



PEAK OIL REVIEW

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11 February 2013

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1. Oil and the Global Economy

Brent oil continued the climb that has been going on since early December, closing on Friday at \$118.90. Prices are now up nearly \$18 a barrel in the last two months. New York crude ended a couple of dollars lower for the week at \$95.72 on weak US demand, the continuing glut at Cushing, and rising US stockpiles. A major refinery in Illinois which is scheduled to shut down for maintenance in late February added to fears of an increasing glut in the Midwest.

Inventories at Cushing actually dropped a bit last week as refiners increased rail shipments directly to refineries. It now appears that the Seaway pipeline from Cushing to the Gulf will not be able increase its capacity to 400,000 b/d until later this year when additional pipelines in the Houston area become operational. The gap between Brent and West Texas crudes narrowed to \$16 in mid-January but has now widened to over \$23 a barrel. More mid-western refineries will be closing for maintenance in the next few months raising expectations that the unusual price differentials will continue for most of the year.

Distillate inventories fell the week before last and the winter storm in New England pushed the price of heating oil to a four-month high. However, warmer weather is forecast for the Midwestern and northeastern US next week. This has sent natural gas prices slightly lower.

Behind the continuing strength of Brent crude is optimism about growth in the US and EU economies and strong demand from China. Beijing's exports in January were up 25 percent from last January and crude imports climbed to 5.8 million b/d, the most since last year.

The EIA reported that US crude production increased the week before last by 4,000 b/d to 7 million barrels. Some analysts believe that the surge in US exports of petroleum products, mostly to Latin America, will eventually drain off the surplus in the Midwest. While most analysts are anticipating a drop in prices soon based on the rapid increase in recent weeks, some, however, such as Goldman Sachs are saying that prices may exceed forecasts this spring. They note that recent price increases are due to unexpected increases in

Asian demand and recent reductions in Middle Eastern exports, not from any inordinate fears of hostilities in the region.

2. Middle East

Saudi production remained at 9 million b/d in January, roughly the same as in December. Supplies to domestic and export customers were around 9.26 million with the difference coming from inventories. OPEC production dropped 465,000 b/d in December. Lower Saudi, Iraqi, Syrian, Iranian, Sudanese, Yemenis, and likely Libyan production, coupled with increased Chinese demand, are likely behind the increasing price of Brent in the last two months.

Iran: There was a burst of optimism early last week on the possibility that Iran was ready to engage in talks on its nuclear programs directly with the US. On Thursday, however, Supreme Leader Khamenei dismissed such talks for as long as the US sanctions on Iran continue. Following Khamenei's pronouncement, Tehran said it would no longer negotiate over its nuclear program while under pressure, but will agree to talks if other nations "stop pointing the gun." If this means lifting the sanctions as a precondition for talks, Tehran is going to be waiting for a long time.

President Ahmadinejad visited Cairo for an Islamic summit last week -- the first visit to Egypt by an Iranian President in 30 years. He was warmly welcomed by Egyptian Morsi. Ahmadinejad even offered a loan to the nearly bankrupt Egyptians. As long as Iran continues its whole hearted support of the Assad government in Syria, however, the relationship is not likely to go anywhere.

US sanctions on Iran tightened last week. Under penalty of expulsion from the US banking system, importers of Iranian oil can no longer pay for the oil in dollars or euros. Although they can still pay in local currencies, this is getting close to barter and is not a good long term solution. Tehran's retail shops are reported as filling with Chinese goods which have been bartered for oil. India, for example, is reported to be contemplating a 20 percent cut in its Iranian imports this year in order to maintain its waiver from the US. Iran has been very adept at finding alternative ways of selling its oil, but the sanctions continue to tighten. Washington believes that the new sanctions will have a significant impact on Iranian exports.

Iraq: Bombs continue to go off across Iraq. While the violence is still below the heights it reached in 2006-2007, it seems to be on the increase with one or more attacks coming every few days. On Saturday a group attacked a former US base housing Iranian refugees opposed to the Tehran government, killing six.

The demonstrations which began in the Sunni provinces following the arrest of the bodyguards of the Sunni Finance Minister in December continued last week. Baghdad has pulled back its troops from the demonstrations to avoid further bloodshed. Many observers believe the situation continues to deteriorate, and could easily deteriorate into a Sunni-Shiite civil war -- possibly involving the Kurds. The prospects for increased oil exports from Iraq certainly are not getting any better. With provincial elections scheduled for April, many are wondering whether the situation will be stable enough for them to be held.

Syria: Some of the heaviest fighting in months around Damascus took place last week as rebel forces continued efforts to move on the center of the capitol. The rebels have blocked government access to parts of Aleppo. President Assad replaced his cabinet ministers dealing with the economy last week, but kept those involved in the uprising in place. The Syrian economy is in shambles with frequent power outages and long lines for food and gasoline. Assad continues to make proposals for talks with the rebels, but only if they lay down their arms.

As the Syrian armed forces continue to deteriorate, Israeli concerns are increasing about the possibilities of air defense, other missiles, and chemical weapons falling into the hands of Hezbollah forces in Lebanon.

Hezbollah likely realizes that this may be their last chance to restock and enhance their arsenals before the Assad government falls and supply routes to Iran are cut off.

The issue remains as to what Syria will look like after Assad goes and how far the chaos will spread into other countries.

Elsewhere: A key pipeline that carries oil from eastern Yemen to the export terminal on the Red Sea was blown up last week. Such attacks have happened before and damage is usually repaired quickly. Yemen exports about 300,000 b/d when the pipeline is functioning. In 2012 attacks on the pipeline reduced exports about 5 percent costing the country \$1 billion in revenue.

The assassination of the opposition leader in Tunisia last week led to several days of turmoil as demonstrators took to the streets in protest while the Prime Minister resigned seeking to turn rule over to non-political technocrats. The ruling Islamist party rejected the government's resignation. Tunisia was thought to have the best chance of success of the post Arab Spring governments, so the assassination and subsequent turmoil is seen as a setback for the future of the region.

Tunisia exports less than 100,000 barrels of oil a day, but as the birth place of Arab Spring holds a major symbolic significance for the future of the Arab world. As is the case with Egypt, the country is dividing into Islamists who seek a government based on religious principles and secularists who seek a more pragmatic approach.

Egypt's economy continues to deteriorate with inflation rising and foreign reserves falling. There is no word on the IMF loan that would require Cairo to introduce unpopular austerity measures. The assassination of the secularist opposition leader in Tunisia has Egyptian opposition figures worried that radical Islamists may adopt similar tactics in Egypt. The country clearly has a rough year ahead. However, the major threat to the world oil market still would be disruptions of traffic through the Suez Canal which currently is in the hands of the Egyptian army.

3. US gasoline prices

Gasoline prices continue to rise last week, with the national average for regular increasing by seven cents a gallon. Prices normally increase in the spring due to the production of more expensive summer grades and increasing demand in the driving season. This year, however, there are some unusual aspects to the annual price increase. Prices are starting to climb earlier than normal and there is a bigger than usual geographical spread with the Rocky Mountain and some southern states still enjoying relatively moderate prices while parts of both coasts and the Chicago area are seeing unusually high prices.

Despite the increasing US crude production, high Brent crude prices and a combination of scheduled and unscheduled refinery outages are responsible for the high prices. We are just entering the normal refinery maintenance period so the problems are expected to continue for the next few months.

MasterCard reports that US gasoline consumption over the last four weeks is up 0.1 percent over the same period last year, the first such increase since last September. Consumption in the week ending February 1st was some 8.5 million b/d down from the 8.7 million b/d which the US averaged in 2012. At this time last year, consumption was dropping at a rate of 5-7 percent from 2011 consumption levels. EIA reports of larger deliveries of gasoline from refineries suggests that it is being exported rather than being consumed domestically.

Government data released last week says the average US household is paying \$2,912 a year for gasoline which is nearly 4 percent of average household income. This is the highest rate in 30 years except for 2008 when oil reached \$140 a barrel. The fuel delivery infrastructure in the NY area has not recovered from Superstorm Sandy and gasoline inventories in the region are still 15 percent below normal – a situation not helped by last

weekend's snowstorm. As NY is the delivery point for gasoline futures contracts, the benchmark for US prices, problems in Northeast drive up prices for the rest of the country.

EIA forecasts see US gasoline consumption holding around 8.5 million b/d for the next two years, unless, of course, prices go much higher and demand destruction sets in.

4. Chavez Unable to Return?

The Spanish radio service ABC.es is reporting that President Chavez is in very poor condition, has lost his voice completely as a result of complications from cancer operations, and will never again be able to serve as President. The news service says Caracas is aware of this and is expected to acknowledge the situation within the next few days. Even if this report does not pan out, Chavez is in serious condition and changes are coming soon.

Venezuela is obviously facing some rough times ahead. Last week the government devalued its currency by 46 percent accompanied by cries from the opposition that the government was destroying the country. Refinery outages from lack of maintenance have forced the country to import a large portion of its motor fuels from the US which continues to import a million b/d of crude oil from Venezuela.

Given the passions that have built up during the years of Chavez's rule, it is difficult to imagine that the transition to a new generation of leaders will be a peaceful one. Beijing is already having second thoughts about the money it has loaned to Caracas in hopes of gaining increased access to its oil and many of the left-leaning states that have benefited from Chavez's largesse are worried.

The worst case in the coming year is that disturbances stemming from the transition to a post-Chavez government halt or reduce the country's oil exports which would almost certainly lead to much higher oil prices.

Quote of the week

- "Some may see this as a choice between keeping American oil within U.S. borders for reasons of economic security and allowing the US to generate billions of dollars in new export revenues. But market realities suggest a far simpler decision ahead: either US crude is shipped abroad, or it stays in the ground."

- IEA Executive Director, [Maria van der Hoeven](#)

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

- **Lebanon** expects to unveil a list of energy companies that qualify for a May offshore gas exploration auction. (2/9, #10)
- Working **Oil and gas rigs** in the US dropped for the first time in three weeks, Baker Hughes data show. Total energy rigs declined by five to 1,759. (2/9, #21)
- US Secretary of State John Kerry said that he would act on TransCanada's controversial **Keystone XL** pipeline proposal "in the near term" after a "fair, transparent and accountable" review. (2/9, #27)
- It doesn't seem "expedient" for the **Ukrainian** government to do anything about a \$7 billion bill sent by Russia's Gazprom, Energy Minister Eduard Stavitsky said. Gazprom sent Kiev a \$7 billion bill for unused gas from 2012 that was mandated under a take-or-pay contract with the Ukrainian government. (2/9, #30)
- President Barack Obama's administration won't abandon the nation's **ethanol program** and will encourage Congress to maintain it, Agriculture Secretary Tom Vilsack said. The Renewable Fuels Standard, passed in 2007, requires the US to use 13.8 billion gallons of renewable fuels this year and 15

billion gallons by 2015. The Agriculture Department estimated this month that 42 percent of this year's corn crop will go toward making the fuel. (2/8, #18)

- Engineering and plant design are in final stages for a diesel refinery in southwestern **North Dakota** that will process 20,000 b/d of Bakken crude oil. Construction could begin this spring on a 318-acre site west of Dickinson in Stark County. (2/8, #20)
- A public debate on whether to build a mammoth underground **nuclear waste facility** in northeastern France began this week amid praise and skepticism. France's National Commission for Public Debate launched the proceedings as French Minister of Ecology, Sustainable Development and Energy Delphine Batho visited the proposed site at the Meuse/Haute Marne Underground Research Laboratory. (2/8, #23)
- Italian energy company Eni announced it made an oil discovery in a deep well in **Egypt's** Western Desert. Eni encountered an oil pay measuring around 260 feet in deep oil plays across the Western Desert reservoirs of Bahariya, Alam el Bueib, Khatatba and Ras Qattara. (2/7, #12)
- **Nigeria's** four main opposition parties have announced a merger, forming a coalition which could pose the biggest threat to President Goodluck Jonathan's ruling party since the end of military rule in 1999. (2/7, #16)
- Shell's **Nigeria** subsidiary said it had declared force majeure on supplies to its liquefied-natural-gas plant, following a suspected leak in an area frequently targeted by oil thieves. (2/9, #13)
- American Airlines parent AMR Corp. and US Airways Group Inc. are hashing out the last major details of a merger agreement that would create the **world's largest airline** and are racing to finalize a deal, said people close to the discussions. (2/7, #31)
- A Canadian regulator said it approved an application by energy company LNG Canada to ship natural gas from a **proposed export terminal** in British Columbia. The independent National Energy Board said it approved the 25-year export license for LNG Canada Development for a terminal near Kitimat, British Columbia, for the eventual export of liquefied natural gas. (2/6, #20)
- **BP** is facing damages demands of more than \$34bn from US states and local government over the 2010 Deepwater Horizon disaster, a figure that could lead to significant upward revisions of its potential bill for the Gulf of Mexico spill. (2/6, #21)
- The chief executive of **Algeria's** Sonatrach has been replaced, in a management shakeup seen as fallout from a recent attack on the company's Sahara gas plant. (2/5, #7)
- The Mexican government said that a gas leak caused a blast that killed at least 37 people at the offices of state oil monopoly **Pemx** in Mexico City, raising fresh questions about the firm's safety record. (2/5, #8)
- An annual study of national driving patterns shows that Americans spent **5.5 billion additional hours** sitting in traffic in 2011. The Texas A&M Transportation Institute released a report that found Americans are adapting to road congestion by allowing, on average, an hour to make a trip that would take 20 minutes without traffic. The Urban MOBILITY Report also says clogged roads cost Americans \$121 billion in time and fuel in 2011. (2/5, #15)
- A bill introduced by a bipartisan group of U.S. senators calls for the export of liquefied natural gas for Japan and NATO allies. The Expedited LNG for American Allies Act of 2013 would amend federal law by requiring the U.S. Energy Department to back exports for NATO members and Japan. (2/5, #18)
- US Gulf Coast imports of **light crude** will probably drop to zero by 2014 amid North America's "unprecedented oil boom," according to Bank of America Corp. Shipments of light-grade crudes to the

region, which are currently about 500,000 barrels a day, will decline as domestic production displaces imports, the bank said. (2/4, #15)

- **A new pipeline** connecting Colonial Pipeline's system and Buckeye Pipe Line system at Paulsboro, New Jersey, that will begin pumping products this month, will enable refined products from the US Gulf Coast to be piped to eastern Pennsylvania and upstate New York. (2/4, #17)
- The **Alaskan Brewing Co.** is going green. The Juneau-based beer maker has installed a unique boiler system in order to cut its fuel costs. It purchased a \$1.8 million furnace that burns the company's spent grain - the waste accumulated from the brewing process - into steam which powers the majority of the brewery's operations. (2/4, #19)