



Five minute optimism on oil supply

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Data on which to predict when oil supply and demand will cross is not that easy to get or, when found, to be credible. Consider the case of Venezuelan oil. Venezuela is the fifth largest producer of oil, at around 3 mbd. But the actual number varies with the report.

President Chavez recently [announced](#) that Venezuela is currently running about 120,000 bd below the quota (which is 3.154 mbd) but will raise production to quota levels by the end of the year. Which would be a considerable help in the supply:demand balance, if these numbers could be believed. Unfortunately there is a [body of opinion](#) that suggests that their production is some 500 to 600,000 barrels a day below the limit at this time.

However if that 0.5 mbd could be recovered and the [increased production](#) from the deepwater Gulf of Mexico, Canadian oil sands, Brazil and Angola, which ESAI project to increase non-OPEC supplies by 1.4 mbd next year, then lo our total would closely approximate the growth in demand. There would, with the additional production from the Middle Eastern partners of OPEC, be enough oil to meet next year's growth in demand, with just a little demand destruction where [poorer countries](#) cannot continue to maintain their oil subsidies. There might be no energy problem until 2007.

Sorry, but you now have to wake up.

Most of the reserves, including those from Saudi Arabia, are in the heavy oils. [ConocoPhilips](#) just announced a \$3 billion program to upgrade its refineries to handle that oil, but won't start spending the money until next year, and its impact will likely start only two years out from then. In regard to production from the deep waters of the Gulf, as an example [Statoil](#) just purchased EnCana's assets there including a recent discovery. They do not see a significant production gain from those fields until 2008.

Venezuela will now [increase the taxes](#) on oil companies and potentially make it retroactive. This may well lead to the same problems that Russia encountered in doing the same, and have a further negative impact on production. And given that they are also going to look into [other possible irregularities](#) the likelihood of ongoing litigation and the negative impacts on production should not be understated.

And of course, when we add up all the potential increases in production, we are neglecting the decreasing production from existing fields. And Venezuela, as an example, has been in a [declining production mode](#) now for some time.

It does not take much of a web search, following optimistic news reports, to find oneself, if anything, more pessimistic than ever.

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