



PEAK OIL REVIEW

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1. Oil and the Global Economy

Oil traded in a narrow range last week with NY hovering around \$86 a barrel and London \$21 higher around \$108 for most of the week. Prices climbed 84 cents in NY on Friday and \$1.78 in London where Brent closed at \$109.15 on the news of increased manufacturing in the US and China. NY oil has now fallen about 12 percent during 2012 due to the glut in the Midwest, while London oil has now climbed 1.6 percent this year. Overshadowing the better economic news, however, is the “fiscal cliff” which many believe will trigger a new recession or worse if not resolved soon.

In Europe, the creeping Eurozone recession likely deepened in the fourth quarter as purchasing manager data which is a leading indicator shows the economy contracting for the 11th straight month in December. The IEA reports that European demand for oil dropped by some 895,000 b/d in the third quarter. This was the steepest decline noted since the beginning of the financial crisis in the 2008. For 2012 OECD Europe’s consumption is now expected to fall by an average of 850,000 b/d and will fall another 200,000 b/d or so next year.

At an EU summit held last week which was supposed to set the course for much needed structural changes, such as a Eurozone budget and binding economic reforms, contracts were tabled until next June. European leaders seem to have decided that a Eurozone banking union that was established earlier in the week is enough reform for now. With Greece now receiving loans again the immediate pressure to do something seems much reduced.

US gasoline prices continue to plummet, down 10 cents a gallon in the past week, with the AAA reporting that the average retail price for regular is now \$3.26. MasterCard reports that US demand fell by 3.7 percent in the week ending December 7th to 8.5 million b/d and is now about 3.6 percent lower for the year to date than last year. US gasoline consumption has now fallen every week but one since September 2011 as compared to a year earlier.

US natural gas prices continued their seven-trading-day skid on Friday to settle at \$3.31 per million BTUs down from a one year high of \$3.90 just three weeks ago. Unseasonably mild weather in the Midwest and Northeastern US is the reason for rising stockpiles. One quarter of the heating season is now behind us, and

warm weather is forecast to continue for the rest of the month. Some fear that prices may again test the \$3.00 level; however, below \$3.50 there is considerable economic incentive for those utilities able to switch to gas from coal to do so.

2. The Middle East

The political instability wrought by Arab Spring continues to spread across the region. The Syrian war continues apace with Moscow wriggling around looking for a graceful way out that will ensure that it retains some influence, an arms market, and possibly a naval base in the country. With the end of the Assad era approaching the violence seems to be increasing with pro-Assad Palestinian refugees now battling rebel forces and government forces wildly firing off missiles and artillery and dropping bombs in a seeming futile effort to stem the tide. The growing animosities suggest that fighting among various factions will continue long after Assad has lost power and could easily trigger more serious confrontations across the region.

The Iranian sanctions continue with the IEA expecting that the downturn in Iranian exports seen in November will continue in December reaching a level of 1 million b/d next year. New financial sanctions on Tehran are in the works. The IEA reports they may be making some progress on inspections.

Over the weekend the Egyptian constitutional referendum apparently was approved by a narrow margin during the first round of voting. Secularists fear the new constitution will enshrine an Islamist state in Egypt for the indefinite future by shutting out any opportunity for other parties to obtain a majority in the parliament.

While so far the uprising has not significantly disrupted Middle Eastern oil exports, except for a time in Libya, there are signs that the troubles might be spreading to areas where there could be a more substantial impact.

Baghdad is warning that the move of American oil companies into Iraq's Kurdistan province without central government permission could lead to civil war. The Kurds and Baghdad have already moved thousands of troops into the area; however, outside observers believe that neither side is eager for hostilities. The situation could change with the signing of a new oil deal between the Turks and Iraqi Kurds. The key feature of the deal is the construction of a new pipeline from Kurdish oil fields to Turkish oil pipelines where the Kurds could sell their oil independently from Baghdad and eventually declare independence. Iraqi Kurdistan is currently producing some 180,000 b/d, but this is scheduled to increase to 250,000 b/d next year, and possibly 3 million by the end of the decade.

The agreement with the Kurds marks a major shift in Ankara's foreign policy which has always feared that an independent Kurdish state would act as a magnet for its own Kurdish minority. The increasing animosity between the Sunnis and Shiites brought about by the Syrian uprising has increased tension between Sunni Ankara and Shiite Baghdad to the point where a strong Kurdish state in Iraq looks like the lesser of two evils. Needless to say any sort of civil war in Iraq, which is already suffering from a steady stream of Sunni-Shiite bombings is bound to interfere with efforts to increase oil exports.

Unrest is starting to stir in Kuwait where the hereditary Emir has named a new cabinet without reference to opposition lawmakers. Following the February elections which gave opposition parties the power to challenge government decisions, the Emir dissolved parliament, reworked the voting districts, and held another election, which was widely boycotted, and has seen two weeks of protests challenging the results. Citizens of Kuwait benefit from a small population of 2.6 million and massive oil revenues allowing the government to buy off political dissent. So far the demonstrations have not reached the size or violence seen in other countries but with 2.8 million b/d of oil production at stake the situation bears watching.

Anti-government demonstrations in Bahrain which have been occurring regularly since February 2011 broke out again over the weekend. While there are no additional threats to oil exports visible at the minute all this unrest seems bound to present problems before the decade is out.

3. Chavez

After consulting eminent oncologists, the *Wall Street Journal* concluded that it is unlikely that President Chavez will be in a condition to be sworn in on January 10th, thus opening the door to new elections sometime in February. While this election could confirm Chavez's hand picked successor who he hopes will carry on his policies or give the opposition its first real chance at power in 14 years, it could also turn into political chaos as it has so many times in recent Venezuelan history. The US currently imports about a million b/d of Venezuelan crude and any disruptions would be felt at refineries along the Gulf in a matter of days.

This weekend Chavez supporters swept to victory in 20 of the 23 of the state elections for governor suggesting that Chavez benefited from the sympathy vote. The leader of the opposition, Henrique Capriles, managed to retain his seat as governor of Miranda province leaving him as the leading opposition candidate should there be a presidential election in the coming year.

Quote of the week

- “A group of scientists, scholars and energy activists is meeting this week at the University of Texas to discuss what they see as an impending global decline in oil production. That would mean higher prices, more conservation, an emphasis on alternatives and lots of lifestyle changes. That’s not something people want to hear – or that politicians are inclined to talk about...”

- [Wayne Slater](#), The Dallas Morning News

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

- **Egypt**, a natural-gas exporter to markets from China to Chile, is set to become an importer for the first time just as the new government needs energy shipments to revive an economy weakened by civil unrest. (12/11, #9)
- **Algeria's** state energy company Sonatrach is pushing an \$80 billion, five-year investment program to expand its oil and natural gas industry and is offering an incentives package to woo foreign companies to develop its shale energy resources. (12/15, #9)
- Manufacturers have announced more than \$90bn worth of investments in the US to take advantage of its cheap **natural gas**. Petrochemicals, fuel, fertilizer and steel companies are among those that have committed to or are considering multibillion dollar investments based on their ability to source cheap energy and feedstocks. (12/15, #13)
- **Chesapeake Energy** said it will offer buyouts to 275 employees, the third round of staff cuts the company has made in six months as it struggles to keep costs in line amid low natural gas prices. (12/15, #14)
- Support for regulation of **hydraulic fracturing** has increased in the past three months, a sign that the gas-drilling practice is facing greater public scrutiny. A Bloomberg National Poll found that 66 percent of Americans want more government oversight of the process, known as fracking, that's an increase from 56 percent in a September poll. (12/15, #16)
- Demand for water from the **Colorado River** is projected to outstrip supply by 2060, a study indicates. The 163-page Colorado River study, released this week, is a three-year cooperative effort among the federal government and the seven states -- Arizona, California, Colorado, New Mexico, Nevada, Utah and Wyoming. (12/15, #18)

- The US drilling **rig count** edged downward by 1 unit during the week ended Dec. 14, with the total number of rotary rigs reaching 1,799, Baker Hughes Inc. reported. This compares with 2,019 rigs working in the comparable week last year. (12/15, #20)
- A tidal power company in **Scotland** secured more than \$12 million in foreign funding to help build the next generation of tidal turbines. (12/15, #23)
- Oil production from Alaska's declining **North Slope** fields is expected to fall 4.5 percent this fiscal year, posing a growing challenge for the state's finances. (10/13, #17)
- The **UK government** lifted a moratorium on exploratory hydraulic fracturing, a controversial process of extracting shale gas, aiming to stimulate investment in finding new domestic reserves to offset declining North Sea production and reduce dependence on imports. (10/13, #21)
- New discoveries and technological advances have increased the oil industry's ability to increase **production** in recent years, pushing global maximum oil production to 98 million b/d for longer than initially expected, Total's Chairman and Chief Executive Christophe de Margerie said. Global oil production should plateau at that level for some time before dropping as reserves gradually deplete. (12/12, #11)
- **Exxon Mobil** raised its long-term global energy-demand growth estimate to 35 percent from 32 percent as expanding populations in Africa and India use more electricity. (12/12, #12)
- **Shell** said it was considering a potential liquefied natural gas terminal in Egypt to transform the country into a net importer. Egyptian gas demand is starting to outpace domestic production. (12/12, #14)
- The partnership tied to the Tamar natural gas field in **Israel** announced it signed a 15-year supply agreement with a national energy group. The Tamar partnership -- Delek Drilling, Isramco Ltd., Noble Energy and Avner Oil and Gas LP -- signed a take-or-pay agreement with Alon Gat Energy Center, which said it would use the gas to power an industrial center. (12/12, #16)
- State oil major **Rosneft** has finalized a deal to buy 50 percent of Russian peer TNK-BP from the AAR consortium for \$28 billion. AAR and Rosneft said on Wednesday the deal should be completed in the first half of 2013 pending approvals from Russian and European regulators. (12/12, #23)
- Nigerian President Goodluck Jonathan called on his top navy admiral to thwart **rampant theft** in the country's oil-producing regions. Jonathan gave Chief of Naval Staff Vice Adm. Dele Ezeoba authority to arrest suspected bandits pilfering oil in the country. (12/11, #11)
- British energy explorer Tullow Oil announced that it started production at the Jubilee field off the coast of **Ghana**. The company said the first phase there is producing 16,500 barrels of oil per day. Tullow said the phase is one of five planned to be completed by the middle of next year. (12/11, #12)
- The Fairbanks North Star Borough Air Quality Division is asking residents to switch away from wood and heat with oil to combat the ongoing unhealthy air conditions that have been plaguing the area. (12/11, #24)
- **Japan** slipped into a technical recession in the six months to September, strengthening opposition leader Shinzo Abe's case for more fiscal stimulus and "unlimited" monetary easing to boost growth in the world's third-largest economy. (12/10, #15)
- Wanxiang Group, a large Chinese auto parts maker, won a high-stakes auction on Sunday for assets of A123 Systems, the bankrupt **American battery maker** that was a centerpiece of the Obama administration's loan program for electric vehicles. (12/10, #25)

- A growing majority of **Americans** think global warming is occurring, that it will become a serious problem and that the U.S. government should do something about it, a new Associated Press-GfK poll finds. Even most people who say they don't trust scientists on the environment say temperatures are rising. (12/15, #4)