



## Timing is everything

Posted by [Heading Out](#) on April 28, 2005 - 9:37am

There were two possibly significant energy events over the past couple of days, [Crown Prince Abdullah's trip to Texas](#), and [The Oil Depletion Conference in Scotland](#). Unfortunately it does not appear as though much that was new transpired at either.

The news stories on the Crown Prince's trip to Texas did not tell us much more than that the Saudi Government will invest more money in order to increase production by 2009. Which really does not initially appear to help a lot, if we are going to be short of oil by the end of the third quarter.

And that is part of the current problem. If I can make the analogy of the sandwich shop to our current situation. At 10:30 am you can wander into the shop and the assistants are making sandwiches and stocking the shelves. You are one of only a few customers, and you think that they might lower the price a bit for your custom, but they don't. If you wait around you'll see why. About 11:30 the place starts to fill, and soon the assistants are working flat out and all the spare stock of sandwiches are disappearing until, hopefully, as the shop drops back to lassitude after 2 pm, there are still a few sandwiches left.

In the course of a year oil demand goes up and down with the seasons. You can see this in [the chart](#) that EIA has on quarterly demand and supply. (For this year the demand is projected at 84.6; 83.1; 84.6 and 86.8 mbd for the four quarters). We are currently in the second quarter of 2005. The second quarter, as you can see from the column totals, is the one with the least oil demand. We are, you might say, at 10:30 am. Saudi Arabia rightly points out that they have loads of sandwiches available and there are not that many current customers to sell them all too. But folk are already phoning in their orders for lunch, so they know demand will be high and they keep the price up.

Soon it will be summer, and then fall, and demand is going to go up. Exactly how much we don't know but predictions are that it will be around 2 to 2.4 million barrels a day over last year (the table shows 2.2). The problem is that we don't think that this year the Saudi have made enough sandwiches in the slack period, (i.e. drilled enough wells ahead of time and connected them up) and the only additional supply they have for this year may be less than another 1 mbd. Which, when put together with the rest of the increased supplies from the other sandwich shops in the neighborhood (OPEC) will still not be enough to go around, and somewhere around Thanksgiving people might start bidding silly amounts of money to make sure they still can have lunch this year.

In a way it is hard to criticize the Saudi Monarchy for this. They have always held, what they consider to be a reasonable reserve in hand in case demand went up a little (such as for example the odd tourist bus visiting our sandwich shop). What they are not prepared for is the fact that some of the other sandwich shops are cutting back, and more buses are planning on stopping by on a regular basis, and so they need to rapidly increase production. And the reality is that in the

short term (say the next two years) they cannot. In the entire Middle East there are only perhaps 185 drilling rigs, and each is tied to a different objective. To have an increased impact they need to get some additional new rigs that first have to be built, and thus the delay in the impact of any new Saudi moves. I am just surprised that somebody put President Bush in the position where they had to know he would be turned down.

In regard to the meeting in Scotland, I had originally thought of going, but realised that in the relatively short time interval for the speeches that it would be unlikely that there would be any new information given. We are still in the mode where the majority of the world does not understand the topic, and thus this was largely a repeat of what has gone before, and as such, is not getting a lot of press either.

And since we are in the quiet season of the four it is unlikely that much will get done in the next couple of months, until demand starts to pick up again. I hope the weather is nice, it was in 1914.

Technorati Tags: [peak oil](#), [oil](#)

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