle global warming, now face the hard part -- convincing enough fence-sitters to join their cause.
>
> It is labor-intensive work, figuring out the combination of undecided senators and the

changes in the legislation needed to arrive at the magic number of 60. That is the level of support needed in the 100-member Senate to maneuver around opposition tactics.

Kerry Gives Dems Chance to Frame Climate Debate Around Security

Sens. John Kerry (D-Mass.) and Barbara Boxer (D-Calif.) both say there is little to read into the fact that Kerry is listed as the lead sponsor of the global warming bill the pair unveiled Wednesday.

But perceptions are another thing, and there are certainly reasons for why Kerry got top billing ahead of Boxer, the chairwoman of the committee with lead jurisdiction over the climate change agenda. The decision also leaves some observers asking who will be in charge moving forward.

Report: climate change threatens national parks

WASHINGTON — America's national parks are at risk of disappearing or being fundamentally changed as seas rise, glaciers melt, trees die and animal habitat changes as a result of climate change, according to a report Thursday from two environmental groups.

First Darwin, now global warming reaches Galapagos

GALAPAGOS, Ecuador (Reuters) - Climate change could endanger the unique wildlife of the Galapagos Islands, and scientists are trying to figure out how to protect vulnerable species such as blue-footed boobies and Galapagos Penguins.

Southeast Asia gains climate clout after typhoon

BANGKOK — A deadly typhoon that scythed through Southeast Asia has underscored the area's vulnerability to climate change -- but it may have also finally given regional nations a voice at crucial environment talks.

India suffers worst drought in 37 years

NEW DELHI — India has suffered its worst drought since 1972, the official weather office said on Wednesday, with rains 23 percent below average at the end of the country's four-month monsoon season.

"India's 2009 monsoon rainfall has been the worst since 1972," a spokesperson for the Meteorological Department, P.K. Bandhopadhyay, told AFP.

[Southeast Drought Study Ties Water Shortage to Population, Not Global Warming]

> The drought that gripped the Southeast from 2005 to 2007 was not unprecedented and resulted from random weather events, not global warming, Columbia University researchers have concluded. They say its severe water shortages resulted from population growth more than rainfall patterns.
>
> The researchers, who report their findings in an article in Thursday's issue of The Journal of Climate, cite census figures showing that in Georgia alone the population rose to 9.54 million in 2007 from 6.48 million in 1990.
>
> "At the root of the water supply problem in the Southeast is a growing population," they wrote.

[Rich countries 'must slash living standards' to fight climate change]

> Living standards in Britain and other rich countries must fall sharply over the next decade if the world is to avoid catastrophic global warming, according to a leading climate research centre.
>
> Consumption of energy-intensive goods and services should be cut and remain capped until low-carbon alternatives are available, said the Tyndall Centre for Climate Change Research.