

Peak oil by royal decree

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OIL producers have never had it so good but, in keeping with corny advertisements which promise a set of steak knives with every purchase, there's more to come with *Slugcatcher* noting the entry of a new player in the oil game: God.



Laugh if you like but the great one himself has been called into the oil business by the man who already controls much of the world's oil reserves.

King Abdullah of Saudi Arabia entered the oil debate by promising to lock up any future discoveries.

According to a report in London's *Financial Times* newspaper the king is not interested in Saudi boosting oil production to satisfy western world, or Chinese, demand.

"I keep no secret from you that, when there were some new finds, I told them, no, leave it in the ground, with grace from God, our children need it," the FT quoted the king as saying.

Slugcatcher, to say the least, was fascinated by this reported comment because, if true, it adds to a growing belief in the oil world that Saudi Arabia, like just about everywhere else, has hit peak oil output.

So far, theories about Saudi peaking have been geological, fostered by books such as the 2005 analysis *Twilight in the Desert, the Coming Saudi Oil Shock and the World Economy*.

In that well-researched analysis Matthew Simmons used historic engineering studies and modern snooping to arrive at the conclusion that Saudi Arabian oilfields had reached peak production and that squeezing out a few extra billion barrels was not easy – and perhaps not even possible.

In a separate analysis of the world's single most important source of oil the investment firm, Sanford Bernstein, spent nine months poring over satellite photographs of the tightly-controlled desert kingdom to work out day-to-day matters such as how many drilling rigs were really working in Saudi's big oilfields, what work was really underway, and how did that compare with official statements and output rates.

The conclusion was that the biggest of the Saudi oilfields was proving to be a lot more complex than any outsiders imagined.

Enter the king. His comments about "leave it in the ground" are powerful words and represent an example of a good news/bad news story.

The bad news, for the world, is that King Abdullah is telling us in a round-about sort of way that Saudi really has peaked, and even if that peak is a function of geology he is not interested in boosting production.

Cynics might say that all the king is doing is reflecting the reality of declining discovery and development which outsiders such as Simmons and Sanford Bernstein have already flagged.

Whatever the reason the simple truth is that the man ultimately in charge of the Saudi oil industry has said "enough is enough", with the clear message that he is happy to see production held at around 12.5 million barrels a day.

The good news for everyone else in the oil industry is that the king has put a floor under the oil price.

What he has said means that financial models using \$US60 or \$US70 a barrel as the future long-term oil price are no longer relevant, and that future models really ought to be factoring in

prices north of \$US100/bbl, and perhaps a lot more.

It's stating the obvious to say that a higher price assumption changes everything when it comes to both exploration and project development.

Until now, oil companies have been bogged down in debates about the future oil price and whether high cost, high-risk oil and gas projects should proceed or not.

Well, King Abdullah has just ended that debate. His remark about "leave it in the ground" is the best indication yet that Saudi will not (and perhaps cannot) increase production – and that there is nowhere else for the world to turn.

Peak oil really has arrived. And why do we know this to be true – because the king just said so.