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Energy Action for a Healthy Economy and a Clean Environment

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Tom Whipple, Editor
Steve Andrews, Publisher

Registration is *now open* for the 2008 ASPO-USA Sacramento Conference, Sept 21-23
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1. Production and prices

The week started with oil prices falling by $7 a barrel from the previous week's all-time high of $139.12 on the general perception that prices were too high, the US dollar would go up, and demand will drop. The decline was checked by the Wednesday stocks report which showed an unexpected drop of 4.6 million barrels in US crude stockpiles due to low imports. The report caused a momentary jump to over $138, but as the dollar gained, oil fell back. On Friday came a report by the *Middle East Economic Survey* that the Saudis, fearful that current oil prices will destabilize the world economy, would propose a "sizeable" increase in production at the June 22nd oil summit conference in Jeddah. This led to another price pull-back with oil closing out the week at $134.86.

Lehman Brothers analysts are propounding the theory that the reason US crude imports stockpiles are falling so rapidly is because of high storage costs and falling demand for gasoline and not because refiners are having trouble getting oil to import. The Financial Times reports that refiners are paying a premium of $5-6 a barrel above market prices to secure high-grade crude. This markup is four times higher than the average for the last eight years and casts doubt on the theory that prices are being driven up by speculators.

Despite the volatility of crude prices, retail gasoline in the US climbed 8 cents a gallon last week to a nationwide average of $4.077. The EIA released a new forecast that gasoline will peak at $4.15 in August.

Demand for diesel continues unabated with prices now running a record 14 percent higher than for gasoline. Demand for diesel, the world's most widely used transportation fuel, is coming from increases in Chinese and Middle Eastern countries as well from the need to fuel emergency generators as power shortages increase across the world.

2. The King's meeting

Last Monday Saudi Oil Minister al-Naimi called for a meeting of oil producing and consuming nations to discuss how to deal with the record prices set the previous week. The next day the White House announced that the US would be attending and hoped that the meeting would open more countries to investment by the international oil companies. By Thursday, President Bush was saying that a high-level administration official would attend, but was uncertain if he would go himself.

The calling of a meeting was widely interpreted as a sign that the Saudis are becoming increasing nervous about the political and economic damage that will ensue from oil prices approaching $140 a barrel. Many thought the meeting was a sign that the Saudis would soon increase production.

The *Middle East Economic Survey* report that a sizeable increase in Saudi oil production will be announced at the meeting was followed by a *New York Times* story that briefings of unnamed oil traders by unnamed Saudi officials suggested that a 500,000 b/d Saudi production increase to over 10 million b/d was in the offing. This was accompanied by an announcement that the 500,000 b/d Khursaniyah oil field will be ready to start production in four weeks and that Oil Minister al-Naimi would clarify the situation on Sunday.

By Sunday, unnamed Saudi spokesmen were saying there would not be an official statement concerning an increase as the matter had not yet been decided. After meeting with King Abdullah, UN Secretary General an ki-Moon put the size of the increase at 200,000 b/d and Dubai television weighed in with “the matter has not been decided”

Coming on top of a 300,000 b/d increase in June an additional 500,000 b/d seems a little much, making 200,000 b/d seem more sustainable. While the formal announcement of increased production is likely to hold back price increases for a while, worldwide demand still seems destined to increase by over 1 million b/d this year.

3, Protests spread

Strikes and demonstrations protesting high oil prices, reductions in subsidies, and power blackouts spread to many countries across the world last week. From Europe to Asia to Alaska, where 800 demonstrated in Fairbanks, people took to the streets.

In Spain, Portugal, and Korea strikes by truckers bought large sectors of the economy to a halt. In Spain where violence broke out, the government issued a stern warning and sent police to escort truckers and open the borders. In Malaysia, hundreds marched to the Petronas Towers shouting anti-government slogans. Pakistan has sunk to a state of nearly continuous demonstrations as people protest the nationwide electric power blackouts.

Although several European governments have moved to defuse the situation by offering the strikers various forms of subsidies, tax relief and even early retirements, the poorer countries can do little but send out the riot police. There is little reason to believe such protests will subside; as more and more are priced away from their oil products, the situation will only get worse.

4. Briefs *(*clips from recent *Peak Oil News* dailies are indicated by date and item #*)*

- BP will begin oil production from its **Thunder Horse field** in the Gulf of Mexico on June 14. The long-delayed field is designed to produce a maximum of 250,000 barrels per day of oil and 200 million cubic feet per day of natural gas when it reaches peak production. (6/11, #30)
- US oil **futures** regulators are working on a deal with their British counterparts to impose first-ever position limits on West Texas Intermediate contracts on the ICE Futures Europe exchange. In London, a futures executive warned that the move to restrict trading could backfire (6/13, #3,6)
- The latest round of Chinese **diesel** shortages is due to heavy demand and cannot be blamed on the activities of the country's big two oil companies, said a spokesperson for PetroChina. (6/13, #9)
- **China's crude oil imports** leapt by 25 percent in May to their second-highest ever as refiners restocked supplies and stepped up refinery runs to keep fuel flowing ahead of the Olympics Games. (6/12, #13)
- The latest figures appear to show that demand for petrol in **Britain** has slumped by as much as 20 per cent over the past 12 months. Due to high prices, British drivers are switching to public transport, according to the IEA. (6/11, #32)
- Economists at CIBC say **globalization** might go into reverse if fuel prices continue to rise. The cost of shipping goods to the US represented an effective tariff of 3 percent with $20 oil, but is now more than 9 percent and will rise to 11 percent if oil hits $150. China needs to

import iron ore and coking coal, but the cost of shipping ore from Brazil to China now exceeds $100 a ton, equal to the value of the mineral itself. (6/11, 34)

- US Asst. Energy Secretary Karsner told a Senate panel it would be "devastating" to the future of the **ethanol** industry to slow down the schedule on the newly increased federal renewable fuels standard. (6/13, #12)
- **ExxonMobil** Corp said it is getting out of the retail gasoline business in the US as sky-high crude oil prices squeeze margins. (6/13, #14)
- A study by Common Current ranked **50 US cities** for their ability to cope with high oil prices. The top 10 were San Francisco, New York, Chicago, Washington DC, Seattle, Portland (OR), Boston, Philadelphia, Oakland, and Denver. (6/13, #15)
- BP accused the Russian partners in its **TNK-BP** joint venture of acting like corporate raiders, but the Russian shareholders countered that BP had insulted the Kremlin. This corporate war puts BP's large investments in Russia—20% of BP's production—at risk. (6/13, #19)
- **Gazprom,** the world's biggest utility, touted the notion that the price of oil probably would reach $250 per barrel next year. (6/13, #20) The chairman of British oil major BP rejected as "apocalyptic" this prediction by the head of Russian gas giant Gazprom of oil prices soaring to $250 a barrel by the end of next year. (6/11, #33)
- Floods in the US Midwest that have pushed **corn prices** to record levels ($7+/bushel), have also wiped out profits from making ethanol and threaten to sink production of the fuel below government mandates. Five ethanol plants have recently shut and additional "fairly massive shutdowns are in the offing," (6/14, #14-15)
- **US refiners** are importing less crude because of high storage costs and declining utilization rates, Lehman Brothers Holdings Inc. said. (6/12, #3)
- **Speed limits**: a study by the UK's What Car? magazine found that the average car consumes 38 per cent more fuel at 70mph than it does over the same distance at 50mph. At 60mph it uses 34 per cent more than at 40mph. (6/12, #5)
- In **Nigeria,** oil companies and trading sources have detailed about 604,000 barrels per day of shut-in production due to militant attacks and sabotage. (6/12, #8)
- Fuel subsidies are costing the **Mexican** government billions of dollars, but political concerns prevent President Felipe Calderon from adjusting gasoline and diesel prices any time soon. (6/12, #9)
- The shortage of fuel forced several bus lines in **Buenos Aires** to suspend or reduce their service on Wednesday, while the lack of diesel hampered industrial and agricultural activity elsewhere in Argentina. (6/12, #10)
- Sometime next year, **Cuba** plans to begin drilling a major oil field off its northern coast. The U.S. Geological Survey estimates the field holds at least 5 billion barrels of recoverable oil and 10 trillion cubic feet of natural gas. In a few years, Cuba could be producing 525,000 barrels of oil per day, enough to make it energy independent and perhaps even an oil exporter. Cuba consumes 145,000 barrels daily, of which 92,000 come from Venezuela. (6/12, #12)
- The **US House of Representatives** Interior Appropriations subcommittee rejected an amendment by Rep. John Peterson that would have opened more of the Outer Continental Shelf to oil and natural gas drilling. (6/12, #15)
- A nearly $15 billion **Amtrak** bill passed the House. Total ridership in May was up 12 percent over last year. Amtrak's marketing research indicates that half the increase can be attributed to gas prices. (6/12, #16)

- **Iran will scale down production** of gasoline-powered vehicles and increase cars with dual-fuel and natural gas engines. (6/11, #11)
- EU diplomat Javier Solana handed **Iran** an offer by six major powers of trade and other incentives on Saturday to try to coax it into halting sensitive nuclear work, but Tehran again ruled out any such suspension. (6/14, #9)
- **India** has decided to open up its vast coal reserves for use by coal-to-liquids plants, despite sharply higher emissions and demands on local water supplies, in a bid to cut the huge bills that come with the country's dependence on imported oil. (6/11, #23)
- Big oil companies dodged an attempt to slap them with a **windfall profits tax** and take away billions of dollars in tax breaks in response to the record gasoline prices that have the nation fuming. (6/11, #25)
- With food prices soaring and stocks thinning, the world is in need of bumper harvests but once one of most bountiful of commodities, **fertilizer,** is becoming scarce and expensive**.** If all goes well, a farmer can earn $3 for every $1 invested in fertilizer. (6/11, #31)
- **Iranian Defense Minister** Najjar warned Israel of a "very painful" response if it launched a military strike over the Islamic Republic's disputed nuclear program. (6/10, #9)
- For three days in an average week, factories in Foshan's Shunde district have to work to keep their own lights on. As power cuts take effect in this part of **Guangdon**g province, home to large Chinese home appliance manufacturers, diesel-powered generators keep production going. (6/10, #12)
- Car sales in **China**, the world's second-largest vehicle market, rose 15.6 percent in May from a year earlier to 564,600 units. (6/10, #13)
- In the US, **pain at the pump** is not being felt uniform**ly.** Across broad swaths of the rural South, Southwest and the upper Great Plains, the combination of low incomes, high gas prices and heavy dependence on pickup trucks is putting an even tighter squeeze on family budgets. (6/9/08)
- Rising **North Sea oil production** was a significant factor in keeping oil prices under control in the 1970s, 80s and 90s. Production peaked at 6.4 million barrels per day in 2000 and since then, declining North Sea Oil production is one significant reason that oil prices are now rising exponentially. (6/9, #15)
- The head of R&D for Nissan said that improvements in **lithium batteries** will improve the range of electric vehicles to 250 miles by 2015 (6/15, #21)

Quotes of the Week

- “Oil markets are driven by fundamentals. Our response to the notion that it is merely a bubble is that you are still seeing no supply growth. If the price isn't real, where is the supply?”

  -- *Arjun Murti, Goldman Sachs*

- "Our view is that oil production will peak in the near future. We need to develop power train(s) for alternative energy sources," to “move beyond petroleum.”

  -- *Katsuaki Watanabe, President of Toyota*

Commentary -- The Oil Production Story: Pre- and Post-Peak Nations

updated June 2008 with 2007 data

The world oil production data below tell a story about: 1) nations that are past peak (see "Peak Year," turquoise fill), because of geologic limits (e.g., US, Norway, etc.) or other reasons; and 2) nations that have yet to peak (see "na" under "Peak Year;" Saudi Arabia, UAE, Nigeria), or if they have peaked it is not yet clear. An equally interesting trend is--irrespective of peaking--whether or not nations are increasing (first column; Angola); have either flat or volatile production (second column, in blue; Iran, Iraq); or are experiencing decreasing production (third column, in red). Finally, the net amount of change in any year (2007 data, plus preliminary 2008 % data) is useful. ***Six nations increased*** *by over 100,000 barrels/day-year (vs. 12 in 2004);* ***six experienced declines*** *over 100,000 barrels/day-year (vs. two in 2004; Saudi Arabia will bounce back).* Peak appears to be approaching, but probably isn't here for a few years. We suggest you follow the increasing roles of violence, resource nationalism, timing of production investment and peak oil *exports* .

BP's data show 2007 world oil production at 81.5 million barrels per day, down 0.2% over 2006. Note that the Top 10 producers account for 63% of world oil production and that the Top 20 account for 85%; all Top 20 produce over 1 million barrels per day. During 2005, Angola moved up into that exclusive club.

Note how many nations have likely peaked: 6 of Top 10; 10 or 11 of the Top 20; etc. China is nearing its peak/plateau, Russia probably repeaked in 2007.

Source: British Petroleum, using 2007 data. Includes crude oil, shale oil, oil sands, and natural gas liquids (NGLs); excludes biomass.

	Increasing	*Flat/Volatile*	*Decreasing*	*Change* barrels/day	*Trend* (years)	MMB/Day	*Peak year*	*Peak Rate*	*Oil & Gas Journal* data through Mar-08*	*Comments*
1			Saudi Arabi	-440000	2	10.4	na		5.6%	Saudi cuts ended late 2007. Major increase in 2008.
2	Russia			209000	9	10.0	1987	11.50	-1.4%	Growth spurt =finito; Russia repeaked in '07; nationalism
3			USA	38000	21 of 22	6.9	1971	11+/-	-1.4%	Gulf of Mex '07 comeback partially offset other declines.
4		Iran		13000	4	4.4	1974	6.06	3.1%	Slow gains/flat; Iran won't repeak; nukes + nationalism.
5	China			59000	24	3.7	na		0.4%	China probably will peak and flatten within several years.
6			Mexico	-206000	3	3.5	2004	3.8	-7.8%	Mexico in permanent decline; exports dropping like rock.
7	Canada			101000	5 of 6	3.3	na		-1.8%	Canada's conventional oil peaked yrs ago; oilsands up
8	U.A.E.			-56000	4 of 5	2.9	na		2.2%	UAE talks increases; what's in their best interest?
9		Kuwait		-56000	4 of 5	2.6	1972	3.3	6.1%	Burghan Field, world's 2nd largest, has peaked.
10			Venezuela	-195000	6 of 9	2.6	1970	3.6?	-1.5%	Resource nationalism poster child; Chavez-driven dip
	TOP TEN					50.3 Mmb/d				*Top Ten Produce 62% of global oil.*
11			Norway	-223000	6	2.6	2001	3.42	-9.1%	Norwegian North Sea steadily declining; -19% in five yrs
12			Nigeria	-118000	2	2.36	na		-7.6%	Nigeria = basketcase. Deepwater, violence both grow
13		Iraq		146000	volatile	2.15	1979	3.48	25.9%	Last year overcame basket-case status with strong incr.
14		Algeria		-3000	1	2.00	na		4.5%	Algeria has room to grow; cut for OPEC quota last yr
15	Libya			14000	4	1.85	1970	3.32	4.1%	Libya can increase, but new peak unlikely.
16	Brazil			24000	12 of 13	1.83	na		0.7%	Still growing; excludes cane ethanol. Self-sufficient.
17	Angola			307000	21 of 23	1.72	na		16.9%	Angola rising star. World's largest increase last year.
18			United Kingd	0	7 of 8	1.64	1999	3.00	-7.0%	Production down 44% since '99. Prognosis: terminal.
19	Kazakhstan			64000	13	1.49	na		26.8%	Kazaks have tripled production over last decade.
20	Qatar			87000	9 of 11	1.13	na		6.3%	Qatar doubled over last decade; large NGL gains cont.
	Nations 11-20					18.7 Mmb/d				*Nations 11-20 produce 23% of global oil.*

21			**Indonesia**	-48000	11 of 13	0.97	1977	*1.69*	1.1%	OPEC member used to export; now net importer.
22	**Azerbaijan**			**214000**	12	0.87	na		**15.7%**	Zooming up the chart; new pipeline allows big exports
23		**India**		6000	13	0.80	na		-2.4%	India flat near 800,000 bd. Imports rising.
24		**Malaysia**		7000	11	0.76	2004?	0.79	3.1%	Malaysia doubled since '85; now declining. On watch list
25			**Oman**	-34000	5 of 6	0.72	2001	0.96	**6.3%**	Oman: 23% decline since 2001.
26			**Egypt**	13000	12 of 14	0.71	1993	0.95	**-4.5%**	Egypt yields new gas finds, but not that much new oil.
27			**Argentina**	-18000	8 of 9	0.70	1998	0.89	0.0%	Argentina's steady decline continues.
28		**Columbia**		2000	4	0.56	1999	0.84	**7.9%**	Columbians still beset by narcoterror and rebels.
29			**Australia**	7000	6 of 7	0.56	2000	0.81	**-7.0%**	A 2007 rebound is break in long decline trend.
30		**Ecuador**		-25000	4	0.52	na		0.2%	Is one-year drop start of a new trend? Politics volatile.
	Nations 21-30					**7.2 Mmb/d**				***Nations 21-30 produce 9% of global oil.***
31	**Sudan**			**126000**	11	0.46	na		**6.7%**	Sudanese violence persists;OPEC member stepped up.
32			**Syria**	-27000	**6**	0.42	1995	0.60	-0.8%	Syria down 32% since 2001, 7% drop last year.
33		**Equatorial Guinea**		5000	3	0.36	na		not updated	E.Guinea producing for 13 yrs.; growth spurt over?
34			**Yemen**	-44000	5	0.34	2002	0.47	**-11.2%**	26% drop in 5 years since peak.
35			**Vietnam**	-31000	3	0.34	2004?	0.43	**-7.1%**	Vietnam suffered 3-yr decline of 20%; more to come.
36			**Denmark**	-30000	3	0.31	2004	0.39	**-7.9%**	One-year decline of 9% in 2006.
37	**Thailand**			23000	14 of 19	0.31	na		3.5%	Thailand should still see modest growth.
38			**Congo**	-40000	6 of 8	0.22	1999	0.29	not updated	Congo's 2-year gain ended with 15% decline dud.
39			**Gabon**	-5000	7 of 10	0.23	1997	0.37	-1.4%	Gabon, former OPEC, 5-yr flat spot during decline.
40		**Turkmenistan**		12000	5	0.20	2003?	0.2	not provided	on relative plateau for 5 years;
						3.19 Mmb/d				***Nations 31-40 total produce little less than Canada.***
41		**Brunei**		-27000	5	0.19	1979	0.24	-2.0%	12% drop more than wiped out previous year's gain
42			**Chad**	-9000	2	0.15	na		not provided	producing only 5 yrs; geopolitical hiccup = two yr drop?
43		**Trinidad&Tobago**		-20000	6	0.15	1978	0.23	**-6.4%**	dipped 25% 1985-98. Uptrend ended w/ 13% drop.
44		**Peru**		-2000	3	0.12	1983	0.20	**-6.2%**	Peru flat for 3 yrs; watch for nationalism's impact
45			**Uzbekistan**	-9000	6 of 8	0.11	1992	0.19	not provided	could repeak, but unlikely; down 1/3 last 6 yrs
46		**Italy**		2000	1	0.11	na	0.12	1.2%	three year plateau hardly matters for lower-tier producer
47			**Romania**	0	20+	0.11	1976	0.30	-2.7%	world's first oil wells drilled here, before Titusville PA
48		**Tunisia**		28000	2	0.10	1984	0.12	**-11.7%**	only Tunisia cares about nice bump up
49			**Cameroon**	-5000	16 of 18	0.08	1988	0.18	**3.6%**	only Cameroon cares about small decrease
50		Other			na	0.75	na	na		"Everybody else" trending down, too small to matter.
						1.87 Mmb/d				***Remaining nations produce same as Libya.***
						81.53				

Very small producers, in decline		**Very small producers, i**	**increasing**	***Very small producers, flat***	**Small producer, question mark**
Pakistan	France	New Zealand	1.87	Japan	Cuba should see substantial bump in 2009-2010
Croatia	Bolivia	Papua New Guinea			
Turkey	Germany	Mauritania			
Austria	Bahrain	Netherlands			

Table and comments prepared by Steve Andrews and Randy Udall, two of ASPO-USA's co-founders.

** This set of data from the O&GJ is only included to fill in the gap in 12 months between the updating of BP's data. It uses a different baseline, thus is used here only as a %.*