



Peak Oil Review

*Energy Action for a Healthy Economy
and a Clean Environment*

[Tom Whipple](#), Editor

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1. Iran -- sanctions

The UN Security Council on Saturday unanimously approved sanctions intended to curb Iran's nuclear program. The vote ended months of negotiations over how severe the restrictions should be. The resolution, prepared by Germany and the Security Council's five permanent members – the United States, Britain, France, Russia and China – bans the export to Iran of materials and technology used in uranium enrichment, reprocessing and ballistic missiles.

On Sunday, Iran condemned the U.N. sanctions resolution as "a piece of torn paper" that would not scare Tehran and vowed to accelerate uranium enrichment work immediately. Tehran is also "reviewing its cooperation" with UN's IAEA as required by the non-proliferation treaty.

At the insistence of Russia and China who have extensive commercial relations with Iran, the sanctions were repeatedly watered down to the point where they are unlikely to have much effect. The path ahead is less clear. The US says that harsher penalties will follow if Iran fails to halt its nuclear program within 60 days. Given how long it took to work out the relatively mild sanctions just passed, negotiations to impose "harsher penalties" are likely to be overtaken by other events before an agreement is reached at the UN.

In the meantime, Iran's oil minister admitted last week that Tehran was having trouble financing oil projects, a rare acknowledgment of the economic cost of its nuclear dispute.

2. Sakhalin 2

After months of accusations and negotiations, Gazprom acquired a controlling interest in Shell's Sakhalin-2 natural gas project last week. President Putin announced the deal at a meeting Thursday evening with executives from Gazprom, Shell and the Japanese trading houses Mitsui and Mitsubishi, which also own part of the project. He made a point of saying Russia remained open to energy investment.

Gazprom will pay \$7.45 billion for the controlling share of Sakhalin 2. The partners have so far sunk about \$12 billion into the project, meaning they will recoup something more than half of their capital investment, but will be compensated little for the estimated four billion barrels of recoverable reserves at the site. Shell reduced its share of Sakhalin 2 to 27.5 percent, from 55 percent; Mitsui to 12.5 percent, from 25 percent; and Mitsubishi to 10 percent, from 20 percent. Gazprom and Shell also agreed to cooperate on unspecified future projects in Russia.

The Japanese say they are confident that Gazprom will honor the promise to supply liquefied natural gas to Japan from the oil and natural gas project. Shell says it happy to get the project back on track.

Meanwhile, critics of the sale called it the first effective nationalization of a large foreign oil or gas project in Russia, and pointed out that other

Western oil companies operating multibillion-dollar operations, like BP and Exxon Mobil, should now expect regulators to extract similar concessions. Moscow's next target could be the Total - Norsk Hydro Kharyaga project that had its license threatened last week.

3. Inventories and prices.

Oil prices bounced around in the low-sixties last week. Forecasts are still pointing to a warm winter in the US this year thereby reducing the demand for heating oil. Further indications that the US economy is growing more slowly also adds to the downward pressure on prices.

U.S. crude inventories declined by 6.3 million barrels last week. Part of this decline was due to heavy fogs temporarily disrupting shipping along the Gulf Coast. However OPEC production cuts are still in effect and could actually increase in coming weeks. Although there is no definitive news that would cause large price increases in the near term, some analysts are beginning to worry about continuing draw downs of world stockpiles. These draw downs coupled with robust demand and the OPEC production cuts could be a recipe for price spikes next year.

4. Nigeria – a new stage for the insurgency.

The insurgency entered a new stage this week when the Movement for the Emancipation of the Niger Delta (MEND) began using car bombs against oil companies and government facilities. A remotely detonated explosion in a Shell residential compound car park was timed to avoid casualties, but resulted in Shell's decision to evacuate 400 dependents of foreign oil workers from the country. Shell says oil and gas production will not be affected -- for now.

For the first time, the MEND attacked a government office building in the Delta. Although there were no casualties, the attack marks a new stage to the insurgency. In yet another new development, the MEND says it will not release four foreign hostages for ransom, but will hold them until senior delta tribal leaders held by the government are released.

The political situation in Nigeria also continues to deteriorate. Last week the President attempted to fire and arrest the Vice President on corruption charges for switching political parties and running for President in next year's elections. All things considered, the prospects for further disruptions to Nigerian oil exports continue to increase.

5. Energy Briefs

- Norwegian oil companies Statoil ASA and Norsk Hydro ASA announced plans to merge their offshore oil and natural gas units in a deal they said would create the world's largest offshore oil operator.
- Over the past six months, Iraqi insurgents have effectively won their battle to bring down critical high-voltage lines and cut off the capital from the major power plants to the north, south and west.
- Pemex said it produced 3.16 million b/d of crude last month, compared with 3.17 million b/d in October and 3.31 million b/d in November 2005.
- India's economy grew 9.1 percent in the first half of the financial year to September led by strong manufacturing growth.

- Iraqi officials have reached a tentative deal on an oil law that would allow the regions to negotiate oilfield contracts with foreign investors but gives the central government the final say.
- Pakistan is facing a severe energy crisis mainly due to law and order problems in Balochistan, increased village gasification and low hydro power production. The government is considering restrictions on night-time commercial activity and observing Saturday as a second weekly day off to conserve power.
- China has suspended further expansion of its corn ethanol industry in order to halt a rapid increase in corn prices, which climbed almost 5% in November.
- Demand for corn to make ethanol boosted the average price of Iowa cropland 10 percent to a record \$3,204 an acre in 2006.
- Southern California Edison said it signed the largest wind-energy contract ever signed by a U.S. utility. A New York startup announced plans to build the world's largest solar energy park in the San Luis Valley of Colorado – 1,000 megawatts at a price tag of \$2 billion.
- China National Offshore Oil Corp said on Friday it has signed a preliminary gas deal worth \$16 billion with National Iranian Oil Company.
- Shell's \$12.8-billion oil sands expansion in northeastern Alberta was approved yesterday, but the panel that reviewed the project said governments don't have "sustainable long-term solutions" to properly manage the region's rapid growth.
- Chris Skrebowski, editor of *Petroleum Review*, responding to Cambridge Energy Research Associates' report criticizing the peak oil perspective: "I therefore conclude that far from dispelling concerns about Peak Oil you have effectively confirmed that they are real and imminent."

Commentary: The Ripening

By Mayor pro tem Debbie Cook

(Note: Commentaries do not necessarily represent ASPO-USA's positions; they are personal statements and observations by informed commentators.)

I have a hankering for a creamy ripe avocado but the one facing me on the kitchen counter is as hard as the seed that sits at its core. No matter what trick I apply in ripening the fruit, it resists my persistence and growing impatience. And so it is with the ripening of 'peak oil.' We analyze the data, we cajole, we organize conferences, we give presentations, we rant, we blog, we reanalyze, we give up and then come back for more. To some degree, our emotional state runs from full octane to running on fumes depending upon the news or events of the day. And like the avocado, we run the risk of bruising when we are probed and then passed over for the riper issue of the day.

Consider December 14, 2006. I sat excitedly at the speakers' table for the press conference unveiling the Southern California Association of Governments' (SCAG) 2006 State of the Region Report. Our annual "Report Card" covering the largest metropolitan planning region in the nation gets

lukewarm coverage from the media depending upon competing news events such as car chases, bank heists, or big surf. My role was to highlight the inclusion of a new "Energy Section." The usual group of reporters, both print and broadcast was there. I had spent many hours formulating responses to anticipated questions regarding my remarks and the inclusion of this important new section acknowledging "peak oil." For me, it represented one more effort to ripen this critical issue and capture the attention of elected officials and the public:

- *I am pleased to announce that this year SCAG has added a new energy section to the State of the Region Report. The energy section includes a guest essay by economist Ron Cooke and SCAG is further emphasizing the importance of the energy issue through development of a new Energy chapter in our upcoming Regional Comprehensive Plan.*
- *California hit its peak in terms of oil production in 1985, and we've been importing increasing amounts of oil ever since.*
- *Between 1985 and 2005, our state's oil production declined by 42 percent. To fill the growing gap between declining supply and increasing demand, we increased our state's oil imports from 50 million barrels in 1994 to more than 250 million barrels in 2005. We now depend on foreign suppliers for more than 42 percent of our oil, and that percentage continues to grow.*
- *California is the second largest consumer of energy in the nation, and we are also one of its largest producers and refiners. We rank 4th in both crude oil reserves and crude oil production. California is the largest consumer of gasoline, and 2nd in distillate and jet fuel consumption. California has the third largest refining capacity in the nation.*
- *We have developed our economy, and our lifestyle, on the basic assumption of unrestricted energy resources. There is growing consensus that we as a region and a state can no longer continue to consume increasing quantities of a commodity that may, or may not, be available at an affordable price.*
- *From the perspective of local government, it is clear that we can no longer make policy decisions based on the obsolete assumption that there will always be abundant quantities of affordable fossil fuels.*
- *As our report contributor Ron Cooke points out in his essay, the issue of energy can be boiled down to two words—oil depletion.*
- *There is considerable difference of opinion on when global production of oil will peak and begin to decline, resulting in chronic shortages and significant volatility in energy costs. Some suggest it has already occurred and others believe it is 10 - 20 years away.*
- *However, what can no longer be in dispute is the fact that that day will likely occur within the time frame of SCAG's long term planning documents and we need to start taking real steps to plan for a different energy future.*
- *The challenge for California's policy makers and industry leaders is to manage an energy sector that is currently dependent on non-renewable resources such as oil and natural gas. Failure to initiate a comprehensive energy strategy in the present will only lead to*

spiraling energy prices, potential supply shortages, and an inadequate and aging energy delivery infrastructure.

- *We cannot isolate ourselves from world oil and natural gas markets. We cannot depend on technology to solve all of our problems. We can't continue our unsustainable lifestyle.*
- *Earlier this year, SCAG held an important Southern California Energy Conference. We identified steps we can take to develop sustainable energy policies and practices.*
- *First, community, industry and local government leaders must become thoroughly familiar with the energy issues that confront us. No more sugar coating. Our leaders must educate themselves on the issue of oil depletion and all of the far-reaching implications it will have for us in terms of personal mobility, how we heat our homes, how energy impacts our entire cost structure.*
- *Second, we need a strategic plan to identify, develop and initiate appropriate responses to the energy challenges that lie ahead. The fact that SCAG is now including an Energy Chapter in its upcoming Regional Comprehensive Plan is an important step, but that's just the beginning.*
- *Third, local governments must review their land use, zoning and building codes with one specific question in mind: does each code optimize the conservation of our energy resources?*
- *Fourth, we must refocus our transportation capital expenditures from personal vehicles to public transportation systems, and support carpooling programs. It's time to get serious about interconnected light rail, railroad, local shuttle, express and mini-bus services. Let local entrepreneurs experiment with ride sharing options to complement the fixed route public transportation system.*
- *Finally, we must evaluate our region's response. SCAG's Regional Comprehensive Plan and local government general plans can play an important role in initiating projects and programs. We can do this by removing obstacles to energy conservation and inspire efficiency initiatives. We can create incentives for shared and public transportation, manage transportation pools, establish self-sufficient neighborhoods and foster an environment of cooperation, experimentation, and understanding.*
- *There is much work to be done, and the key is that we need to start that effort TODAY if we are to be fully prepared as both leaders and citizens for the energy future that awaits us.*

But the reporters' questions turned to the usual fare: the "report card" grades assigned to *Mobility, Housing, Income, Employment*. After all, *Mobility* had gotten an "F". If only we had assigned a grade to *Energy*. Perhaps "E" for *Empty*. If only gasoline were \$3.50 a gallon instead of \$2.50. If only I had some ethylene gas to ripen that avocado. One more squeeze. Not quite ready. There may not be guacamole tonight but eventually the fruit will relent.

Debbie Cook is Mayor Pro Tem for the City of Huntington Beach, California, President of the Orange County Division of the League of California Cities, a member of the Southern California Association of Governments Regional Council and Chair of their Energy Working Group. She can be reached at energymaven@gmail.com