



There is nothing to fear, but . . .

Posted by [Heading Out](#) on May 5, 2005 - 5:20am

When President Roosevelt uttered his famous phrase on fear, America was, to be blunt, in a mess. The Great Depression was not a fun time to be around. Yet the important point is not one of comparing circumstances, it is in his message on the debilitating effects of fear itself.

Consider the underlying fear revealed in the article carried today by [Rigzone](#) on the latest International Energy Agency comments. Those who have survived in the oil industry have had to learn a lot of harsh lessons as demand for their product has shot up, and then as they invested to take advantage, suddenly dropped. Thus there is an industry-wide fear that as new and very expensive projects are funded based on \$50 oil, the price will drop back to \$25. I have heard this very recently from those making investment calls and J commented on his experience the other day. Judgements on project viability are still being made based on an assumed price of oil in the \$20 - \$25 range. Historically this has been prudent management, but is now a position that the IEA boss is challenging.

When you ask why, with oil prices seeming to have reached a new floor at around \$50 oil company executives will tell you of how bad it has been trying to survive through those cycles in the past (and it was). And they will also talk of the major projects that have been touted as coming on line over the next few years. All can cite some reason for caution, despite the [rational view of the numbers](#) that shows that the oil supply cannot realistically be expected to increase much more in the near term. The major projects, and even the new production promised by the Saudi Crown Prince will come in as too little and too late to help in the immediate future. With supply and demand now so close in volume, and with production falling in an increasing number of countries, the times have changed, and the underlying assumptions are no longer valid.

Some caution is commendable, but unfortunately when carried too far it becomes overly restrictive and limiting. The gap since the last oil boom has been too long. Those who saw the challenge in the past and used it to make fortunes, moved on as the industry fell back, investing in other fields where challenges would be more rewarding. Those who stayed and survived were the ones trained to caution, and a more unemotional view of relative risk.

There are, admittedly other things that must be considered, the sites where major new investment can yield an adequate return are getting much sparser, and spending large sums of money to find small pools of oil is not a long-term productive strategy for any company.

Yet there are steps that can be taken and avenues of investment that do exist that will reward those more willing to accept the much diminished risk of investment. We need company executives to overcome their fear of the past to invest both in technology to help meet our supply needs, and also to make a not insubstantial amount of money. They will make money longer and at higher levels this way. And they will also help those who already [may be constrained by prices](#).



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