



Is this the Economic stage of the Peak?

Posted by [Heading Out](#) on November 22, 2005 - 1:37am

Topic: [Supply/Production](#)

Tags: [chris skrebowski](#), [peak oil](#), [saudi arabia](#) [[list all tags](#)]

Today's article in [Rigzone](#) relates to the monthly market report by the Centre for Global Energy Studies (CGES). It forecasts a growth in oil demand next year of some 1.1 mbd, assuming a drop in Chinese demand and some demand destruction due to the higher prices. Anticipating that OPEC itself will add 1 mbd and non-OPEC will add an additional 850,000 bd, then the world will be up nearly 2 mbd and while this will allow some stock building it will likely also lead to significant price drops. They do not expect any action at the next OPEC meeting, but at the consequent one expect to see some pressure for Saudi Arabia to drop their production (currently at 9.55 mbd) to somewhere between 8 and 9 mbd in order to sustain current prices.

Obviously Saudi Arabia was paying attention since, in an adjacent [article](#) Minister Ali Naimi is calling for a better roadmap for demand, since they do not want to invest in increasing production, at a time when it will not be needed.

Now the big question, of course, is how much depletion did the CGES build into their model? And how much slippage?

We have wandered through the [CERA 2005](#) and [CERA 2006](#) predictions in earlier posts and they came in at around 2.1 mbd. [Chris Skrebowski](#) recently updated his Megaprojects projections, including new estimates for when projects will be on line, and doing some accounting for depletion. It is a little difficult to come up with an exact number from Chris's table since he is starting to show some slippage from the earlier projections on some projects, and some are listed with volumes when they reach full production, but he appears to come out at around 915,000 bd for OPEC and 2.3 mbd from non-OPEC. But this does not account for depletion. In his Petroleum Review article, Chris had the following table

	2004	2005	2006	2007	2008	2009	2010
Oil demand	82.1*	83.5*	85.3*	87.0*	88.8*	90.5*	92.3*
Demand increase	2.9	1.4	1.8	1.7	1.8	1.7	1.8
Supply increase**	1.1	2.4	3.1	3.1	2.8	2.8	1.5
Opec	0.3	0.9	0.9	0.9	1.0	1.4	0.9
Non-Opec	0.8	1.5	2.1	2.1	1.8	1.4	0.6
5% depletion	4.1	4.2	4.3	4.4	4.4	4.5	4.6
Extra volume required**	2.3	3.2	3.0	3.0	3.4	3.4	4.9

Source: *International Energy Agency (IEA) Oil Market Report, September 2005; **from Petroleum Review megaprojects database; *calculated on 2% growth; **volume required from infill drilling and the small projects not tabulated in the megaprojects database

Table 2: Oil demand, supply and depletion to 2010 (mn b/d)

Since then at the ASPO-USA meeting he increased the OPEC production to 1.1 mbd and had the non-OPEC at 2.1 for a total of 3.2. But if one subtracts 5% depletion of 4.3 mbd the number comes out as minus 1.1 mbd and this is before we consider an increase in demand (the 1.1 mbd number that CGES projects).

In regard to supply there was an article in the [OGJ](#) that pointed out that even stripper well production is in decline in the US, even though the number increased.

IOGCC's annual study showed 397,362 marginal oil wells produced 311 million bbl in 2004, or an average of 2.14 b/d/well. During 2003, a total of 393,463 stripper wells produced 313.7 million bbl, or an average of 2.18 b/d/well.

It begins to look as though next year will be the one that starts to point out the seriousness of the depletion problem, even without the arrival of any more hurricanes. And since the balance may already be negative at today's prices, it may well be that at this time the amount that Saudi Arabia pumps will be related to price, and that this will integrate with demand destruction to bring us back into balance, but whether that is at more or less oil than is currently being produced will be the interesting story.

Oh, and a short P.S. Writing about logging yesterday, I had no clue that Schlumberger was going to announce a more effective logging package [today](#).



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