



## Oil Shocks, A Pessimistic View

Posted by [Dave Cohen](#) on December 9, 2005 - 7:59pm

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Tags: [china](#), [kurds](#), [oil shock](#), [russia](#), [venezuela](#), [world oil production](#) [[list all tags](#)]

OK, that's enough. After reading this happy CERA [drivel](#) (hat tip, [Leanan](#))

CERA estimated that oil production capacity -- including crude oil, condensate, natural gas liquids, oil sands, gas-to-liquids - could rise to 108 million barrels per day in 2015, up from 87 million barrels per day currently.

it seemed apparent that fantasy was the order of the day. So, given the legacy of the 20th century (the Armenian genocide, World War I, the 1929 stock crash, the Great Depression, Mao Tse Tung's "Great Cultural Revolution", Stalin's purges, Romania's [Ceausescu](#), World War II & the Holocaust, the Korean War, the Cold War, the Vietnam War, Russia's war in Afghanistan, Imelda Marcos' [shoes collection](#), the Rwandan genocide, the Balkans fiasco and Bosnian genocide, etc.) and a conviction that humankind has gotten no wiser in the 21st century, a more pessimistic fantasy regarding oil depletion and supply shocks seemed to be called for. So, here we go.

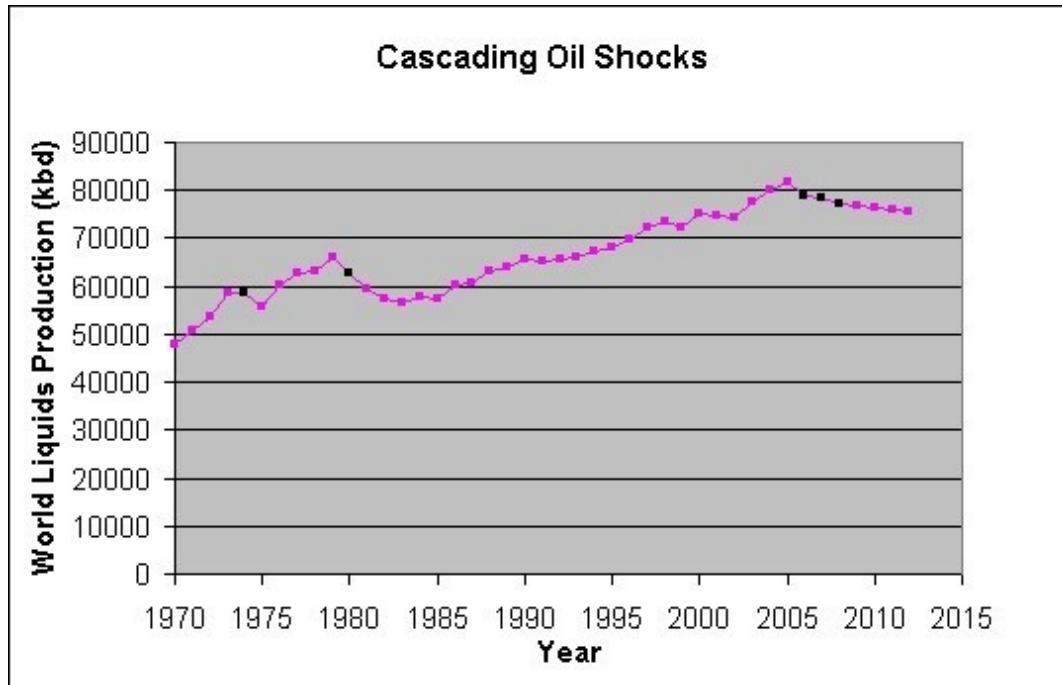
First, we'll start off with graph illustrating BP's world liquids production numbers from 1965 to 2004.



The [Iranian Revolution](#) occurred in 1979, Saddam Hussein's Iraq invaded Iran in 1980 and subsequently, world production fell 4.7% in one year. In the next few years production continued to fall to a bottom level in 1983 of 56.6/mbd from a high in 1979 of 66.0/mbd. Now, here's the shocker. As the graph indicates, world production did not reach its 1979 level again *until 1993*, a period of *14 years*! And what pulled us out of that long recovery? Remember, this recovery

occurred during the time when [Prudhoe Bay](#) and the [North Sea](#) were both producing, both in friendly areas.

So, let's concoct a little scenario of our own starting with this graph.



Black dots indicate oil shocks. The first two are the OPEC embargo (1974) and the Iranian Revolution (1980). The second set involve the following events occurring in three consecutive years.

1. 2006 -- The death of Hugo Chavez. All 2.98/mbd of production (all liquids) is shutdown in the immediate civil war which follows. Who kills him? The Venezuelan political opposition with CIA help? Pat Robertson? Does he have a mortal stroke brought on by excessive narcissism? Who cares? The Americans prepare to militarily intercede in the region.
2. 2007 -- The US decides that Iraq is a hopeless quagmire and they're losing more oil from Venezuela where the real remedial actions must be taken. The US pulls out of Iraq (except for some troops left in Kuwait left to protect interests there and in Saudi Arabia) and begins active military operations to get Venezuelan crude production back online. But the American pull-out in Iraq is immediately followed by a civil war between the Shia' and the Sunni Arabs. The Iranians (without committing troops) support the Shiites in South/Central Iraq in every way possible.
3. 2008 -- The Kurds of Iraq, Eastern Turkey and Northern Iran see their historical opportunity for a united ethnic nation. Both the Iranians and the Turks launch military actions to stem the separatist movements within their borders.

In all three cases, world oil/liquids supply are adversely affected. In the imaginary data I used, the world loses about 6% of it's liquids supply between the 2005 high (81.9/mbd) and 2009 (76.9/mbd). I discounted new production and declines in existing production assuming that these would just even out (outside the unaffected areas eg. West Africa). After 2009, I let things drift down for a few more years given the geopolitical chaos--maybe the Russians would decide that some of those now independent FSU pipelinstans should no longer be free or maybe China decides that it has a really important strategic interest in the Caspian Sea area--which is already a factor. Who knows?

And so to the point. When CERA forecasts 10 years of light, it is also possible to forecast 10 years of darkness. And if my imaginary scenario were true--which it certainly is not--how many years would it take to ever get back to the 2005 production level cited here? Well, the world would *never* achieve that level ever again, would it?

But if CERA can do it, so can you. Tell us your best or worst cases, go ahead, predict the future. And then, as if it were money in your pocket, make an investment based on CERA's projections or the predictions made in this report.



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