



# Peak Oil Review

*Energy Action for a Healthy Economy  
and a Clean Environment*

[Tom Whipple](#), Editor

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## 1. Oil price continues to climb

During the past week, a steady stream of bad news drove up the price of oil:

- The rhetoric over Iranian nuclear ambitions heated up.
- The Nigerian insurgency bubbled along with 220 thousand b/d shut in.
- Severe cold set in over Russia and parts of Eastern Europe.
- Osama ben Laden reappeared with new threats.
- A report surfaced that Kuwaiti oil reserves may only be half the size of current estimates.
- DOE announced that industry repairs after the hurricanes still have a long way to go.

Taken together these developments were enough to send oil to over \$68 per barrel, close to an all time high.

## 2. The Iranian Situation

Of all the factors driving the price of oil higher the possibility that some or all of the 2.5 million b/d of Iranian oil exports might stop is the most serious. The Iranians are claiming that given the tightness of the world market, the industrial nations would be hurt worse than Iran while some in the US and Europe are saying that it would be worth the price to thwart Iranian nuclear ambitions. Still others in the West hold that a reduction in Iranian oil exports would result in major damage to the world economy.

The situation is unlikely to be resolved soon as the interplay among the US, Europe, Israel, China, Russia, Iran and various international agencies goes on. As we have seen in a number of recent Middle-East confrontations, the possibility for miscalculation is high. The Iranians could even calculate that by withholding a portion of their oil from the world market, they could drive oil prices so high that they would be more than compensated for the smaller volume of exports.

## 3. DOE reports on hurricane damage

The US Minerals Management Service released an analysis of the effects of the hurricanes on oil and gas facilities in the Gulf. At least 167 oil platforms were destroyed or damaged and four months after the hurricanes, nearly 400 thousand b/d of production is shut-in. More ominously MMS estimates that 250 thousand b/d will still be out of production at the beginning of the 2006 hurricane season.

## 4. Kuwaiti Reserves

The respected industry newsletter Petroleum Intelligence Weekly reports that, according to internal government documents, Kuwaiti oil reserves are really 48 billion barrels rather than the 99 billion claimed. Only 24 of the 48 billion are fully proven reserves. The chairman of the state-run Kuwaiti Oil Company denied the report, but according to outside analysts the 48 billion is much more reasonable. Last fall Kuwait announced that their largest oil field, Burgan, had gone into depletion and was no longer able to produce 2 million b/d.

## 5. Energy briefs

- For various reasons nearly 1 million b/d of world oil production currently is shut-in -- Norway 140k, Nigeria 220k, Russia 200k, Gulf of Mexico 400k.
- The International Energy Agency expects demand for oil to grow by 2.2 percent in 2006 vs. 1.3 percent in 2004.
- US Gasoline consumption in 2005 increased to 9.14 million b/d vs. 9.11 in 2004.
- Platts Oilgram reports that OPEC production fell by 250 thousand b/d in December to 29.8 million b/d.
- Brazil's production increased by 13 percent to an average of 1.68 million b/d last year. The country should become self-sufficient this year.

## Commentary: DOE Showdown with Oil Industry and Congress

By Dan Berard

Last fall the Department of Energy (DOE) Secretary, Samuel Bodman, asked his National Petroleum Council (NPC) to help answer the basic question as to whether can world oil production meet rising demand. David J. Lynch, in a USA Today article November 11, 2005, correctly noted the key language in a reference to the "peak oil" debate that "the world is at, or near, maximum oil production."

The NPC is a privately funded advisory committee established in 1946 by President Harry S. Truman. This council is presently composed of about 175 US industry executives and represents a broad cross-section of the industry. The group's chairman happens to be the now-retired CEO of ExxonMobil, Lee Raymond. This organization has produced more than 200 reports over the years that cover virtually every aspect of the oil and gas business.

Taken at face value, Secretary Bodman is asking the right question to the correct group to answer the crucial peak oil question. However, the devil is in the details; in particular, how the issue is framed by the NPC. For example, we hope that this group does not try to re-justify the USGS estimates of remaining oil in place, predict future oil prices, or get tangled in a technical discussion of reserves definitions. The real question is: will the US have continued access to affordable conventional crude oil production? The access question will bring into focus the competition with China, Russia and India for new reserves. One recent example of an access problem is Venezuela, which is hostile to the current U.S. administration.

Secretary Bodman has inherited a number of problems. For starters, he must somehow learn from the two abortive efforts to pass a reasonable energy policy. The administration has had success with Clean Coal projects and new LNG hubs, but the rest are incentive-based giveaways for fuel additives.

The second "black eye" the DOE/EIA has experienced is its Annual Energy Outlook - 2025. It predicted that world oil demand of 120 M bpd would be met by OPEC and non-OPEC producing countries. In the reference case, OPEC would produce 52 M bpd, or 22 M bpd above current levels. The Saudi Arabian "contribution" was expected to double production from about 10 M bpd to about 20 M bpd. This forecast was seen as totally unrealistic, and was even laughed at by the Saudis. Sharp gas price increases surprised DOE/EIA and a new early release of Outlook 2006 was produced to reflect the recent "oil spike" surprise. Perhaps the biggest shock of all was the formation of a Peak Oil

Caucus in the House and a peak oil bill introduced October 24, 2005 by Rep. Roscoe Bartlett (Rep, MD).

So, the challenges are clear and Sam Bodman needs to get in front of a parade. Most see the new Secretary as a serious man with great management experience and superb academic credentials. Therefore, I see the NPC report request as a showdown with the oil industry to determine the real facts that can be used to develop an effective energy policy. At the end of this exercise, I would also expect Secretary Bodman to demand that the major oil companies publicly stand behind their conclusions so a new showdown with Congress can withstand predictable partisan wrangling. It is not critical that NPC and Congress embrace the term "peak oil", but it is important that we make an energy paradigm shift and recognize the implications of doing nothing.

As a final note, the demand side of the crude oil equation has blossomed into a sharp competition for the remaining oil reserves with the Chinese and Indians as formidable opponents to US companies. These countries have shown very aggressive tactics and sharp business skill indicating that their own national energy policies are clear and they are determined to succeed. CNPC, the Chinese oil company, has now finalized the deal to purchase the Calgary-based PetroKazakhstan and has upset the long status quo in the Caspian Sea. The Chinese and the Russians have also won Saudi gas deals. Interestingly, the one man who can tell us how the Chinese and Russians beat the US on these deals is Lee Raymond, the NPC Chairman. The United States needs a clear and articulate national challenge that goes well beyond calls to drill the Arctic National Wildlife Refuge and focuses on the development of an energy policy consistent with our shared goal of a sustainable economy for our families.

Dan C. Berard, trained as a geophysicist, spent his early career in the oil & gas business as an exploration seismologist with Chevron Oil Company, and later as a technology executive with Exxon Corporation. Retired from the oil majors, Dan consults out of Clearwater, Florida (d\_berard@bellsouth.net).