Shutting Down Heavy?

Posted by Stuart Staniford on October 12, 2005 - 3:25pm
Topic: Supply/Production
Tags: gas prices, hubbert peak, oil prices, peak oil [list all tags]

Isaiah made a nice catch with this Bloomberg story that

> Iran, OPEC's second-largest producer, shut two oilfields in the Persian Gulf because of difficulties selling the heavy oil the sites produce, said Royal Dutch Shell Plc, which helped develop the fields.
>
> Iran shut the Soroush and Nowruz fields less than three months after Shell handed their operation to Iran, said a Shell official, who declined to be identified.

As many of us know, the esteemed Saudi Oil Minister Mr Al-Naimi has been saying for some time that they can't find customers for their heavy oil. With the exception of the Vanadium contaminated oil from the Manifa field, this hasn't made sense to me. While light sweet crude *may* have peaked, and price spreads have been rising, prices for heavy grades of oil are still over $50/barrel for grades like Iranian Heavy (30 degrees). Even Mexican Maya (22 degrees) is over $50. However, this story tends to back Mr Al-Naimi up.

So the question is, why don't the Iranians just lower their price, rather than shut the thing down altogether? Surely they'd be making money even if they were only getting $30/barrel for the Soroush oil? The obvious explanation to a peak-oiler is that they are pretty confident they'll get more than $50 in the future, so they're going to shut it in and wait rather than discount it more now. However, we need some actual evidence before we can be confident that is the explanation. I'd be grateful if anyone can shed any light on this.

I checked into it a little and was able to verify that the Soroush and Nowruz field do exist and Shell has been redeveloping them after they were destroyed in the Iraq/Iran war.

Here's a picture of the Soroush platform:

RAHEB HOMAVANDI/REUTERS