



PEAK OIL REVIEW

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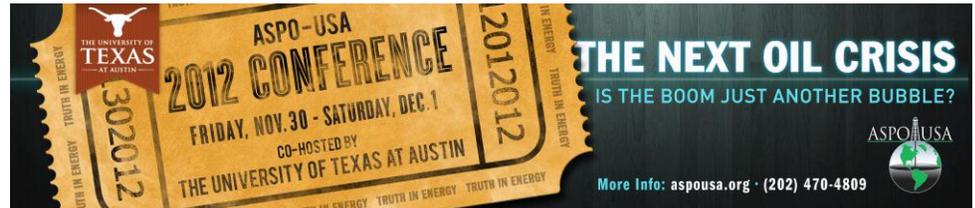
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November 12, 2012

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1. Oil and the Global Economy

The re-election of President Obama and Democratic gains in Senate seats sent oil futures in NY tumbling by \$4.27 a barrel Wednesday. Behind the selloff were concerns that a divided government could take the country over the “fiscal cliff” in January reducing the demand for oil. London oil fell by a similar amount on Wednesday. On Thursday and Friday, however, oil rebounded to close out the week about a dollar higher in NY at \$86.07 and \$109.40 in London. A report that US consumer confidence has climbed to a five-year high and pledges from both sides in Washington that will avoid sending the country into a recession through tax increases and spending cuts were the major factors behind the rebound.

Gasoline prices were unusually volatile last week as a second winter storm hit the NY region with snow, winds, and freezing temperatures knocking out still more electricity and setting back recovery efforts by several days. On Friday NY gasoline futures jumped 9.2 cents a gallon as a short squeeze developed amid expectations that the NY region’s gasoline distribution system would soon return to normal.

Natural gas futures were quiet last week with contracts trading between \$3.50 and \$3.60 per million BTUs. The EIA reported a somewhat smaller-than-expected increase in natural gas inventories and the weather in the northeastern US is forecast to be mild for the immediate future.

As was expected, last week’s EIA stocks report showed a 1.7 million barrel increase in crude and a 2.9 million barrel increase in gasoline inventory as the NY superstorm resulted in widespread power outages and several refinery closures – at least one of which will be out for an extended period. Of more interest in the weekly report was US crude production climbing again to hit 6.68 million b/d – the most since December 1994. Some analysts note that increasing US oil production and slowly falling prices – last week NY oil traded as low as \$84 a barrel – could soon have oil selling for close to the cost of production in the Bakken and Eagle Ford shales. This number is thought to be around \$70-75 a barrel, below which oil companies would have difficulty justifying more drilling. This would be similar to what has happened to natural gas from fracked fields which is currently selling for below the cost of production in many cases.

2. Middle East

Last week, Iran's Intelligence Ministry published an analysis of the threats to the country posed by a military confrontation and pointed out the benefits of a negotiated solution to the nuclear weapons standoff. This piece was widely reproduced in the Iranian press suggesting that the government is again considering some sort of compromise. On Saturday it was announced that Tehran will return to talks with the IAEA in December. These talks have resumed several times before without much progress, so we shall have to see whether the US elections, the increasing pressure of the sanctions, and the precarious position of the Assad government will have an impact on Tehran's negotiating position.

In the meantime, the Iranians took a shot at a passing US reconnaissance drone, again suggesting that hostilities, which could seriously threaten global oil supplies, are only a minor incident away. Iran's Oil Minister once again raised the issue of stopping or reducing crude exports in retaliation for the ever tightening sanctions. Considering that there is plenty of oil available at the minute and OPEC is actually cutting back production, these threats seem somewhat hollow. The British are considering sending fighter aircraft to Abu Dhabi in response to a new Iranian military base established near the Straits of Hormuz shipping lanes.

The Assad government's position in Syria continues to deteriorate, making it difficult to see how it can last much longer. On Friday some 11,000 refugees crossed into Turkey after rebel forces overran a government security post along the border. Assassinations and suicide bombings continue to take a toll on the regime and rebels even got close enough to the center of power to lob a couple of mortar shells at the Presidential palace.

Over the weekend, a new umbrella opposition group was formed with Western and Gulf State backing, that it is hoped will form the nucleus of a new government after Assad falls. It is widely feared that a collapse of the government could usher in a period of anarchy with chemical weapons and portable anti-aircraft missiles falling into the hands of jihadist groups. The British government is already suggesting that foreign military intervention may be necessary to secure the chemical weapons and keep sectarian fighting from spreading to neighboring states.

3. The Superstorm's Aftermath

On Wednesday, a second winter storm hit the NY region putting 300,000 homes into darkness and stalling efforts to recover from the first storm. The gasoline distribution system was so badly disrupted by the two storms that on Friday New York followed New Jersey in initiating odd and even gasoline rationing in the affected areas. The storm brought out some major problems with the distribution system which is largely dependent on the electric grid continuing to function. Most of the retail gas stations branded with the names of major oil companies – Exxon, Shell, BP etc.—are franchises in which the oil company has little or no interest in the franchisee's welfare. Stations owned by regional chains such as Hess and Wawa enjoyed better corporate backing which ensured that emergency generators were available to keep the lights and pumps working. In the NY area, more than three-quarters of the regional stations continued to operate to supply fuel to citizens and emergency crews.

Concerns are rising that recovery from Sandy may take a protracted period of time, outside of decisions as to whether storm-surge prone areas should be rebuilt. It is now becoming apparent that many of the pumping stations, especially in New Jersey, that move gasoline and other products from pipelines and tankers to local delivery systems were badly damaged by Sandy. Electricity cannot be restored to tens of thousands of flood damaged buildings until safety inspections and critical repairs have been completed, a process that may take many weeks. Some analysts are suggesting that gasoline consumption in the region may not return to normal for many months resulting in lower oil prices this winter.

At least one publication noted that the turmoil in the gasoline system – long lines, rationing, fights, police stationed at working gas stations and blackmarketeers selling gasoline on eBay and the end of gasoline lines for unbelievable prices – is a premonition of what will happen when gasoline supplies begin to run short due to falling world oil production.

4. Europe

Most attention focused on Greece last week as the parliament debated the implementation of tough new austerity measures demanded by the EU as the price for further bailout loans. As hundreds of thousands of Greeks participated in a crippling 48-hour general strike, the parliament narrowly passed the first legislation necessary to satisfy Brussels. A second vote, Sunday, on an austerity budget passed the Greek parliament leaving the government convinced it has done everything the EU and IMF asked to insure the loan comes this week.

EU officials are scheduled to meet Monday morning with the Greek Prime Minister. The Germans, who have long been unhappy with the Greeks, say there will be no rush to approve Athen's plans and release the €31.5 billion bailout. The BBC is reporting that it may be weeks before the loan is approved as it still needs to be approved by some national parliaments including the German. However, without the loan Greece could run out of money on Friday – which could trigger a collapse that some fear will spread to other countries. It should be an interesting week in Europe.

Quote of the week

- "It has been my great honor to serve the constituents of the 6th district of Maryland for the past 20 years..."
- [Rep. Roscoe Bartlett](#)

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

- **Cuba's** hopes of reviving its economy with an oil boom have produced little more than three dry holes, persuading foreign oil companies to remove the one deepwater rig from Cuban waters. The rig, which was built in China to get around the United States trade embargo, is expected to depart in the next few weeks. (11/10, #11)
- **Ukraine's** state-owned natural gas company secured a deal with Germany's RWE that could weaken Gazprom's grip on the regional energy sector. (11/10, #20)
- **China's economy** is likely to overtake the euro zone's this year, India is leapfrogging Japan and by 2030 the Asian pair could be bigger than the United States, euro area and Japan combined. (11/9, #4)
- Demand for **OPEC's** crude will decline through to 2016 because of the weakening economic outlook and growing reliance on competing sources such as US shale oil deposits and natural gas liquids. Global need for fuel from OPEC will shrink to 29.7 million b/d in 2016, 1.4 million less than this year, the group said in its annual World Oil Outlook. (11/9, #5)
- **China's** electric power growth rebounded in October after slowing for two consecutive months, reflecting recent strength in the nation's manufacturing sector and government policies implemented to boost infrastructure investment. (11/9, #12)
- **Chevron** said it was replacing piping networks at a California refinery with corrosion-resistance pipeline following an August fire. Parts of the Richmond oil refinery were closed after an explosion in August. The refinery will return to full production in the first quarter of 2013. (11/7, #11) (11/9, #20)
- It's "vital" that energy companies take a closer look at oil reserves in the British waters of the **North Sea** to help boost the economy, British Energy Minister John Hayes said. He gave consent to a regional subsidiary of Chevron to drill in deep waters west of the Shetland Islands. (11/9, #23)

- **Iraq's Oil Ministry** says it has finalized a deal with a consortium led by Russian oil giant Bashneft to search for oil in the country's south. (11/8, #7)
- **Exxon Mobil** has informed Iraq's national oil company that it wants to leave the huge West Qurna 1 oil field redevelopment project. (11/7, #6)
- A new Turkish state oil and gas company is negotiating with Iraq's semi-autonomous **Kurdistan** region to take stakes in several exploration blocks – a development that would signal dramatic headway for the Kurds in their quest for oil sector autonomy. No contracts have been signed, but four officials familiar with the talks confirmed that negotiations have reached an advanced stage. (11/8, #10)
- **Libya** is currently producing 1.6 million b/d of crude oil and hopes to raise output to 1.7 million b/d by the end of the first quarter of 2013, slightly later than scheduled because of technical issues. (11/8, #12)
- **Europe's** ability to compete against the US as a manufacturing center is being damaged by rising energy costs as North America benefits from cheap natural shale gas, Germany's biggest companies have warned. (11/8, #24)
- Finance ministers and central bank governors from the **Group of 20** met in Mexico City amid mounting alarm that the euro-zone crisis and Washington's failure to deal with deficits could endanger the fragile global recovery. (11/5, #5)
- Energy companies cooperating with **Greek** Cypriot offshore drilling plans will be banned from participating in new oil and gas projects in Turkey. Turkey's foreign ministry issued a statement reiterating warnings to oil companies taking part in last week's four Mediterranean Sea concessions awarded off the shore of Greek-held southern Cyprus. (11/5, #10, #11)
- **South Korea** has shut down two nuclear reactors after it was revealed that some repair parts had not been properly vetted. Knowledge Economy Minister Hong Suk-woo said these were "non-core" parts and were not a safety threat. They included fuses, cooling fans and power switches that did not have the required nuclear industry certificates. (11/5, #14)
- Orders for **offshore wind turbines** have come to an abrupt halt in the UK, in what some industry figures say is the first clear sign of a long-feared slowdown in renewable energy investment. (11/5, #23)
- The **US drilling rig count** gained 6 units during the week ended Nov. 9, with the total number of rotary rigs reaching 1,806, reported Baker Hughes Inc. This compares with 2,016 rigs working during the comparable week last year. (11/10, #18)

Commentary: A Tribute to Roscoe Bartlett

By Ray Long, ASPO-USA Associate Director

Here in the Washington DC area and around the nation, election day was a constant stream of poll results, election updates, and pundit analysis. But missed by many was the contest in Maryland's 6th district, where Roscoe Bartlett – the second-oldest serving member of the US House of Representatives – was denied his bid to serve his district for an 11th term.

The 6th district that Bartlett served was formerly a collection of rural communities in Western Maryland. After the 2010 Census, however, the district boundaries [were redrawn](#) to include parts of the Washington DC suburbs. The change in voter demographics made Bartlett's campaign an uphill battle. Analysts considered Bartlett to be one of the most vulnerable congressional incumbents this election cycle.

In losing Congressman Bartlett, the U.S. Congress has also lost its "Mr. Peak Oil."

There have been many titans of public education about Peak Oil and our collective energy challenges—names such as [Matt Simmons](#), [Richard Heinberg](#), [Robert Hirsch](#), and many many more—but only one, Roscoe Bartlett, did it from the floor of the U.S. House of Representatives.

Prior to his election to the Congress, Bartlett worked for more than twenty years as a scientist and engineer on research and development programs for the military and NASA. His scientific background fueled his understanding of America’s energy challenges and his desire to explain these critical issues to others.

And he did just that. In March 2005, armed with a collection of huge charts – around 30 in all, he stood on the House floor to give the first of many lonely speeches. The world has less and less oil to offer, he told the near-empty House chamber. The age of cheap energy is ending, he explained. And if the U.S. did not start adapting, it was in for a shock.

Few heard Bartlett’s hour-long talk, save perhaps the House presiding officer and the unblinking eye of the [C-SPAN cameras](#). But Bartlett would continue to haul his charts to the House floor and present his lecture—again, and again, and again. He presented his talk over 50 times in recent years.

Bartlett’s [Peak Oil page](#) on his congressional website summarizes his views:

“Oil and natural gas are not forever. They are finite resources. The US is relying upon countries that do not like us to sell us their oil. We are competing against other countries to buy oil, such as China, which is now the world’s #2 importer behind the United States. Increasing world demand and global peak oil, or stagnating production, means that oil prices will rise.

The end of cheap oil and natural gas is coming and coming fast. My hope is that more attention is going to be focused not only on the problem of global “Peak Oil”, but possible solutions to meet this challenge with the same drive and ingenuity our leaders and great minds put into getting a man to the moon.”

In time, Bartlett’s persistence won him the respect and admiration of many of his congressional colleagues. In 2005, he joined with Rep. Tom Udall (now Senator Tom Udall) to establish the Congressional Peak Oil Caucus.

A [Wall Street Journal article](#) recalls the time Bartlett took a condensed version of his Peak Oil lecture directly to the Oval Office for a 2006 one-on-one talk with President Bush.

In 2006-7, Bartlett was part of a Congressional group that requested that the US Government Accountability Office examine the Peak Oil issue, leading to the GAO report: “[Uncertainty about Future Oil Supply Makes It Important to Develop a Strategy for Addressing a Peak and Decline in Oil Production.](#)”

In 2009, Bartlett introduced House Resolution [H.RES.11](#) that stated “Expressing the sense of the House of Representatives that the United States... should establish an energy project with the magnitude, creativity, and sense of urgency that was incorporated in the ‘Man on the Moon’ project [to] address the inevitable challenges of ‘Peak Oil’.”

Later that same year, he co-authored a bill ([HR 2326](#)) which sought to establish an interagency working group charged with developing “a peak oil strategy for Federal departments and agencies to develop contingency plans in the event of a peak and subsequent annualized decline of 4 percent of world oil production... and to provide timely advice to Congress about cost-effective measures to mitigate the potential negative consequences of such a peak.”

For all of these reasons and more, ASPO-USA created the Roscoe G. Bartlett “Truth in Energy” Award in his honor in 2008. In 2006, he was awarded ASPO-USA’s M. King Hubbert Award for his tireless leadership in the Congress to promote efficiency, conservation, and a proper understanding of Peak Oil concepts.

As he prepares to leave the US Congress, one hopes that Bartlett’s words from a [2008 interview](#) will resonate with his colleagues old and new:

“I would just encourage colleagues in public office to be knowledgeable and to be honest...”

As America grapples with its collective energy challenges now and in the future, we shall need many more public officials in the Bartlett mold, with the same integrity to explain difficult truths and the courage to think uncomfortable thoughts.

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