A gentle reminder

Posted by Heading Out on October 19, 2005 - 11:40pm
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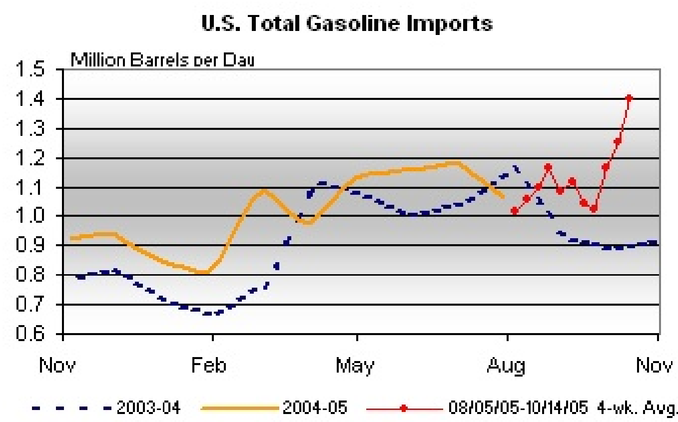
Tags: gasoline supplies, peak oil [list all tags]

It was not really all that long ago when the major concern at this site revolved around whether the world would weather the tight relationship between supply of oil and the anticipated demand that would exist at the end of this year.

At the time the beginnings of demand destruction were beginning to appear with the reduction in subsidies and other government programs in some of the poorer nations around the world. Ianqui has just reminded us of the problems that India is going to increasingly have to face. The impact of the hurricanes Katrina and Rita brought the debate closer to home. Current EIA predictions are that it will take until the end of this year to bring back the lost production that we have seen in the Gulf. And yet, as I was quizzed again this morning, gas prices continue to remain lower than they should be. The answer, in part, lies at the EIA gasoline page



A year ago we imported 720,000 bd of gasoline, now we are importing over 1.5 mbd. The reason, of course is the continued outage of refineries. But given that the world is in a bit of a hurt on supplies, one must presume that this is still coming from loans from reserves as agreed by the IEA. But that has to be coming to an end within the next few weeks. If, we then have to go into a bidders war to gain gasoline at others expense, then it could start to get messier, as more nations may face problems as the price goes up, and induces more demand destruction as the US market demand prevails.

The other thing that is bothering, however, is that everyone seems to be assuming that if we can only get through the next month or so, that things will return to an even keel. But they weren't on an even keel before, and if production from the Gulf is going to be perpetually (or at least for say the next five years) inhibited by seasonal shutdowns and regular rig losses, then existing models of production may have to be modified. After all, unlike many land sites, we cannot bring in a donkey engine to apply stripper well status in the Gulf, and a lot of the wells that were close to that level, but producing through a now defunct platform, will not be re-opened since the return in cash will not justify the investment in building or rebuilding a platform to go out there and get that oil. Further there may be a bit of a rethink on the design of the deep water platforms that got damaged this year.

And remember that the MMS is still reporting that close to 1 mbd of oil is shut-in, while, now that other disasters have moved the hurricanes and their effects off the front page, demand for gas is beginning to creep up again. I get the feeling of one shoe having fallen, while, as yet, the second hangs, poised in the air somewhere over our heads.

UPDATE: I meant to add this indication that my thinking is not unique, but had lost the ref. Matt Simmons is now predicting that oil might get as high as $190 this winter. I am not sure I would go that high, but I believe an increase is inevitable.