The Oil Drum
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Saudi oil production - Read Minister Al-Naimi's small print

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Yesterday the Saudi Arabian oil Minister, Ali Al-Naimi, commented that the days of easy oil are not over, and that there remain at least 88 billion barrels in the Saudi oilfield of Ghawar, let alone the rest of the fields in that country. Well before that sends you out to buy a fleet of Hummers, you might want to take a wee bit closer look at some of the other things that he said, or did not say. For the future is not quite as rosy as his remarks might, at first, make you think.

Let's start with the "days of easy oil are not over." That is a somewhat egregious remark. It is relatively easy for the Kingdom of Saudi Arabia (KSA) to brag that it is still not that expensive to produce oil. Given the size and extensive development of their fields that is, at present, still to a large extent true for them. But Aramco have carried out extensive research into modeling their fields and developing technologies such as maximum reservoir contact (MRC) on order to get the maximum amount of oil out of their fields. (And I'll get around to that in a minute). But the KSA only produce a fraction of the increasing amount of oil that the world needs every day. And it is the cost of the oil at the margin (that which balances oil supply with need) that to a much greater degree controls the price.

At the moment the countries that make up OPEC can increase production at need, beyond the current levels of demand. As long as they can do this they can impose controls on the price. This is because the rest of the world is producing just about as fast as it can and there is some doubt, despite some rosy predictions, that they will be able to raise levels above those currently produced. If the price falls too much, then some of the more marginal oil, that is more expensive to produce, might drop off the market. At that point, if OPEC cannot make up the difference, and I would argue that beyond a certain relatively low volume (4 mbd) it no longer can, then prices will rise again. There is an effective lower bound on price now, significantly higher than OPEC costs.

Last week at the ASPO-USA Conference Michael Klare commented on the amount of money that this will bring to the nations that produce oil much cheaper than the global price (which KSA is happy to keep at around $80 bbl) but to keep that price it relies on the make-up oil that is not "easy" at all. This includes oil sand and deepwater production.

Now let me turn to some of the more worrisome part of what he said. Until recently it has been assumed that KSA was going to raise production to levels of 12.5 mbd as part of the balancing act to match declines in other fields and meet supply. (And some time before that there was talk of Saudi production levels of up to 15 mbd). However the KSA has a problem. To get the maximum recovery from their fields they have to control the interface between the waterflood and the oil., and move it relatively slowly and evenly through the reservoir. They are quite good at this, and likely getting better. But it means that they produce the oil at, for them, relatively slow rates. And they are slowing these down a bit. As a result the maximum that they are now talking about is 12 mbd. Which means if you are looking at the global balance over the next few years you have just had to take an eraser and remove 500,000 bd from the available supply. Note that this is not quite 50% more than current production.

Why is this? Well that comes to another part of the remarks that the Oil Minister made. The next major plan for production of oil is the development of the Manifa oilfield. It was, at one time, scheduled to produce a million bd, but this is now dropped to 900,000 bd. But there is a greater concern.

Manifa is a heavy, sour (i.e. high sulfur), vanadium contaminated deposit. It requires a special refinery to process the oil, and these don't exist. The KSA has had plans in the works for some time to build two refineries in the Kingdom that will refine this oil. There have, however, been delays in construction. It appears that these are getting worse, or, for other reasons, have been further postponed. Without the refineries the ability to produce the oil is meaningless. The original date at which these facilities were supposed to be on line was within the next two. It is now, apparently, been moved to 2024. Presuming that this is not a misprint (since the last target was 2013) it means that KSA has changed its strategy and is not looking to ever produce above the 12 mbd current target as we move into the future.

> Naimi said the kingdom has sufficient production capacity at 12 million barrels per day (bpd) and has a strategy of preserving its resources and developing new sources of energy.
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> "We have the production capacity and we don't have to deplete our reservoirs as fast as someone who's just there for investment...so we don't really have to pull our reservoirs as hard as we should," Naimi said.

With their internal consumption continuing to rise, and with increasing sales to China, the amount of that oil which is going to be available to the West is going to go down.

Whether and when they will get to 12 mbd now becomes more of a question. Given current levels, and the income that they are getting from them, it is hard for me to see production rising to even 11 mbd. (subtracting the volume from Manifa). And if world consumption is rising at around 1.5 mbd per year, for the sake of discussion, then we are going to see an imbalance between production and supply needs, in just about 2 years.

Given that this was the message from the ASPO_USA conference, it is interesting to see the Saudi Oil Minister so rapidly confirm it.

So I'm afraid the difference between the headline of his remarks and the small print of his text are enough apart to be disturbing.

And I must apologize in that this was written on the train from Vienna to Graz and I don't have access to all my usual references, which I would insert.

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