The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

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Obama Eyes Active Role in Oil Markets

> WASHINGTON (Reuters) - Democrat Barack Obama would take an active role in U.S. oil markets as president, tackling concerns about the dominance of large oil companies and eyeing the Strategic Petroleum Reserve as a potential weapon to combat high prices, his top energy adviser said.
> ADVERTISEMENT
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> The presidential hopeful's adviser, Jason Grumet, told Reuters that an Obama administration would crack down on any competition lapses in the sector that have resulted from big corporate mergers.

Globe and Mail: Oil and gas reserves don't much matter any more.

> You arrive at that conclusion after listening to Royal Dutch Shell's strategy presentation in which the company this week finally allowed investors to have a look at the gauge on its fuel tank.Reserves on their own don't matter. What matters is the cost of getting the reserves. Shell's investment per barrel of oil and gas has increased fourfold in just three years, a period during which the oil multinational's output has not increased. The company displayed another chart showing the average spending of the big oil companies. Per barrel of hydrocarbons, spending rates were pretty static during the 1990s at between $5 (U.S.) and $6 a barrel. In 2003, the rate of investment began to escalate and is now shooting higher, rising at an alarming pace. Last year, the average investment per barrel was just shy of $15.
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> On top of that, you must load the daily cost of operating wells and pipelines and the colossal overhead of running a big oil company. Moreover, we know that the $14-to-$15-a-barrel average investment is just an average and it is rising. Every new barrel is a more expensive barrel because in order to get the oil, Western oil companies must push the technology envelope even further, into deeper water and more heavy oil, such as Alberta's oil sands. The only giant discovery of the past decade has been Tupi, the eight-billion-barrel oil field discovered offshore of Brazil in water depths of two kilometres.
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> Technology is expensive, but it is the materials, manpower and energy cost that hurts. Shell estimates that the operating cost per barrel of the Athabasca project is between $20 and $25, of which a third is energy - the cost of natural gas used to heat water to

extract bitumen from sand. Shell won't reveal the capital cost of an Alberta oil sands barrel, but it is certainly a lot higher than its average of $7 and likely near the top rate of $15 to $20.

The point of all this is that it helps to explain the current $105-a-barrel oil price and its extraordinary resilience to weakening demand signals. Oil price speculators know that the U.S. is heading into recession and they can see the signs of weakening gasoline consumption, but they are maintaining long positions in West Texas Intermediate and Brent, the benchmark futures contracts. If they remain bullish, it is not because they believe oil is running out but because they believe the cost of producing the marginal barrel will remain high and will continue to rise, regardless of a U.S. recession.

That doesn't mean the oil price won't dip or suffer a short-term plunge. There will be temporary gluts of gasoline as America works through its credit crunch, but it is the cost of producing extra barrels and the price of alternatives such as biofuels that will determine what we pay for oil in 2012.

Reuters: Russia mined 7 percent more uranium last year and it plans to spend $400 million raising 2008 output by another 5 percent, state-controlled uranium miner Atomredmedzoloto said in a statement on Wednesday.

The firm plans to triple output by 2015 and it says Russia produced 3,413 tonnes of uranium last year. This year it will mine 3,580 tonnes and start prospecting with leading uranium miner Cameco Corp.

The two firms plan the first investment in two separate joint ventures to explore for uranium in their home countries of Russia and Canada, Atomredmedzoloto said.

Russia holds more than a 10th of world reserves of uranium and is positioning itself as a major player in meeting growing demand from the fast-growing nuclear industry, which is paying record-high prices as uranium demand outstrips dwindling supply.

The top three miners, Canada, Australia and Kazakhstan, together account for more than half the world's uranium production, the World Nuclear Association says.

Washington Post: Long considered an abundant, reliable and relatively cheap source of energy, coal is suddenly in short supply and high demand worldwide.

Long considered an abundant, reliable and relatively cheap source of energy, coal is suddenly in short supply and high demand worldwide.

An untimely confluence of bad weather, flawed energy policies, low stockpiles and voracious growth in Asia's appetite has driven international spot prices of coal up by 50 percent or more in the past five months, surpassing the escalation in oil prices.

The signs of a coal crisis have been showing up from mine mouths to factory gates and living rooms: As many as 45 ships were stacked up in Australian ports waiting for coal deliveries slowed by torrential rains. China and Vietnam, which have thrived by sending goods abroad, abruptly banned coal exports, while India's import demands are up. Factory hours have been shortened in parts of China, and blackouts have rippled across South Africa and Indonesia's most populous island, Java.

Meanwhile mining companies are enjoying a windfall. Freight cars in Appalachia are brimming with coal for export, and old coal mines in Japan have been reopened or expanded. European and Japanese coal buyers, worried about future supplies, have begun locking in long-term contracts at high prices, and world steel and concrete prices have risen already, fueling inflation.

In the United States, the boom in coal exports and prices has helped lower the trade deficit, which declined last year for the first time since 2001. The value of coal exports, which account for 2.5 percent of all U.S. exports, grew by 19 percent last year, to $4.1 billion, the National Mining Association said. An even bigger increase is expected this year.

That means that, in a small way, higher revenues for U.S. coal exports indirectly helped the U.S. economy cover the cost of iPods from China, flat-screen TVs from Japan and machinery from Germany. The still-gaping trade deficit of the world's largest industrial power at the dawn of the 21st century was slightly eased by a fuel from the era and pages of Charles Dickens.

Bloomberg: Oil Falls Below $100 on Concern U.S. Slowdown May Limit Demand

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Crude oil fell below $100 a barrel in New York on growing concern a U.S. economic slowdown will hurt commodity demand.

Oil has fallen 11 percent from a record this week, tracking declines in gold, wheat and metals, as the dollar strengthened, reducing the need for hedges against inflation. U.S. gasoline demand in the past four weeks averaged 3.2 percent less than last year, the Energy Department said yesterday.

``Investors have taken money from the capital markets and bought oil futures, but there's nothing changed in the fundamentals to make oil worth $100,'' said Gerrit Zambo, an oil trader at BayernLB in Munich. ``Now these investors may think it's time to get out.''

Crude oil for May delivery fell as much as $2.95, or 2.9 percent, to $99.59 a barrel in electronic trading on the New York Mercantile Exchange. It was at $100.41 at 11:43 a.m. London time. Oil is up 77 percent from a year ago.

Energy Daily: Gen. David Petraeus is calling on "large Western corporations" to invest in Iraq's energy sector as Iraq looks outside to boost oil, gas and power production.

Petraeus, who as commander of Multi-National Force-Iraq overseas all coalition troops there, said Prime Minister Nouri al-Maliki asked him to convey the message to companies.

"The prime minister is very keen on getting large Western corporations re-engaged in the oil and electricity sectors," Petraeus said Monday at a news conference in Iraq with Vice President Dick Cheney and U.S. Ambassador to Iraq Ryan Crocker.

Bloomberg: The Organization of Petroleum Exporting Countries, supplier of about 40 percent of the world's crude oil, needs to meet less than half of the forecast gain in demand by 2012, Wood Mackenzie Consultants Ltd. said.

OPEC will probably have to increase production ``not much more than 2 or 3 million barrels a day'' by 2012, John Waterlow, a principal analyst at the Edinburgh-based firm, said in an interview in Sydney today.

Demand will likely rise by about 10 million barrels a day over the next five years, barring a ``major recession," Waterlow said. Most of that will be met by suppliers outside OPEC and by gas liquids and non-conventional supplies, such as oil sands, he said.

``Over that period we don't actually see there to be much of a problem in supply meeting demand even if demand grows relatively strongly," Waterlow said.