



Understanding the oil patch

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The following was first posted in September at [Belly of the Beast](#). It has been subsequently posted here due to the much larger readership of TOD.

Many people who are interested in Peak Oil or oil and gas production in general tend to be woefully ignorant about the companies that produce much of the oil in the world and sell it back to the public as gasoline or other products. Many, if not most, people who are not involved in the industry, at least in a peripheral way, tend to ascribe all kinds of devious, conspiratorial, and unethical if not evil intentions to these companies. They treat the multi-national companies as if they were some sort of conspiracy against the earth. This may sound self-serving, but I am going to tell you the way it really is, or at least the way that I have seen it to be observing it from the inside for the past 20 years.

First of all, these companies, like all companies, are made up of people. That may sound stupid and redundant, but some individuals, based on what they write, seem to think that the Exxons of the world are organized like the Galactic Empire of Star Wars with a Sith lord at the top directing all the evil. The fact of the matter is that the people who work in these companies tend to be extremely normal. For the US-based contingent of these companies the employees probably vote Republican more frequently than the country as a whole, and they tend to be a church-going lot - to a large degree because of the concentration of these companies in the South (Houston, New Orleans, etc.), however, they are concerned with most of the same things you are.

The one thing they tend to be is rather insular. These multinationals are large bureaucracies. They are organized presumably to maximize return on investment for their investors. Like all bureaucracies, however, internal politics plays a big role in ultimately how they are organized and how effective they are as businesses. Despite aspirations to put the whole company first, many parts of these organizations look like Dilbert Comic Strips crossed with the movie Office Space.

OK, so where am I going with this? One point I want to make is that many of you reading this are far more educated about the worldwide supply and demand situation for crude oil than even a large number of middle managers at most of these companies. Until recently, if I walked up and down the hallway at my office and polled people on their opinions about Peak Oil, most of the people probably would never have heard the term. Individually these people might know about drilling horizontal wells in 2500 m of water in offshore Sabah, or about the historical geology of the Falkland Islands and how it relates to West Africa, or how to numerically simulate a steam flood of a Tar Sand deposit in Alberta, but they do not understand the global business. They are technocrats focused on their jobs. They think that oil should be at \$25/bbl because corporate planning tells them that is what their company is forecasting for the future. People higher up in the organization, in corporate planning, vice presidents of E&P etc. are also focused on their jobs.

Most tend to be near-term focussed. What is happening this quarter, next quarter, and next year? How do we meet the targets that we told Wall Street we would meet? How do we invest this mountain of cash coming in because we planned for \$25/bbl and we are now seeing \$65/bbl?

The other thing about bureaucracies, especially large ones, is that they are averse to change - any kind of change. The reason why companies go out of business is that they refuse to see the change coming until it is too late to do anything about it. Compare IBM , US Steel, Delta Airlines or AT&T to where they were in the early `80's. External forces that were clearly visible to other parties, were invisible to these companies. Or if they weren't invisible, the decision makers in those companies were deer in the headlights, frozen with fear. Those forces transformed those companies and turned them into shells of their former glorious selves.

These multi-national oil companies are a whole herd of deer grazing on a bounty of spilled corn in Interstate 10 outside of Houston at 5:00 AM. There is a giant semi-truck cresting the hill with its bright lights on called Peak Oil bearing down on this herd. Some may make it off that highway. Some definitely won't.



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