ASPO USA

PEAK OIL REVIEW

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*New Format *for Peak Oil Review*! Like it? Tell us what you **think**.

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1. Oil and the Global Economy

After falling steadily for nearly a week, oil prices stabilized on Thursday and Friday with NY oil closing at $86.28 and London at $109.55. The two week price decline which stemmed mainly from concerns about economic prospects took NY oil down about $7 a barrel and London down some $5. By week's end, concerns over the disruptions that Hurricane Sandy will cause to the five refineries located in its path, producing 600,000 b/d, pushed up gasoline and heating oil prices taking crude with it. Heating oil supplies in the NY area are far below normal levels so prolonged closure of refineries accompanied by colder weather will likely lead to a price surge.

The overall US oil situation remains bearish with the government reporting a 5.9 million barrel increase in US crude stocks the week before last to a 30-year high; US domestic oil production climbing to 6.61 million b/d, a 17 year high; and gasoline consumption falling 2.7 percent to 8.5 million b/d.

Gasoline futures ended 10 straight days of falling prices on Thursday, the longest losing streak in 26 years, as the hurricane approached. After dropping some 40 cents a gallon, on lower demand, the "hurricane premium" sent prices back up about 10 cents.

Natural gas prices also reacted to the threat of Hurricane Sandy by falling to their lowest level in 3 weeks of $3.40 per million BTUs in anticipation that widespread power outages along the East coast will result in lower demand this week. An increase in natural gas inventories by 67 million cubic feet helped with the price decline. This is the highest inventory level ever at the start of the winter heating season and long term temperature forecasts are mixed adding to the volatility.

There was a touch of better economic news last week with the US's third quarter GDP estimate coming in a touch higher than expected and hints that China's economic slump may be bottoming out. The economic news from the EU is not good, however.

2. The Middle East

While developments elsewhere overshadowed the Middle East's effect on oil prices last week, the overall situation continues to deteriorate. The Syrian holiday ceasefire did little to slow the fighting, and the uprising

is spreading into Lebanon and Iraq where Syria's Sunni-Shiite confrontation has inspired many young Iraqis to join in. Tehran is aiding the Assad government by flying and bussing militant Iraqi Shiites to Damascus and arming them. Iraq's Sunnis are retaliating with a steady stream of anti-Shiite bombings which could eventually grow into sectarian fighting threatening oil production.

In Libya the fragile coalition is threatened by the numerous heavily armed militias representing a potpourri of tribes and political agendas. So far there have been no reports of major oil stoppages, but the security situation is not conducive to the presence of foreign expertise and the investment necessary to keep up oil production.

The Iranian situation has been quiet in the wake of a report that direct talks between Washington and Tehran might be possible after the US elections. Sanctions keep tightening as do the domestic pressures inside Iran. An unusual eruption of political infighting erupted in Tehran last week with President Ahmadinejad accusing the Ayatollahs in the judiciary of protecting their relatives from prosecution for economic crimes. Tehran announced the arrest of 50 currency dealers showing that the stability of Iran's currency is still an issue.

Tehran responded to new and tougher EU sanctions by threatening to suspend all oil exports leading to much higher prices and devastating the world economy. The oil markets did not react to the threats noting that Iran's exports are down to about 860,000 b/d and that Tehran would be hurt worse than oil importers should it cease exporting.

Intelligence sources say Tehran has finished installing the last of the 3,000 centrifuges at the Fordo underground enrichment facility. This may be an effort to obtain more leverage in negotiations over the future of its program.

3. China

There were a number of developments in China last week that are worth noting. The once-a-decade leadership change is due to take place at the 18th Party Congress which will begin on November 8th. The Party has asked the country's think-tanks to begin drawing up ambitious economic reform proposals that could result in major structural changes to China's economy in coming years. The Party Congress is taking place amidst reports of the weakest annual growth rate in 13 years which is coming after three decades of circa 10 percent annual expansion. The last major reforms in China were accomplished by Deng Xiaoping in the late 1970's after Mao's disastrous Cultural Revolution nearly destroyed the economy.

Although it is too early for details of the reform proposals to come out, the general idea is to reduce the amount of government meddling in the economy with some 100,000 state-owned enterprises currently enjoying many special benefits such as easier loans and preferential access to government contracts, as compared to businesses in private hands. The tax structure is due for an overhaul as the debt-free central government collects most of the tax revenue while local governments do most of the spending on infrastructure projects.

Many doubt that a new round of economic reforms will revive China's economy anytime soon. China will be still trapped in the global financial crisis which has hurt exports. The quick and easy reforms were carried out over many years ago so future reforms are unlikely to have the impact of those carried out in the 1970s.

In the meantime, some Chinese economic data released last week was better than forecasts suggesting that the recent decline may be bottoming out.

Beijing issued the 2012 edition of its continuing "white paper" on energy policy which noted that China's energy consumption has increased annually by 5.82 percent over the last 30 years. Among the numerous topics covered were some interesting goals for the next five years. The government is much concerned with efficiency in the consumption of energy. During the last five years, consumption of energy per unit of GDP is

claimed to have dropped by 20.7 percent. Over the next five years, Beijing wants to improve this by another 16 percent.

Paths to better air quality are prominent in the plan. China plans to increase the share of non-fossil fuels to 11.4 percent for all energy consumption and 30 percent for electric power generation in the next five years.

4. Europe

As has been the case for many months, EU's leaders continue to search for a formula that will result in a long term solution to its fiscal problems, while trying to keep the Union and the Eurozone from coming apart. The feeling of urgency that existed last summer has been ameliorated by the EU's Central Bank's offer to buy unlimited quantities of government bonds to help out Spain, and the expectations that Greece will agree to just enough austerity to keep the EU's loans coming.

Relations among France, Germany, and Britain have sunk to a new low with London threatening to veto the EU's seven-year budget in November. Some senior British politicians are actively advocating that Britain loosen ties with the EU or even leave it and there is disagreement between France and Germany over how reforms to the Eurozone should be implemented. The Merkel government is facing an election next year amid growing sentiment that Germany cannot be responsible for the poorer countries of the zone.

In the meantime, Europe's economic situation continues to drift lower. The debt burden of the 17 Eurozone members rose to an average of 90 percent of their GDPs despite efforts to cut back spending. German economic activity in October contracted as exports to southern Europe dwindled and the EU's automobile industry shrank.

The EU has long been a highly efficient consumer of petroleum in comparison to North America and weaker economies and higher prices have cut back consumption considerably in the last four years. Should the EU's financial crisis dither along as it has for the last few years demand for oil should not change very much given reasonably stable oil prices. However, should Greece or Spain go into default and the Eurozone start to break apart, many observers believe major economic problems would ensue that could spread to much of the world.

Quote of the week

- "... these scenarios aren't easy to model—especially since nations might respond in unpredictable ways... All told, however, the IMF authors say it's quite possible that a decent-sized decline in oil production could have "dramatic" effects that could prove very, very difficult for the world to adjust to."

  - Brad Plumer, Washington Post

(Michael Kumhof, co-author of the IMF paper, will speak at the ASPO-USA conference Nov 30-Dec 1.)

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

- The **global oil market** remained relatively tight in September and October as **spare OPEC** production capacity stood at 2 million b/d, the US Energy Information Administration said in its fifth congressionally mandated report on non-Iranian oil supplies. (10/27, #6)
- **Nigeria** is losing an estimated $1 billion a month to oil theft while fraudulent natural gas deals with international oil companies have cost the West African country $29 billion over the past decade, official reports say. "The world is in the midst of a sustained oil boom. Yet Africa's leading producer is hemorrhaging the proceeds," the Financial Times observed. (10/25, #12, #13) (10/26, #11)
- **Royal Dutch Shell** said it had declared force majeure on exports of its Nigerian Forcados and Bonny Light crude oil due to damage to pipeline infrastructure, flooding and a fire. (10/23, #17)

- The natural gas boom, resulting in a severe decline in demand for coal. In fact, for the first time in history, electricity generated by natural gas has surpassed electricity generated by coal. This poses a problem for **railroads**, which generate high-margin business from coal shipments. (10/27, #17)
- The US's first commercial **oil sands** mining project, in Utah, has been approved. US Oil Sands has been working since 2005 to get permission from Utah officials to develop its proposed PR Spring project. The company anticipates that the 212-acre project area, in the eastern part of the state, will initially produce 2,000 barrels of petroleum product a day. (10/27, #19)
- The **European Union** is on track to not only meet but exceed greenhouse gas reduction goals set by the 1997 Kyoto Protocol. (10/27, #21)
- Using shadowy middle men, multiple bank accounts and a fleet of ghost ships, **Iran's coal trade** is quietly booming as it tries to sidestep Western sanctions. (10/26, #7)
- An Afghan official confirmed that Canadian energy company Terraseis discovered oil **Afghanistan's** border with Turkmenistan. (10/26, #10)
- **China** has lifted a moratorium on the construction of new **nuclear projects**, imposed 19 months ago after Japan's Fukushima nuclear disaster. (10/26, #13)
- **Indian** public and private-sector refiners processed around 14 million tons of crude, or an average of 3.45 million b/d, in September, down 7% compared with August, but up 11.4% from 12.69 million mt in September last year. (10/26, #14)
- Kirby Corp., the owner of the largest US tanker barge fleet, sees the possibility of moving **Bakken crude** to California once the oil reaches the West Coast by railroad. (10/26, #18)
- The energy industry in the Persian Gulf, which supplies more than one-third of the world's oil supplies and much of its natural gas, is finding itself vulnerable to **cyberattack** from Iran. (10/25, #10)
- **China** imported 1.38 million tons of LNG in September, up 20.1% from the same month last year. (10/25, #14)
- The US government has agreed to lease land about 11 nautical miles off the coast of Delaware for eventual **wind energy** development. (10/25, #26)
- **Antarctica** is losing an average of 190 million tons of ice every day, according to a study that used satellites to "weigh" the landmass. Although parts of East Antarctica are growing, glaciers in West Antarctica are melting faster, leading to a net loss of ice across the continent. (10/23, #5)
- **OPEC** governors gather in Vienna to select a new secretary- general for the first time in six years, with four countries vying for the position. The governors will interview nominees from Iran and Iraq as well as the group's biggest and smallest exporters, Saudi Arabia and Ecuador. (10/23, #9)
- **Kuwait** banned gatherings of more than 20 people and gave police more powers to disperse protests, local media reported, in an escalating standoff with the opposition ahead of the December 1 election. (10/23, #15)
- Australian oil and gas company Santos has launched the country's first commercial shale gas well in the Cooper Basin in South **Australia**. (10/23, #20)
- TransCanada Corp**.** said late it had restarted its **Keystone** pipeline at lower delivery rates. The restart of the 590,000-barrel-a-day line comes two days after originally scheduled.

TransCanada on idled the line, which delivers heavy crude oil from Canada to refineries in the US Midwest, after finding an unspecified "anomaly" in Missouri. (10/23, #22)

- **Canada's** rejection of a bid by Malaysia's state oil company for Progress Energy Resources Corp. casts doubt on approval of China’s Cnooc Ltd.'s $15.1-billion takeover of Nexen Inc. (10/23, #23)
- **China** is expanding its energy footprint in **Latin America** in a two-pronged strategy to secure its fuel needs and create a niche for future trade in the southern region. China's latest foray into equity investment is a 10 percent share of offshore Brazilian oil and gas reserves awaiting development as part of a multibillion-dollar program. (10/24, #12)
- Canadian oil company **Suncor** announced its Firebag oil sands facility in Alberta province hit its design capacity of about 120,000 barrels per day. Suncor said Stage 3 of the facility went online in August and has since exceeded initial expectations. (10/24, #18)