



OPEC Going Sideways: Not a Good Time for Oil Importers

Posted by [Gail the Actuary](#) on July 17, 2010 - 10:31am

Topic: [Supply/Production](#)

Tags: [oil supply](#), [opec](#), [spare capacity](#) [[list all tags](#)]

This is a guest post by Matt Mushalik from Australia. Matt writes under the name [Matt](#). Matt's original article adds details on expected decline by country excluding megaprojects, and what the addition of those megaprojects will do when added to the total. It can be found at Matt's blog, [crudeoilpeak](#).

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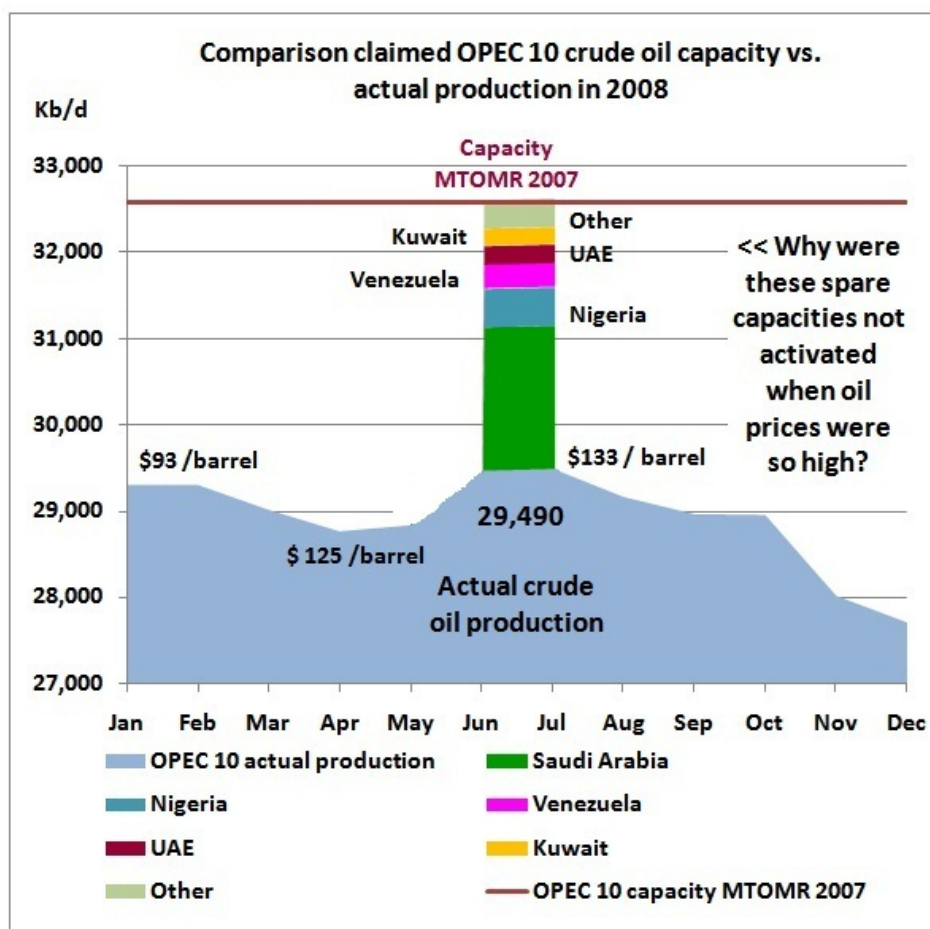


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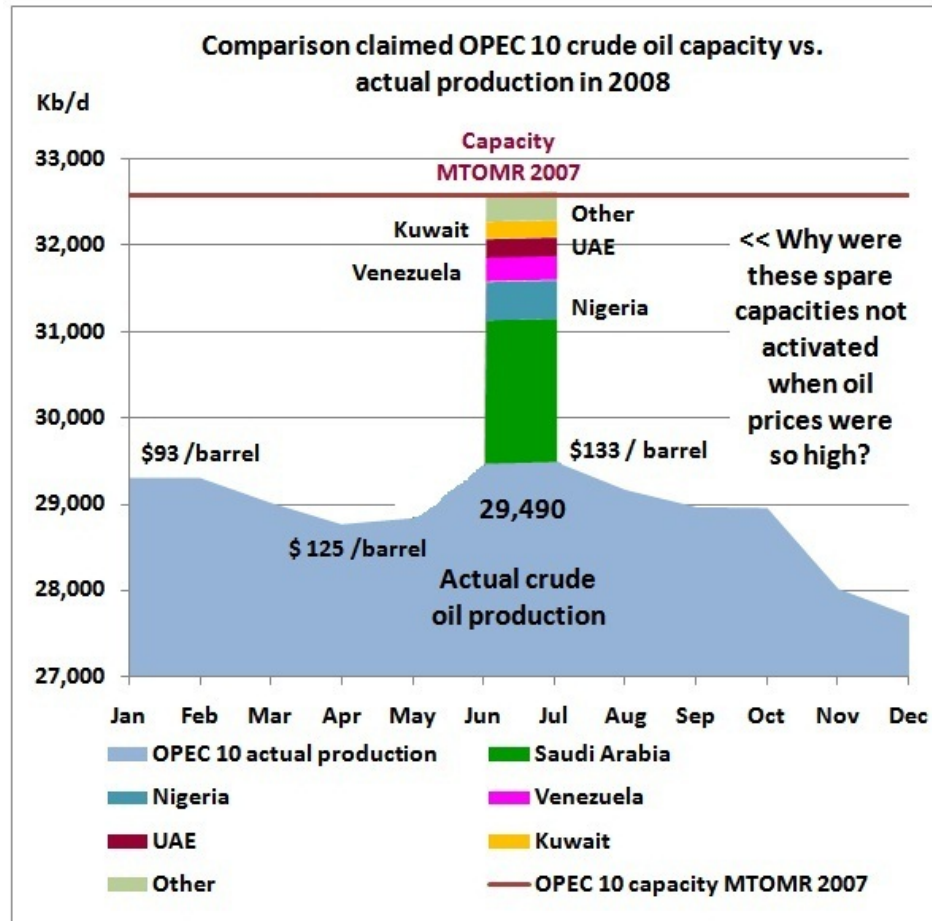


Figure 1

When one looks at a history of estimates of future productive capacity, we find too, that they have tended to decrease over time (up until the new 2010 report)--also raising questions about current estimates.

The International Energy Agency (IEA) recently put out its [Mid Term Oil and Gas Market Report 2010](#) (MTOMR 2010). Although the report talks about a 7.1 million barrel a day decline between now and 2015 when all of the anticipated new capacity is added, total capacity is expected to increase from 34.85 barrels per day to 35.78 barrels a day (page 82) in that time period.

Estimated Average Sustainable OPEC Crude Production Capacity

(million barrels per day)

	2009	2010	2011	2012	2013	2014	2015	<i>Increment 09 - 15</i>
Algeria	1.39	1.37	1.38	1.45	1.49	1.49	1.45	0.07
Angola	2.06	2.03	2.02	2.02	2.12	2.36	2.48	0.42
Ecuador	0.49	0.48	0.45	0.46	0.46	0.44	0.42	(0.07)
Iran	3.97	3.93	3.79	3.66	3.56	3.46	3.29	(0.68)
Iraq	2.49	2.50	2.55	2.77	3.05	3.39	3.46	0.97
Kuwait	2.62	2.59	2.55	2.52	2.56	2.67	2.66	0.04
Libya	1.77	1.78	1.81	1.78	1.78	1.95	2.03	0.25
Nigeria	2.66	2.70	2.70	2.58	2.52	2.49	2.56	(0.10)
Qatar	0.93	1.00	1.02	1.00	0.98	0.98	1.03	0.10
Saudi Arabia	11.23	12.09	12.04	11.83	11.65	11.63	11.66	0.43
UAE	2.72	2.71	2.72	2.84	2.98	3.05	3.12	0.39
Venezuela	2.51	2.42	2.33	2.33	2.37	2.60	2.62	0.11
OPEC-11	32.35	33.09	32.82	32.47	32.46	33.12	33.32	0.97
Total OPEC	34.85	35.59	35.36	35.23	35.51	36.51	36.78	1.94

Figure 2

According to this table, the Iraq is expected to have the largest increase in capacity (amounting to .97 million barrels a day). The second largest increase in capacity is Saudi Arabia, and the third largest increase in capacity is UAE. Iran is expected to have the largest decrease in capacity.

The question is, "Will this large an increase in capacity really result in higher production?"

If we look at historical forecasts of capacity, alongside actual production, we discover a pattern not unlike that recently shown by [Steve Kopits with respect to the EIA forecasts](#). The forecasted amounts keep coming down!

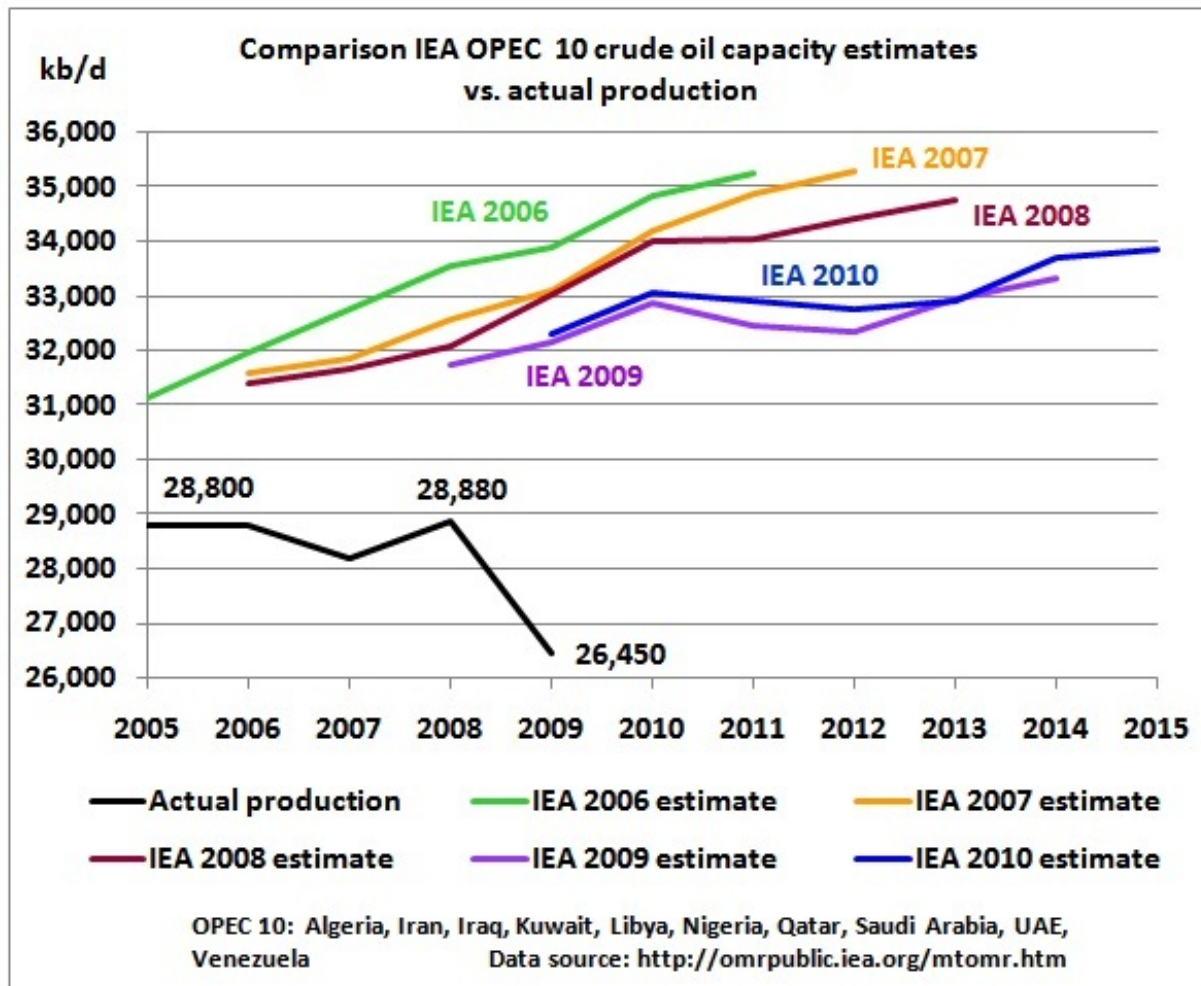


Figure 3

Each year, from the 2006 to the 2009 report, the medium term oil market reports bring the estimated capacity down by about 2 million barrels a day. In 2010, the capacity estimates increased a bit, but mainly because of Iraq.

More importantly, a huge gap between capacity and actual production has developed, suggesting there is plenty of spare capacity. While one may argue the 2009 drop in production was the result of less oil demand after Lehman Brother's collapse, and financial turmoil and recession that followed, these adverse conditions did not exist in the 1st half of 2008 when the economy was booming and high oil prices encouraged maximum production. Yet, OPEC's claimed oil production capacity did not turn into actual production!

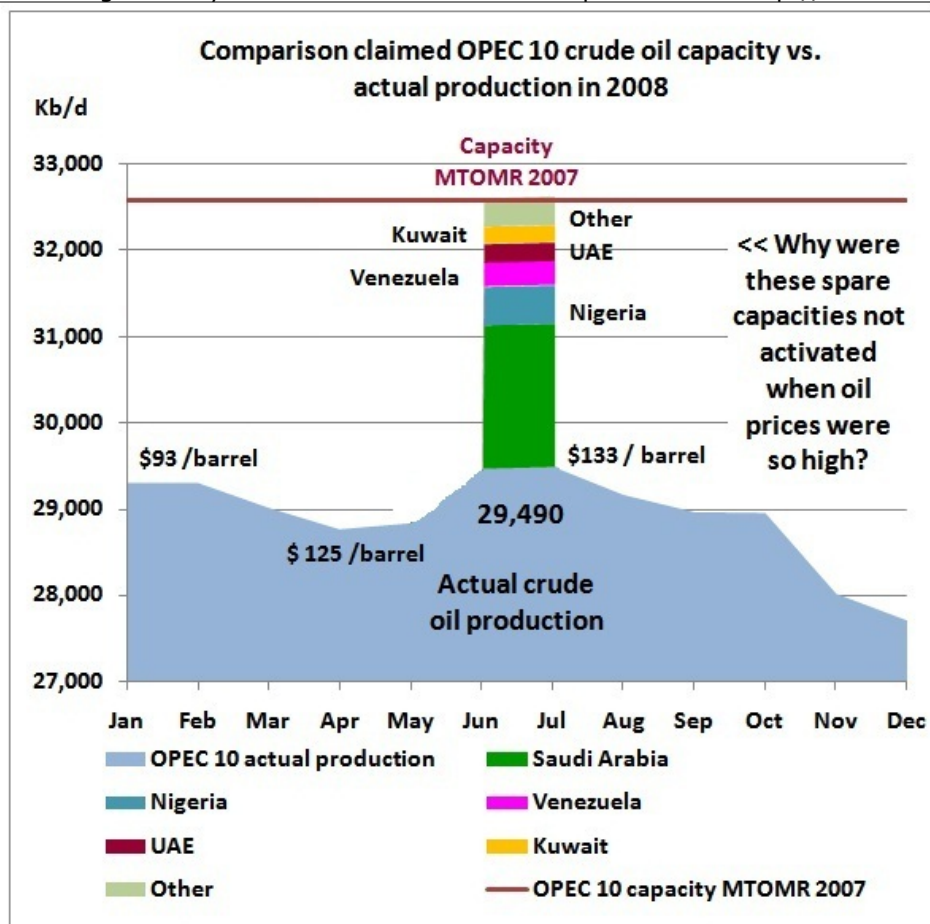
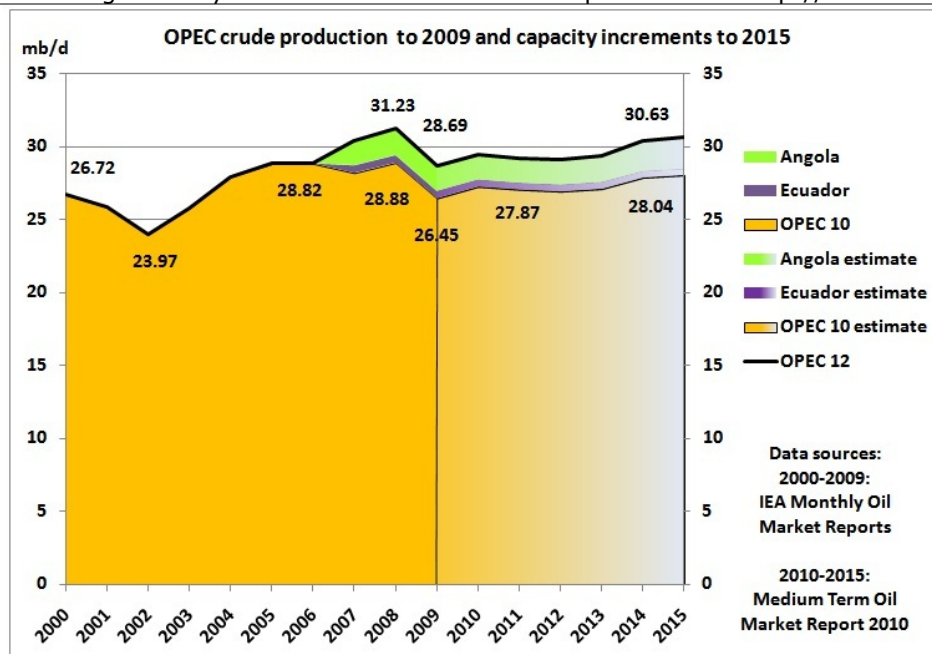


Figure 4 (Repeat of Figure 1)

The [MTOMR 2007](#) estimated a capacity of 31.06 mb/d for OPEC 10 including Indonesia. (Indonesia is now no longer in OPEC as this country has become a net oil importer.) So without Indonesia, but including Iraq, the capacity in 2008 was supposed to be $31.06 - 0.88 + 2.4 = 32.58$ mb/d, while actual production was 29.49 mb/d, a difference of 3 mb/d. Saudi Arabia alone did not deliver 1.7 mb/d during the critical period June/July 2008 – shortly before the Olympic Games when China went into the oil markets with an extra demand of 800 kb/d (see IEA oil market report October 2008, page 14).

So we have to be very careful with those capacity estimates. The safest way to estimate future supplies is by adding the net increments to the actual production for 2009, which we do in this graph:

*Figure 5*

According to [the latest IEA Monthly Oil Market Report](#), crude oil production for OPEC 12 in 2009 was 28.69 mb/d. To this base we add 1.94 mb/d to make an estimate of 30.63 mb/d. If we assume a spare capacity of nominally 1 mb/d, there won't be much more crude oil in 2015 than there was at the 2008 peak. Considering rising domestic demand in all OPEC countries, it is likely that crude oil exports from OPEC will shrink. This will not be a good time for oil importers!



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